Wilshire Insurance Company

Raleigh, 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

Wilshire Insurance Company

(hereinafter referred to as the "Company"), at its main administrative office located at 702 Oberlin Road, Raleigh, North Carolina. The Company's statutory home office is located at 702 Oberlin Road, Raleigh, North Carolina. 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, 2011 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, 2010.

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.

The examination was a coordinated examination and was conducted concurrently with examinations of the Company's affiliates, as part of the insurance holding company system of IAT Reinsurance Company Ltd. ("IAT"), and included participation from the States of Nebraska, Illinois, Florida, and Texas. North Carolina served as lead state in this coordinated examination.

We conducted our examination in accordance with auditing standards established by the Department and the National Association of Insurance Commissioners ("NAIC") Financial Condition Examiners Handbook ("Handbook"). The Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company, and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process and the following key functional activities were identified:

Claims Handling
Reinsurance
Reserves
Investments
Related Parties
Underwriting and Premiums
Other – Miscellaneous

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). Ernst & Young LLP of Raleigh, North Carolina, the designated independent public accountant of the Company, issued an unqualified opinion for each year subsequent to the Department's prior examination through, and including, the year ended December 31, 2014.

The statutory reserves and related items for the examination period, 2011 to 2014, were reviewed and certified by the Company's Appointed Actuary, Thomas P. Conway, ACAS, MAAA, of Ernst & Young, LLP.

SUMMARY OF SIGNIFICANT FINDINGS

PRIOR EXAMINATION

There were no significant findings noted in the prior examination.

CURRENT EXAMINATION

There were no significant findings to report in the current examination.

COMPANY HISTORY

The Company was incorporated under the laws of the State of California in 1956, as a commercial automobile liability and automobile physical damage insurance company. The Company merged into a new company with the same name and re-domesticated under the laws of the State of North Carolina in 1962.

The Company commenced business on December 31, 1985, with 6,000,000 shares of $2.10 par value capital common stock authorized. To begin business, the Company issued 2,000,000 shares of its common stock, at $2.10 per share, providing the Company with an initial capital of $4,200,000.

CAPITAL STOCK

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

Description	Value
Number of authorized common capital shares	6,000,000
Number of shares issued and outstanding	2,000,000
Total common capital stock	$4,200,000
Par value per share	$2.10

Additionally, the Company had gross paid-in and contributed surplus of $34,931,424, and $68,507,547 in unassigned funds at December 31, 2014.

All of the outstanding shares of capital stock of the Company are held by Occidental Fire & Casualty Company of North Carolina ("OFC").

DIVIDENDS TO STOCKHOLDER

Dividends on common stock are paid as declared by the Board of Directors ("Board") of the Company. Under the insurance regulations of North Carolina, the maximum amount of dividends which the Company may pay to shareholders is limited to the greater of 10% of the most recent year-end policyholders' surplus or net income (excluding realized capital gains) earned for that same year-end. Accordingly, the maximum dividend payout to shareholders that may be made without prior approval of the Department is $10,763,897. There were no paid dividends in 2014.

MANAGEMENT AND CONTROL

CORPORATE GOVERNANCE

Board of Directors

The business of the Company is managed by its management team and subject to review by the Board consisting of at least seven, but not more than 21 members. A majority of the Board, but in no case less than five, constitutes a quorum for the transaction of business. Directors are elected at the annual meeting of stockholders and serve until the adjournment of the next stockholder meeting at which directors are elected. Vacancies can be filled by the Board or by the stockholders at a special meeting called for that purpose.

