

**STATE OF NORTH DAKOTA
BISMARCK, NORTH DAKOTA**

REPORT OF EXAMINATION

OF

**ADRIATIC INSURANCE COMPANY
METAIRIE, LOUISIANA**

**AS OF
DECEMBER 31, 2016**

STATE OF NORTH DAKOTA
INSURANCE DEPARTMENT

I, the undersigned, Commissioner of Insurance of the State of North Dakota, do hereby certify that I have compared the annexed copy of the Report of Examination of the

Adriatic Insurance Company

Metairie, Louisiana

as of December 31, 2016, with the original on file in this Department and that the same is a correct transcript therefrom and of the whole of said original.

IN WITNESS WHEREOF, I have hereunto
set my hand and affixed my official seal at my
office in the City of Bismarck, this 28th day of
June, 2018.





Jon Godfread
Commissioner

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Metairie, Louisiana
May 18, 2018

Honorable Jon Godfread
Insurance Commissioner
State of North Dakota
600 East Boulevard Avenue, Dept. 401
Bismarck, ND 58505

Dear Commissioner:

Pursuant to your instructions and statutory requirements, an examination has been made of the books, records and financial condition of

Adriatic Insurance Company
3501 North Causeway Boulevard, Suite 1000
Metairie, Louisiana

Adriatic Insurance Company, hereinafter referred to as the Company, was last examined as of December 31, 2011, by Examiners from INSRIS.

SCOPE OF EXAMINATION

This examination was a risk-focused financial condition examination conducted in accordance with N.D.C.C. § 26.1-03-19.3 and observed guidelines and procedures contained in the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook*. The examination was conducted to determine the Company's financial condition, its compliance with statutes, and to review the corporate affairs and insurance operations. The last examination covered the period of January 1, 2007 through December 31, 2011. This examination covers the period of January 1, 2012, and through December 31, 2016, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this statutory examination.

The examination was conducted in accordance with examination policies and standards established by the North Dakota Insurance Department and procedures recommended by the NAIC. In accordance with the NAIC *Financial Condition Examiners Handbook*, the examination was planned and performed 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. The examination also included 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. This included assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the

course of the examination an adjustment was identified, the impact of such adjustment was documented separately following the Company's financial statements.

This examination report includes significant findings of fact, as mentioned in the N.D.C.C. § 26.1-03-19.3, and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature, are not included within the examination report but are separately communicated to other regulators and/or the Company.

STATUS OF PRIOR EXAMINATION FINDINGS

Our examination included a review to determine the current status of the four exception conditions commented upon in our preceding Report on Examination which covered the period from January 1, 2007, to December 31, 2011. We determined that the Company had satisfactorily addressed all of these items, except the following:

<u>Recommendation</u>	<u>Response</u>
It is recommended that the Company develop a formal written investment policy that complies with N.D. Admin. Code § 45-03-12-05, and that the Board of Directors, or committee thereof, review the insurer's investment portfolio for adherence to its written plan.	The Company did not comply. It is again recommended that the Company develop a formal written investment policy that complies with N.D. Admin. Code § 45-03-12-05, and that the Board of Directors, or committee thereof, review the insurer's investment portfolio for adherence to its written plan.

Findings and recommendations related to the above areas are addressed under various captions below for the current period under examination.

SUMMARY OF SIGNIFICANT FINDINGS

There were no material adverse findings or material changes in the financial statements.

SUBSEQUENT EVENTS

There were no significant subsequent events noted through the date of this report.

HISTORY

General

The Company was incorporated on July 16, 1992, in accordance with the North Dakota Business Corporation Act, N.D.C.C. Chapter 10-19.1, and the state insurance statutes, N.D.C.C. Chapter 26.1-05. Effective October 1, 1992, the Company was the surviving entity in a merger with Adriatic

Insurance Company, a Delaware corporation that was originally organized on June 12, 1979, under the laws of the State of Delaware.

