

1st Atlantic Surety Company

Raleigh, NC

Report on Limited-Scope Examination

As of December 31, 2013

1st Atlantic Surety Company

Table of Contents

Report on Limited-Scope Examination	2
Company Background	4
Scope of the Examination	4
Examination Procedures	4
Summary of Examination Objectives and Findings	4
Appendix A – Report Distribution	7

1st Atlantic Surety Company
Report on Limited-Scope Examination

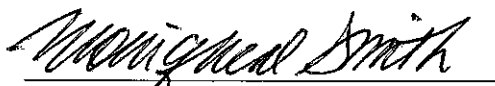
Honorable Wayne Goodwin
Commissioner of Insurance
State of North Carolina
Raleigh, North Carolina

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 a limited-scope examination of 1st Atlantic Surety Company (“Company”) as of December 31, 2013. This limited-scope examination was performed to address specific areas based on the Department’s review and analysis of the Company’s 2013 Annual Statement.

This examination was performed in accordance with auditing standards established by the Department. The purpose of this examination was to review specific aspects of the Company’s 2013 Annual Statement (“AS”) as specified in the Scope of the Examination on page 4. The scope of this examination was not comprehensive, but included a limited review of the Company’s practices and procedures, its corporate and accounting records, details of certain transactions, and an evaluation of certain assets and liabilities reported as of December 31, 2013. This report is not intended to communicate all matters of importance for an understanding of the Company’s financial condition as of December 31, 2013. Therefore, the findings and conclusions contained within this report are based solely on the work performed on the specific areas of concern and are provided in the Summary of Examination Objectives and Findings on page 4.

Respectfully submitted,



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

June 30, 2014

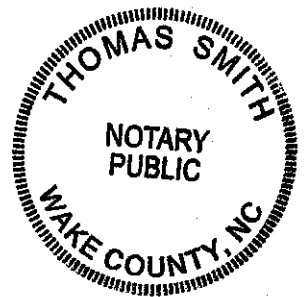
STATE OF NORTH CAROLINA
COUNTY OF WAKE

Ke Xu, Assistant Chief Financial Examiner, North Carolina Department of Insurance, being first, duly sworn, deposes and says that this report on examination, subscribed by her, is true and correct to the best of her knowledge and belief.

Signature: Ke Xu Date: 7/24/2014

Sworn and subscribed before me this 24 day of July, 2014.

Notary Public Signature: Thomas Smith Notary Public Seal:



1st Atlantic Surety Company
Report on Limited-Scope Examination
As of December 31, 2013

1. Company Background

The Company was incorporated on April 19, 2013, and was licensed to write bail bonds by the State of North Carolina on August 1, 2013. The Company is a stock property and casualty insurance company based in Raleigh, NC. The Company is authorized to issue 1,000,000 shares of common stock and 3,000,000 shares of preferred stock. On July 10, 2013, the Company sold 100,000 shares of common stock at par value of \$1.00 per share and 250,000 shares of preferred stock at par value of \$10.00 per share. The common stock was purchased by the 6 incorporators, all of whom became members of the Board of Directors. The preferred stock was sold to 1st Atlantic Advisors LLC ("1st Atlantic Advisors"), a management company formed by the holders of the common stock. The holders of common stock have full voting rights. The preferred stock is redeemable, non-assessable and non-convertible. The preferred stock has a stated 12% cumulative dividend rate. Holders of the preferred stock have no voting rights.

2. Scope of the Examination

The scope of this examination was limited to the following areas relative to the 2013 AS:

- a) Cash and short-term investments
- b) Loss reserve methodologies
- c) Premiums
- d) Other expenses payable
- e) Management agreement with 1st Atlantic Advisors
- f) Common stock, preferred stock and unassigned funds
- g) Compliance with specific GS governing the formation and licensing of domestic insurance companies
- h) Review of contracts and agreements

3. Examination Procedures

The examination procedures performed during this examination included the following:

- 1) Review and verification of supporting documentation for balances reported;
- 2) Substantive testing of underlying data and transactions;
- 3) Review of the Company's reserving practices;
- 4) Review of management service contract;
- 5) Other examination procedures deemed necessary to meet the established objectives.