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

Name	Location	Principal Occupation
Kenneth C. Coon	Omaha, Nebraska	Senior Vice President Occidental Fire & Casualty Co. of NC and Wilshire Insurance Company
Marguerite R. Gorman	Garden City, New York	Vice President IAT Reinsurance Company Ltd. (Bermuda)
Peter R. Kellogg	Short Hills, New Jersey	Owner, President and Treasurer IAT Reinsurance Company Ltd. (Bermuda)
Edward A. Kerbs	Rumson, New Jersey	Vice President IAT Reinsurance Company Ltd. (Bermuda)
George E. King	Cary, North Carolina	Director McM Corporation
James R. Miller	Hawthorn Woods, Illinois	Managing Director of Reinsurance Harco National Insurance Company
Stephen L. Stephano	Raleigh, North Carolina	President & Chief Executive Officer Occidental Fire & Casualty Co. of NC and Wilshire Insurance Company

The Board has the authority to establish committees. These committees have the powers and duties deemed appropriate by the Board, however, their power cannot exceed the power of the Board. The Company has only one standing committee, the Executive Committee.

The following persons served on the Executive Committee as of December 31, 2014:

Kenneth C. Coon
Peter R. Kellogg
Edward A. Kerbs
James R Miller
Stephen L. Stephano

Officers

The bylaws provide that the Board will elect the officers of the Company. The officers of the Company consist of a President, Secretary, Treasurer, and one or more Senior Vice Presidents, Vice Presidents, or Assistant Vice Presidents, as deemed necessary by the Board. Each will have powers delegated by the Board or Executive Committee and bylaws. Officers of the Company elected by the Board members hold office until their successors are elected. The same person can hold the position of any two offices, except those of President and Secretary.

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

Name	Title
Stephen L. Stephano	President and Chief Executive Officer
Michael D. Blinson	Senior Vice President and Corporate Secretary
David G. Pirrung	Senior Vice President and Treasurer
Kenneth C. Coon	Senior Vice President, Omaha Business Unit
Eugene J. Keating, Jr.	Senior Vice President, Marketing and Underwriting
Deborah A. Wrinkle	Senior Vice President
Steven C. Andrews	Vice President
Lynn G. Ford	Vice President, Risk Mitigation
Kevin J. Hamm	Vice President and Chief Financial Officer
Rebecca J. Larson	Vice President, Underwriting
Brenda M. Lewis	Vice President, Human Resources
David G. Matousek	Vice President
Paul T. Webb	Vice President, Information Technology
Vincent B. Oglesby	Vice President
James D. Martin	Vice President
Paul M. Kosinski	Assistant Vice President
Richard K. Sifford	Assistant Vice President
Christopher A. Loftus	Assistant Vice President
Sean P. Fowler	Assistant Vice President

Name	Title
Cindy A. McLachlan	Assistant Vice President
John M. Mruk	Assistant Vice President

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 no disclosed conflicts of interest with any board member or officer.