The Company's primary purpose is to engage in the business of property and casualty insurance. The Company is authorized to operate on the stock plan and is a wholly owned subsidiary of the Anglesey Corporation, A Delaware insurance holding company.

Anthony Ciervo, Jr. the former ultimate controlling person of the Company passed away on March 13, 2016. The Successors of Anthony Ciervo, Jr. are now the ultimate controlling persons of the Company.

Capital Stock

The Company's Articles of Incorporation authorize the Company to issue 1,500,000 shares of single class (common), no par value capital stock.

At December 31, 2016, the Company had issued all 1,500,000 shares to its parent, Anglesey Corporation. The ownership of Anglesey Corporation is primarily held by the ultimate controlling person, the Successors of Anthony Ciervo, Jr., who control 100% of Anglesey's Class A, no par common stock as December 31, 2016.

On April 27, 1994, the Company's stockholder voted to change the par value of common stock from \$1 par value per share to no par. The amendment to the Articles was filed with an approval by the North Dakota Insurance Department effective August 17, 1994. The stockholder also approved a transfer of \$2,000,000 of unassigned surplus funds to capital stock on April 27, 1994, which increased the capital stock to \$3,500,000.

Dividends to Stockholders

There were no dividends declared or paid during the examination period.

CORPORATE RECORDS

Articles of Incorporation and Bylaws

The Company did not amend and restate the Articles of Incorporation or Bylaws during the examination period.

The Bylaws provide that an annual meeting of the stockholders shall be held on the fourth Wednesday of April of each year, beginning with the year 1993 at the hour of 2:00 p.m.

The Bylaws also provide that the number of directors of the corporation shall be three and each director holds office until the next annual meeting of stockholders and until his successor has been elected and qualified. Regular meetings of the Board of Directors are held on or after the annual stockholders meeting.

Board of Directors, Stockholders, and Committee Minutes

The recorded minutes of the Board of Directors (Board) for the Company and the annual stockholder meetings were reviewed for the period under examination. The recorded minutes of the Board did not document review and approval of Company's investment plan and the authorization of investments in accordance with N.D. Admin. Code § 45-03-12-05.

It is recommended that the Board of Directors approve investment transactions at least quarterly as required by N.D. Admin. Code § 45-03-12-05 (4).

Conflict of Interest

The Company has adopted a policy statement requiring annual disclosure of conflicts of interest in accordance with the guidelines of the NAIC Financial Condition Examiners Handbook. No issues or conflicts were noted within these disclosures.

MANAGEMENT AND CONTROL

Stockholders

Anglesey Corporation, a Delaware insurance holding company, owned 100% of the Company's outstanding stock at December 31, 2016. The ultimate controlling person in the holding company system are the Successors of Anthony Ciervo, Jr., who owned 8,625 or 100% of Anglesey Corporation Class A, no par common stock on December 31, 2016.

Board of Directors

Board of Directors serving as of December 31, 2016, were as follows:

<u>Name and Address</u>	<u>Principal Occupation</u>
Joseph Edmond Taylor Metairie, Louisiana	President Adriatic Insurance Company
Anthony Vandegrift Ciervo Metairie, Louisiana	Secretary Adriatic Insurance Company
Steven Michael Harris Mandeville, Louisiana	Treasurer Adriatic Insurance Company

Officers

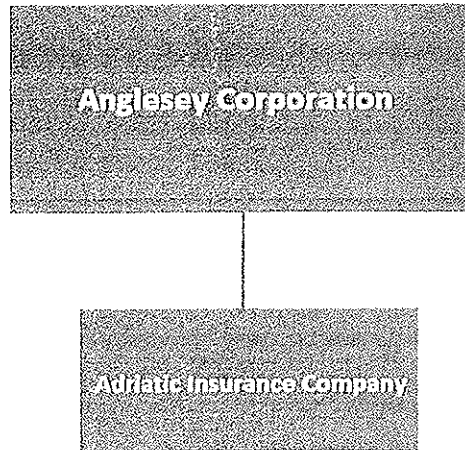
The Bylaws provide that the officers of the corporation shall be a President, a Vice President, a Secretary, and a Treasurer. The Board of Directors may also appoint other or additional officers as may be reasonably necessary for the conduct of the Company's business.