4. Summary of Examination Objectives and Findings

a) Cash and Short-term Investments

Examination Objective: To verify the existence, accuracy, classification and ownership of cash and short-term investments reported on Schedule E Part 1 and Schedule DA of the Company's 2013 AS.

Findings

Examiners performed substantive testing of the Company's cash and short-term investment balances reported by agreeing amounts from third-party statements to the Company's reconciliations and reviewing the reconciling items. No adverse findings were noted in relation to the Company's cash and short-term investments totaling \$2,599,727 as of December 31, 2013.

1st Atlantic Surety Company
Report on Limited-Scope Examination
As of December 31, 2013

b) Loss Reserves Methodologies

Examination Objective: To review the methodology used to calculate the reserves for losses reported on the Statement of Liabilities, Surplus and Other Funds of the Company's 2013 AS for reasonableness.

Findings:

Our review of the Company's reserve methodology for its reserves for losses totaling \$1,548 reported at December 31, 2013, resulted in no examination adjustments or adverse findings.

c) Premiums

Examination Objective 1: To verify the existence, completeness and valuation of the reserve for unearned premiums reported on the Statement of Liabilities, Surplus and Other Funds of the Company's 2013 AS.

Findings

Examiners performed a reasonableness test by independently calculating the reserve for unearned premium and comparing results to the Company's reported balance totaling \$49,614. Examiners identified no adjustments or adverse findings regarding the existence, completeness and valuation of the Company's reserve for unearned premium at December 31, 2013.

Examination Objective 2: To verify the accuracy of written premium totaling \$61,936 at December 31, 2013, and to ensure each bond was issued by a licensed agent.

Findings

Examiners verified the premiums in-force and agreed to the written premium reported on the Company's 2013 AS. Examiners also verified each bond was issued by a licensed bond agent. Examiners identified no adjustments or adverse findings.

d) Other Expenses Payable

Examination Objective: To verify the accuracy and completeness of \$83,770 reported as other expenses payable on the Statement of Liabilities, Surplus and Other Funds of the Company's 2013 AS.

Findings

Examiners performed a search for unrecorded liabilities and identified no adjustments or adverse findings.

e) Management Agreement with 1st Atlantic Advisors

Examination Objective: To determine whether the management fees charged are in accordance with the management agreement.

Findings

Examiners verified that the Company paid \$21,000 a month for management fees in accordance with the management agreement.

f) Common Stock, Preferred Stock and Unassigned Surplus

Examination Objective: To determine whether common stock, preferred stock and unassigned surplus are properly stated in the Company's 2013 AS.

1st Atlantic Surety Company
Report on Limited-Scope Examination
As of December 31, 2013

Findings: Examiners agreed the common and preferred stock subscriptions to the stock certificates. Examiners also verified the components of the 2013 unassigned surplus. Examiners identified no adjustments or adverse findings.

g) Compliance with Specific GS Governing the Formation and Licensing of Domestic Insurance Companies

Examination Objective: To determine the Company's compliance with the statutes governing the formation and licensing of domestic insurance companies.

Findings

Examiners reviewed the Company's Board of Directors meeting minutes, various documentation submitted to the Department, and the Company's contracts and agreements for regulatory compliance and noted no adverse findings.

h) Review of Contracts and Agreements

Examination Objective: To determine whether the Company's active contracts and agreements have been properly approved by the Department, if required.

Findings

Examiners performed a review of the Company's active contracts and the Company's cash disbursement journal to identify any disbursements to vendors for which contracts had not been approved by the Department. Examiners identified no adverse findings.

1st Atlantic Surety Company
Report on Limited-Scope Examination
Appendix A – Report Distribution

Andrew White, Chief Financial Officer
3305 Durham Drive, Suite 101
Raleigh, NC 27601

Shannon Collins, Chief Executive Officer
3305 Durham Drive, Suite 101
Raleigh, NC 27601

Derrick Harrington, Chief Underwriting Officer
3305 Durham Drive, Suite 101
Raleigh, NC 27601

David Rock, III, Chief Operations Officer
3305 Durham Drive, Suite 101
Raleigh, NC 27601

Andrew Roberts, Chief Legal Officer & Corporate Secretary
3305 Durham Drive, Suite 101
Raleigh, NC 27601

David Rock, Jr., Incorporator and Board of Director
3305 Durham Drive, Suite 101
Raleigh, NC 27601