CORPORATE RECORDS

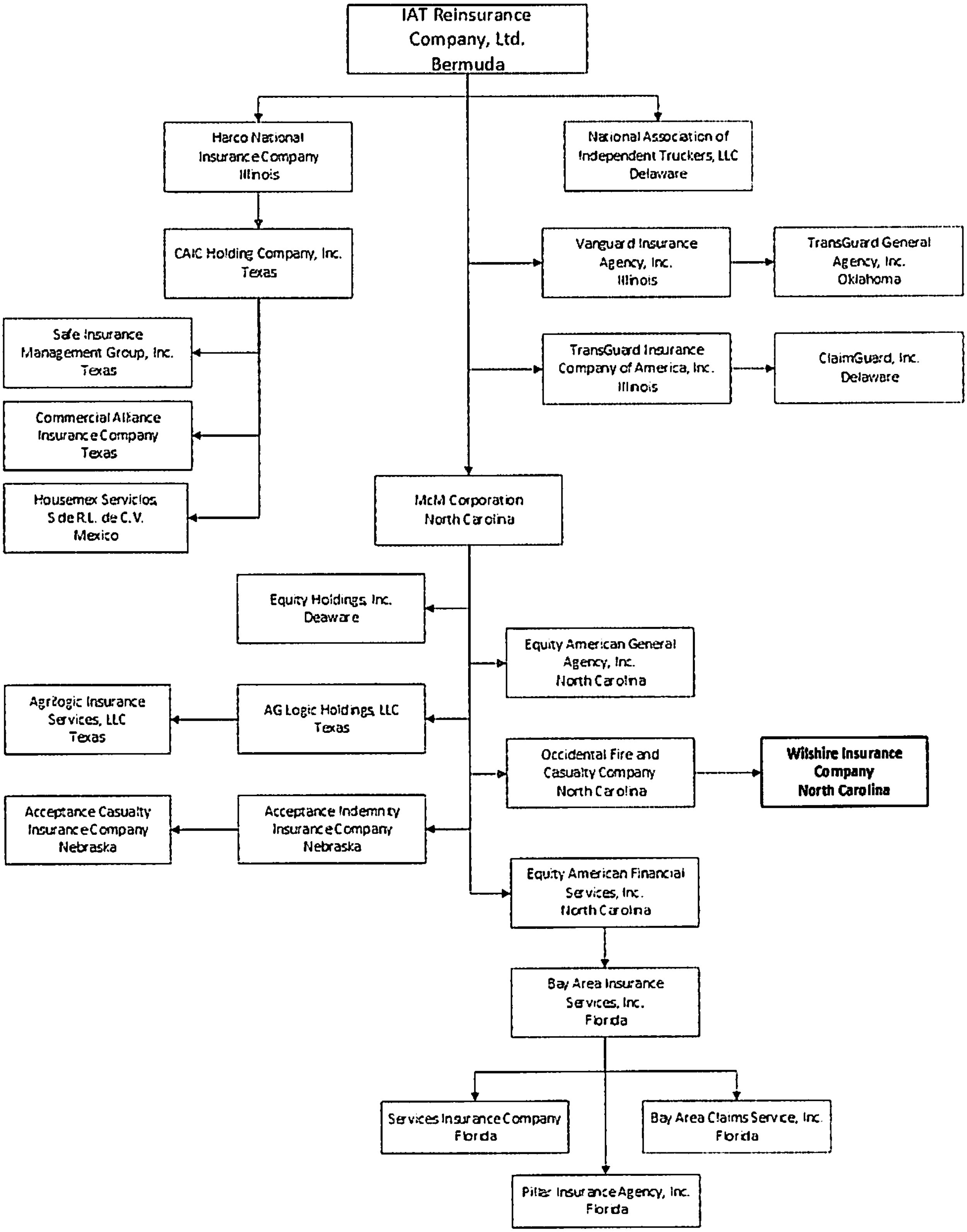
The minutes of the meetings of the board of directors and executive committees were reviewed for the period under examination. Based on that review, it appears that the minutes documented the Company's significant transactions and events, and that the directors approved these transactions and events.

CORPORATE ORGANIZATION

The Company is part of an insurance holding company system as defined in GS § 58-19-30. The Company is a wholly-owned subsidiary of OFC, which is a wholly-owned subsidiary of McM Corporation ("McM"), a North Carolina insurance holding company. IAT, a Bermuda based reinsurance company, owns the outstanding stock of McM. All of the stock of IAT, the ultimate parent, is owned by Peter Kellogg, the ultimate controlling party.

ORGANIZATIONAL CHART

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



Accounts and Records

The Company's main administrative office is located in Raleigh, North Carolina. Policy administration functions for the Company are handled in Bradenton, Florida; Omaha, Nebraska; Lancaster, California; and Raleigh, North Carolina. The claims functions for the Company are handled in Bradenton, Florida; Raleigh, North Carolina; Coral Springs, Florida; and Omaha, Nebraska.

Fidelity Bonds and Other Insurance

The Company is insured under a crime bond, which is an acceptable substitute for a fidelity bond. The bond's assumed party is IAT and its subsidiaries. IAT's crime bond has $2,000,000 in both aggregate and single loss liability coverage from losses due to dishonest acts, including forgery and computer fraud, by its employees. The Company's coverage is within the recommended minimum range of $2.0 million to $2.25 million according to the Handbook.