Officers of the Company serving as of December 31, 2016, were as follows:

<u>Name</u>	<u>Position</u>
Joseph Edmond Taylor	President
Anthony Vandegrift Ciervo	Secretary and Vice President
Steven Michael Harris	Treasurer

AFFILIATED COMPANIES

The Company's organizational structure is shown below:



As previously mentioned in the stockholder section, Anglesey Corporation is the Company's sole stockholder.

Intercompany Agreements

Tax Allocation Agreement

A consolidated federal income tax return is filed for the Company and its parent Anglesey Corporation. The return is in the parent's name. During the exam period, the Company was a party to a Consolidated Tax Allocation Agreement with Anglesey Corp. that apportions federal income tax between Anglesey Corp. and the Company based on the net income of each. There is a charge back to Anglesey from the Company every year, but according to the agreement the amount may be carried over to the following year until the balance exceeds \$500 (if exceeded, payment is required by Anglesey by March 31 of the following year).

FIDELITY BOND AND OTHER INSURANCE

At December 31, 2016, the Company did not have insurance coverage protecting it from losses resulting from dishonest acts committed by any of the Company's employees. At December 31, 2016, the minimum amount of coverage suggested by NAIC guidance was \$350,000. The Company has elected to self-insure this risk.

The Company had in force insurance policies providing coverage for business personal property, general liability, loss of income, workers compensation, and employer's liability.

PENSION, STOCK OWNERSHIP, AND OTHER INSURANCE PLANS

During the period under examination, the Company provided a health plan for employees. The Company also offers a SIMPLE-IRA to all permanent employees where the Company will match 100% of the employee's contribution up to a fixed percentage which varies from one to three percent as determined by the Company.

TERRITORY AND PLAN OF OPERATION

At December 31, 2016 the Company was licensed in North Dakota, Delaware, Nevada, and New Mexico, but writes no business in those states. The Company writes inland marine and auto physical damage lines of business in the District of Columbia and 37 other states on an excess and surplus lines basis.

The Company specializes in writing automobile physical damage coverage for commercial vehicles, including local and long-haul trucking, taxicabs and special automobile risks.

At December 31, 2016, the Company had 30 agents or agencies.

GROWTH OF THE COMPANY

The following represents the Company's direct written premium activity as it relates to surplus over the period of our examination:

	Premiums Written				
	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Direct	\$24,759,578	\$24,302,459	\$15,923,811	\$14,545,990	\$11,812,169
Assumed	0	0	0	0	0
Ceded	30,061	146,030	48,475	31,918	25,000
Net Written	<u>\$24,729,517</u>	<u>\$24,156,429</u>	<u>\$15,875,336</u>	<u>\$14,514,072</u>	<u>\$11,787,169</u>
Surplus	\$69,572,774	\$64,344,070	\$60,733,969	\$58,936,407	\$58,828,810
Premium-to-Surplus Ratio	36%	38%	26%	25%	20%

The Company's premium to surplus ratio remained conservative over the examination period, having increased from the 2008 "soft market" conditions. Premiums have returned to prior levels reached before the soft market began.

LOSS EXPERIENCE

The following represents the five-year history of the Company's loss reserves:

	2016	2015	2014	2013	2012
Loss reserves	\$5,634,796	\$4,619,583	\$3,560,840	\$3,345,889	\$3,216,388
LAE reserves	465,228	477,779	417,100	412,195	341,775
Total Reserves	\$6,100,024	\$5,097,362	\$3,977,940	\$3,758,084	\$3,558,163
Losses and LAE Incurred	\$10,796,778	\$9,533,907	\$7,544,209	\$8,717,685	\$7,986,626

The Company's loss reserves, losses and loss adjusting expenses have increased consistent with the increase in net premiums written.