Employee Benefits and Pension Plans

All the employees of the IAT Re Holding Group are employed by McM under a master payroll agreement. These employees participate in a combined defined contribution savings plan (401k) and profit sharing plan sponsored by McM. Matching contributions up to 7% and 6% of each eligible employee's annual compensation were made during 2014 and 2013, respectively. In addition, contributions are made to the profit sharing portion of this plan at the discretion of McM. Costs for this plan are allocated to the Company based on a percentage of payroll. Amounts expensed were $265,567 and $192,488 for the years which ended December 31, 2014 and 2013, respectively.

Related Party Agreements

Cost Sharing Agreement

The Company is party to an IAT Group Master Hardware and Software Cost Sharing Agreement which became effective January 1, 2008. The agreement is between the Company and its affiliates McM, OFC, Acceptance Indemnity Insurance Company, Acceptance Casualty Insurance Company, Transguard Insurance Company of America Inc., Harco National Insurance Company, and IAT. In 2014 and 2013, the Company incurred costs totaling $177,396 and $132,845 respectively.

The Company is also a party to a Consolidated Master Cost Sharing Agreement which was effective March 2008. The agreement is between the Company and its affiliatesOFC,. Acceptance Indemnity Insurance Company, Acceptance Casualty Insurance Company, Harco National Insurance Company, and Transguard Insurance Company of America Inc.This agreement was amended effective December 22, 2014 to add Service Insurance Company and Commercial Alliance Insurance Company to the agreement. In 2014 and 2013, the Company incurred costs totaling $11,322,101 and $7,350,518 respectively.

Consolidated Tax Allocation Agreement

The Company also has a Consolidated Tax Allocation Agreement. The Company's taxable income was consolidated with McM, the Company's parent, and its subsidiaries through April 30, 2002 in accordance with the tax sharing agreement in effect in 2001 and prior. The Company's taxable income earned subsequent to May 1, 2002 is consolidated with IAT, the parent of McM, and its subsidiaries in accordance with the current tax sharing agreement. Taxes are allocated among the consolidated companies based upon their return calculation with current credit for any operating losses or other items utilized in the consolidated return.

TERRITORY AND PLAN OF OPERATION

At December 31, 2014, the Company was licensed in 23 states, is eligible to write surplus lines in 14 states, and is a qualified reinsurer in one state. Statutory deposits are required in 10 states for doing business in such jurisdictions and are maintained by insurance regulatory agencies. A complete listing and description for such deposits can be found on the Company's 2014 Annual Statement Schedule E – Part 3.

The Company specializes in providing liability, physical damage, and cargo insurance coverages for the trucking industry. The Company wrote business during 2014 in 38 states. During 2007, the Company re-entered the North Carolina nonstandard private passenger automobile market; however, they cede most of the private passenger liability coverage to the North Carolina Reinsurance Facility ("NCRF") and retain the private passenger physical damage coverage.

TRENDS OF THE COMPANY

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

Year	Net Admitted Assets	Capital and Surplus	Direct Premiums Written	Net Income
2014	226,428,856	107,638,971	127,896,719	1,757,511
2013	207,443,733	102,391,847	96,147,147	10,519,181
2012	177,161,022	79,734,166	70,275,811	16,522,345
2011	158,835,366	75,961,460	62,464,799	(1,728,063)
2010	173,173,836	88,594,492	63,064,415	76,675

ACTUARIAL OPINION

Every property and casualty insurance company doing business in the State of North Carolina, 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.

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 adjustment expense obligations of the Company.

REINSURANCE

The Company classifies its reinsurance into three categories: Casualty, Property, and Program business.

CASUALTY REINSURANCE

Commercial auto and related general liability coverage are reinsured via a Commercial Auto Truck Master Facility arrangement. The primary policy is for limits up to $1.0 million. Accordingly, the Commercial Auto Truck Master Facility covers $700,000 in excess of $300,000. In 2014, the entire primary facility business is again all placed with IAT Re with the first layer ($200,000 excess of $300,000) placed at 50% and the second layer ($500,000 excess of $500,000) fully placed. On a limited basis, the Company writes truck policies with limits in excess of $1.0 million up to $2.0 million. For these policies, the second million is covered by a $1.0 million excess of $1.0 million automatic facultative facility arrangement, 100% placed with Maiden Re. Public auto liability (buses, limos, etc.) business with limits up to $5.0 million is written by the Omaha Business Unit. This business is reinsured via a Public Automobile Liability Excess of Loss treaty for limits of $3.5 million in excess of $1.5 million and is 100% placed (40% is placed with IAT Re effective January 1, 2014).

Other casualty coverages written by the Omaha Business Unit, including business classified as umbrella and excess liability, are subject to a casualty excess treaty for $500,000 in excess of $500,000 for the primary policy limits up to $1.0 million at 100%. The umbrella and excess casualty business is covered by a $5.0 million 90% Umbrella Quota Share Agreement.

The Company also participates in a group-wide casualty clash facility arrangement which protects against casualty Excess Contractual Obligations ("ECO")/Loss in Excess of Policy Limits ("XPL") exposures and multiple insureds/coverages involved in one occurrence. ECO/XPL is covered in four layers for a total of $48.0 million excess of $2.0 million and multiple insureds/coverages in one occurrence (true clash) is covered in two layers for a total of $9.0 million excess of $1.0 million. The entire clash facility arrangement is fully placed.

PROPERTY REINSURANCE

Commercial property business written by the Omaha Business Unit is subject to two property excess treaties for $500,000 in excess of $500,000 (100% placed) and $4.0 million excess of $1.0 million (100% placed). Any excess property risks with total insured values greater than $5.0 million are reinsured via facultative arrangements.

Personal property business, homeowners, and dwelling fire is produced both in the Omaha and Bradenton business units. A combined property per risk reinsurance cover was placed for this business effective June 1, 2013 for $2.0 million excess of $500,000 per risk (90% placed). This treaty expired May 31, 2014, and was not renewed.

The Company also participates in a group-wide property catastrophe facility arrangement which protects against catastrophic property events such as hurricanes. The purchased cover is based on extensive modeling of the individual risks and, in 2014, provided for $225 million excess of $5.0 million coverage in four layers. The layer coverage amounts are as follows: First: $15.0 million excess of $5.0 million; Second: $30.0 million excess of $20.0 million; Third: $80.0 million excess of $50.0 million: and Fourth: $100 million excess of $130 million. All layers are fully placed. IAT Re participates on the first layer at 100% and on the second layer at 50%.

QUOTA SHARE (IAT RE)

The Companyengages in a Quota Share Reinsurance Treaty with IAT Re (after external reinsurance) to mitigate the risk associated with potential losses. It is a continuous agreement that automatically renews on an annual basis. The structure of the agreement does not change significantly from year to year.

The calculation of the IAT Re quota share is dependent upon reinsurance. All external reinsurance (both excess of loss and quota share treaties) is programed into the POINT system, which calculates the external reinsurance cessions and produces the external ceded premiums/losses posted to the general ledger. Net premiums and losses (net before IAT Re quota share) from the general ledger are then exported to a separate excel workbook. This workbook calculates the IAT quota share ceded premium, commissions, and losses. This workbook is reviewed before the journal entries are posted. Reconciliation between the general ledger and the workbook is prepared to ensure the entries are booked correctly.

In 2014, the cession was 20% quota share and 100% for the Scottsdale Business Unit private passenger auto. The ceding commission matches the direct cost structure.

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.