REINSURANCE

The Company only used facultative reinsurance to place risks in excess of its stated retention.

ACCOUNTS AND RECORDS

The Company's accounting procedures, internal controls, and transaction cycles were reviewed during the course of the examination and a trial balance as of December 31, 2016, was traced to the appropriate schedules of the Company's 2016 Annual Statement. The Company's ledgers are maintained electronically. Revenues and expenses were test checked to the extent deemed necessary.

The Company is annually audited by an outside firm of independent certified public accountants. The work papers of this firm were made available to the Examiners and were used to the extent deemed appropriate for this examination.

At the time of the examination, the Company did not have a formal investment policy that met the following requirements of N.D. Admin. Code § 45-03-12-05:

1. The board of directors shall adopt a written plan for acquiring and holding investments and for engaging in investment practices that specifies guidelines as to the quality, maturity, and diversification of investments and other specifications including investment strategies intended to assure that the investments and investment practices are appropriate for the business conducted by the insurer, its liquidity needs, and its capital and surplus. The board shall review and assess the insurer's technical investment and administrative capabilities and expertise before adopting a written plan concerning an investment strategy or investment practice.

4. On no less than a quarterly basis, the board of directors or committee of the board of directors shall:
 - a. Receive and review a summary report on the insurer's investment portfolio, its investment activities, and investment practices engaged in under delegated authority, in order to determine whether the investment activity of the insurer is consistent with its written plan; and
 - b. Review and revise, as appropriate, the written plan.

It is again recommended that the Company develop a formal written investment policy that complies with N.D. Admin. Code § 45-03-12-05, and that the Board of Directors, or a committee thereof, review the insurer's investment portfolio for adherence to its written plan.

STATUTORY DEPOSITS

Deposits held by or pledged to regulatory agencies at December 31, 2016, are as follows:

State	Type of Asset	Fair Value	Statement Value
New Mexico	Bond	350,000	350,000
New York	CD	2,561,000	2,561,000
North Dakota	Bond	2,562,000	2,562,000
South Carolina	CD	209,637	209,637
Total		\$5,682,637	\$5,682,637

The deposits held by North Dakota and New York are for the benefit of all policyholders, claimants, and creditors of the Company.

FINANCIAL STATEMENTS

The following pages present a Statement of Assets, Liabilities, Surplus, and Other Funds as of December 31, 2016. This statement is followed by supporting statements and reconciliations presented in the following order:

Statement of Assets, Liabilities, Surplus and Other Funds, December 31, 2016

Summary of Income, Year 2016

Reconciliation of Capital and Surplus, January 1, 2012 through December 31, 2016

The following financial statements are based on the statutory financial statements filed by the Company with the North Dakota Insurance Department and present the financial condition of the Company for the period ending December 31, 2016. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the annual statement and should be considered an integral part of the financial statements.

Adriatic Insurance Company
Statement of Assets
December 31, 2016

	Ledger & Non-Ledger Assets	Assets Not Admitted	Net Admitted Assets
Bonds	\$60,998,782		\$60,998,782
Common Stocks	937,014		937,014
Cash	4,981,284		4,981,284
Short-Term Investments	16,571,943		16,571,943
Investment Income Due and Accrued	559,031		559,031
Premiums and Agents Balances in Course of Collection	3,284,136		3,284,136
Federal and Foreign Income Tax Recoverable	336,703		336,703
Net Deferred Tax Asset	503,260		503,260
Totals	<u>\$88,172,154</u>		<u>\$88,172,154</u>

Adriatic Insurance Company
Liabilities, Surplus and Other Funds
December 31, 2016