Wilshire Insurance Company
Statutory Statement of Admitted Assets
December 31,

	2014	2013 *(unexamined)*
Bonds	$41,262,622	$38,995,302
Preferred stocks	6,191,349	3,053,223
Common stocks	145,143,652	131,192,868
Cash and short-term investments	1,632,093	5,808,043
Other invested assets	2,233,392	2,149,163
Receivable for securities	-	4,797,222
Total cash and invested assets	**196,463,108**	**185,995,821**
Investment income due and accrued	674,110	642,206
Premiums and agents' balances in course of collection	12,360,294	8,172,905
Premiums and agents' balances booked but deferred and not yet due	485,527	479,641
Reinsurance recoverable	4,661,453	4,520,492
Funds held by or deposited with reinsured companies	53,711	59,615
Receivable from parent, subsidiaries and affiliates	11,703,280	7,559,564
Miscellaneous other assets	27,373	13,489
Total admitted assets	**$226,428,856**	**$207,443,733**

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

	2014	2013 *(unexamined)*
Losses	$50,149,547	$39,561,970
Loss adjustment expenses	8,869,751	7,030,810
Commissions payable, contingent commissions and other similar charges	1,662,131	1,405,625
Other expenses	243,877	322,440
Taxes, licenses and fees	672,053	422,399
Federal income tax liability	1,152,144	3,504,470
Net deferred tax liability	17,665,487	16,729,957
Unearned premiums	21,668,928	17,247,278
Advance premium	153,175	97,203
Ceded reinsurance premiums payable	4,848,000	6,135,000
Funds held by Company under reinsurance contracts	2,870,000	2,369,000
Payable to parent, subsidiaries and affiliates	38,791	4,428,669
Premium deposits payable	8,758,821	5,762,904
Miscellaneous other liabilities	37,180	34,161
Total Liabilities	**118,789,885**	**105,051,886**
Common capital stock	4,200,000	4,200,000
Gross paid in and contributed surplus	34,931,424	34,931,424
Unassigned funds	68,507,547	63,260,423
Surplus as regards policyholders	107,638,971	102,391,847
Total Liabilities, Capital and Surplus	**$226,428,856**	**$207,443,733**

Wilshire Insurance Company
Statement of Income
December 31,

	2014	2013 *(unexamined)*
Underwriting Income		
Premiums Earned	$66,536,529	$50,206,638
Deductions		
Losses incurred	36,218,717	20,606,849
Loss adjustment expenses incurred	11,378,848	7,746,206
Other underwriting expenses incurred	22,069,122	17,655,487
Aggregate write-ins for underwriting deduction	-	543
Total underwriting deductions	69,666,687	46,009,085
Net underwriting (loss) or gain	(3,130,158)	4,197,553
Investment Income		
Net investment income earned	4,764,987	4,350,346
Net realized capital gains or (losses) less capital gains tax	890,710	4,172,406
Net investment gain	5,655,697	8,522,752
Other Income		
Net Gain (loss) from agents' or premium balances charged off	1,754	(164,277)
Finance and service charges not included in premiums	17,303	1,559
Miscellaneous fee income	67,114	113,231
Total other income (loss)	86,171	(49,487)
Federal income taxes incurred	854,199	2,151,637
Net Income	**$1,757,511**	**$10,519,181**

Wilshire Insurance Company
Capital and Surplus Account
December 31,

Capital and Surplus Account	2014	2013 *(unexamined)*
Surplus as regards policyholders, December 31 prior year	$102,391,847	$79,734,166
Net Income	1,757,511	10,519,181
Change in net unrealized capital gains	2,994,525	12,268,481
Change in net deferred income tax	676,906	(221,408)
Change in nonadmitted assets	(181,818)	41,427
Change in provision for reinsurance	-	50,000
Change in surplus as regards policyholders for the year	5,247,124	22,657,681
Surplus as regards policyholders December 31 current year	**$107,638,971**	**$102,391,847**

Wilshire Insurance Company
Statement of Cash Flow
December 31,

	2014	2013 *(unexamined)*
Cash From (Used By) Operations		
Premiums collected net of reinsurance	$65,383,346	$51,986,457
Net investment income	4,809,266	4,248,041
Miscellaneous income	92,075	(46,676)
Total	70,284,687	56,187,822
Benefit and loss related payments	25,772,101	20,925,498
Commissions, expenses paid and aggregate write-ins	31,181,432	24,731,749
Federal income taxes paid (recovered)	3,504,470	5,632,489
Total	60,458,003	51,289,736
Net cash from operations	**9,826,684**	**4,898,086**
Cash From (Used By) Investments		
Proceeds from investments sold, matured, or repaid	27,310,624	29,201,830
Cost of investments acquired	(36,234,428)	(36,746,703)
Net cash (used by) investments	**(8,923,804)**	**(7,544,873)**
Cash From (Used By) Financing and Miscellaneous Sources		
Dividends to stockholders	-	(7,500,000)
Other cash (applied) provided	(5,078,830)	9,241,331
Net cash (used by) from financing and miscellaneous sources	**(5,078,830)**	**1,741,331**
Reconciliation of Cash and Short-Term Investment		
Net change in cash and short-term investments	(4,175,950)	(905,456)
Cash and short-term investments, January 1	5,808,043	6,713,499
Cash and short-term investments, December 31	**$1,632,093**	**$5,808,043**

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 in conformity with the accounting practices prescribed by the Department.

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

Bonds: Investment grade bonds (NAIC rating 1-2) are reported at amortized cost while non-investment grade bonds (NAIC 3-6) are reported at the lower of amortized cost or fair value. Bonds not backed by other loans are principally stated at amortized cost using the effective interest rate.

Preferred stocks: Redeemable preferred stocks that have characteristics of debt securities and are rated as high quality or better are reported at cost or amortized cost. All other redeemable preferred stocks are reported at lower of cost, amortized cost, or fair value. Non-redeemable preferred stocks are reported at the lower of cost or fair value as determined by the Securities Valuation Office ("SVO") of the NAIC and the related net unrealized capital gains (losses) are reported in unassigned surplus.

Common stocks: Carried at fair value, as determined by the SVO, and related net unrealized capital gains (losses) are reported in unassigned surplus. Investments in stock of subsidiaries are carried at a value determined under the equity method. Changes in the net equity investment in subsidiary are charged or credited directly to surplus. Dividends received are accounted for as investment income.

Cash equivalents: Short-term, highly liquid investments with original maturities of three months or less are principally stated at amortized cost (which approximates fair value).

Short-term investments: Include investments with remaining maturities of one year or less at the time of acquisition and are principally stated at amortized cost.

Premiums: Earned pro rata over the policy period and reduced for reinsurance ceded. The reserve for unearned premium is determined on a monthly pro rata basis.

Reserves for losses and loss adjustment expenses: Reserve liabilities for estimated losses are determined on a case basis for reported claims, and on estimates based on company experience for loss adjustment expenses and incurred but not reported claims. These liabilities give effect to trends in claims severity and other factors which may vary as the losses are ultimately settled. The Company's management believes that the estimates of the reserves for losses and loss adjustment expenses are reasonable; however, there is considerable variability inherent in the reserve estimates. These estimates are continually reviewed and, as adjustments to these liabilities become necessary, such adjustments are reflected in current operations.

Reinsurance: Premiums, commissions, expense reimbursements, and reserves are reported 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.