Losses		\$5,364,796
Loss Adjustment Expenses		465,228
Other Expenses		422,421
Taxes, Licenses and Fees		2,809
Unearned Premiums		12,290,533
Ceded Reinsurance Premiums Payable		28,593
Amounts Withheld or Retained by Company for Account of Others		<u>25,000</u>
Total Liabilities		\$18,599,380
Common Capital Stock	\$3,500,000	
Gross Paid In and Contributed Surplus	1,100,042	
Unassigned Funds (Surplus)	<u>64,972,732</u>	
Surplus as Regards Policyholders		<u>69,572,774</u>
Total		<u>\$88,172,154</u>

Adriatic Insurance Company
Statement of Income
December 31, 2016

Underwriting Income

Premiums Earned		\$23,809,585
Deductions:		
Losses Incurred	\$9,501,316	
Loss Expense Incurred	1,295,462	
Other Underwriting Expenses Incurred	6,813,766	
Total Underwriting Deductions		17,610,544
Net Underwriting Gain or (Loss)		\$ 6,199,041

Investment Income

Net Investment Income Earned	\$1,380,731	
Net Realized Capital Gains or (Losses)	(69,735)	
Net Investment Gain or (Loss)		1,310,996

Other Income

Net Loss from Agents' or Premium Balances Charged Off		(42,859)
Net Income Before Federal Income Taxes		\$ 7,467,178
Federal Income Taxes Incurred		2,404,123
Net Income		\$ 5,063,055

Adriatic Insurance Company
Reconciliation of Capital and Surplus Account
January 1, 2012 Through December 31, 2016

	2016	2015	2014	2013	2012
Surplus as Regards Policyholders, December 31, Prior Year	\$64,344,070	\$60,733,969	\$58,936,407	\$58,828,810	\$58,724,543
Net Income	5,063,055	3,593,373	1,819,637	95,750	63,559
Change in Net Unrealized Capital Gains or (Losses)	165,649	16,728	(22,075)	11,847	40,708
Change in Surplus for the Year	5,228,704	3,610,101	1,797,562	107,597	104,267
Surplus as Regards Policyholders, December 31, Current Year	\$69,572,744	\$64,344,070	\$60,733,969	\$58,936,407	\$58,828,810

CONCLUSION

The financial condition of the Company, as of December 31, 2016, as determined by this examination is as follows:

Admitted Assets:		<u>\$88,172,154</u>
Total Liabilities	\$ 18,599,380	
Common Capital Stock	\$ 3,500,000	
Gross Paid In & Contributed	1,100,042	
Unassigned Funds	<u>64,972,732</u>	
Surplus as Regards Policyholders	<u>69,572,774</u>	
Liabilities, Surplus and Other Funds		<u>\$88,172,154</u>

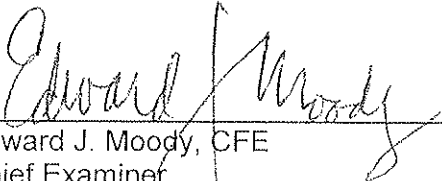
This examination made no adjustment of the balance sheet amounts reported by the Company in its 2016 Annual Statement.

Since the last examination conducted as of December 31, 2011, the Company's admitted assets have increased \$21,606,158, its total liabilities have increased \$10,757,927, and its surplus as regards policyholders has increased \$10,848,231.

The courteous cooperation extended by the officers and employees of the Company during the course of this examination is gratefully acknowledged.

In addition to the undersigned, Mike Andring, FCAS, MAAA, Actuary, North Dakota Insurance Department, and Joseph Detrick, CPA, CISA, CFE, AES, Information Systems Auditor, of Jennan Enterprises, LLC, participated in this examination.

Respectfully submitted,



Edward J. Moody, CFE
Chief Examiner
North Dakota Insurance Department

COMMENTS AND RECOMMENDATIONS

It is recommended that the Board of Directors approve investment transactions at least quarterly as required by N.D. Admin. Code § 45-03-12-05 (4).

It is again recommended that the Company develop a formal written investment policy that complies with N.D. Admin. Code § 45-03-12-05, and that the Board of Directors, or committee thereof, review the insurer's investment portfolio for adherence to its written plan.