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	$41,262,622	$ -	$41,262,622
Preferred stocks	6,191,349	-	6,191,349
Common stocks	145,143,652	-	145,143,652
Cash and short-term investments	1,632,093	-	1,632,093
Other invested assets	2,233,392	-	2,233,392
Total cash and invested assets	**196,463,108**	**-**	**196,463,108**
Investment income due and accrued	674,110	-	674,110
Premiums and agents' balances in course of collection	12,529,008	168,714	12,360,294
Premiums and agents' balances booked but not yet due	485,527	-	485,527
Reinsurance recoverable	4,661,453	-	4,661,453
Funds held by reinsured companies with reinsured companies	53,711	-	53,711
Furniture and Equipment	8,203	8,203	--
Receivable from parent, subsidiaries and affiliates	11,703,280	-	11,703,280
Prepaid deposits	43,750	43,750	-
Miscellaneous other assets	27,373	-	27,373
Total admitted assets	**$226,649,523**	**$220,667**	**$226,428,856**

Reinsurance:

The Company has various excess of loss, quota share, and facultative reinsurance contracts to limit its exposure to losses. Reinsurance contracts do not relieve the Company of its primary obligation to policyholders. Failure of the reinsurers to discharge their obligation could result in losses to the Company. The Company utilizes the following reinsurance intermediaries: JLT Towers, Aon Benfield, Integro, Guy Carpenter, Insight Specialty Program, and Willis Re.

Direct and assumed and ceded premium written and earned are as follows:

	2014	2013
Direct and assumed written	$130,806	$97,818
Ceded written	59,848	44,680
Net written	70,958	53,138
Direct and assumed earned	120,807	86,266
Ceded earned	54,270	36,059
Net earned	$66,537	$50,207

Summary of Reserves:

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

	Current Year	Prior Year
Reserve for losses and loss adjustment expenses, beginning of year	$46,593	$48,686
Add:		
Provision for losses and loss adjustment expenses, current year	46,304	32,908
Change in estimated losses and loss adjustment expenses, prior years	1,294	(4,555)
Total incurred	47,598	28,353
Deduct:		
Losses and loss adjustment expenses paid, current year	16,946	10,884
Losses and loss adjustment expenses paid, prior year	18,226	19,562
Total paid	35,172	30,446
Examination adjustment		
Reserve for losses and loss adjustment expenses, end of year	59,019	46,593
Increase in reserve for losses and loss adjustment expenses	$12,426	($2,093)

The Company reduced reserves by anticipated salvage and subrogation of $645,000 and $446,000 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 $51,726,000 and $25,774,000, respectively, for amounts to be recovered from reinsurers.

Capital and Surplus:

The following, in conjunction with the Capital and Surplus Account table (see page 15), represents the changes in the Company's capital and surplus since the Department's last examination as of December 31, 2010:

(Unexamined)	2012	2011
Capital and surplus, beginning of year	$75,961,460	$88,594,492
Capital and surplus increases (decreases):		
Net income (loss)	16,522,345	(1,728,063)
Change in net unrealized capital gain (loss)	(3,540,541)	(5,442,788)
Change in net deferred income tax	(1,888,061)	(432,224)
Change in nonadmitted assets	204,963	(216,557)
Change in provision for reinsurance	(26,000)	186,600
Dividends to stockholders	(7,500,000)	(5,000,000)
Change in surplus as regards policyholders for the year	3,772,706	(12,633,032)
Capital and surplus, end of year	$79,734,166	$75,961,460

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 May 2015, Stephen Stephano, President and CEO, retired and was replaced by David G. Pirrung, President.

Wilshire Insurance Company
DISTRIBUTION OF REPORT ON EXAMINATION
December 31, 2014

Kevin Hamm, Chief Accounting Officer
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Mike Blinson, Secretary
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CONCLUSION

The examination procedures, described, herein, revealed no material findings or recommendations.

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

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

Respectfully submitted,

Monique D. Smith

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

STATE OF NORTH CAROLINA

COUNTY OF WAKE

Robert Armbruster, Senior 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: ________________ Date: 3/7/16

Robert Armbruster

Sworn and subscribed before me this 7th day of March, 2014.

Notary Public Signature: Dildade B. Muhai Notary Public Seal:

Dildade B. Muhovi NOTARY My Comm. Exp. 9/5/2017 PUBLIC WAKE COUNTY, N.C.