

**PROCEEDINGS BEFORE MICHAEL D. RILEY  
ACTING INSURANCE COMMISSIONER  
STATE OF WEST VIRGINIA**

**IN RE: WEST VIRGINIA NATIONAL AUTO INSURANCE COMPANY**

**Administrative Proceeding No.: 11-AP-FINCON-02017**

**AGREED ORDER ADOPTING REPORT OF FINANCIAL EXAMINATION  
AND DIRECTING ACTION**

COMES NOW Michael D. Riley, Acting Insurance Commissioner of the State of West Virginia, and Issues this Order which adopts the REPORT OF FINANCIAL EXAMINATION as of December 31, 2010, of WEST VIRGINIA NATIONAL AUTO INSURANCE COMPANY (hereinafter referred to as "Company") based upon the following findings, to wit:

**JURISDICTION**

1. Michael D. Riley is the Acting Insurance Commissioner of the State of West Virginia (hereinafter the "Insurance Commissioner") and is charged with the duty of administering and enforcing the provisions of Chapter 33 of the West Virginia Code of 1931, as amended.

2. The Company was incorporated on April 29, 1998 and authorized by the Insurance Commissioner to transact the business of insurance in the State of West Virginia as permitted and authorized by the West Virginia Code.

## **FINDINGS OF FACT**

1. An examination of the financial condition and operational affairs of the Company for period beginning January 1, 2008 and ending December 31, 2010, was conducted in accordance with West Virginia Code §33-2-9(c) by the Insurance Commissioner.

2. On September 28, 2011, the examiner filed a REPORT OF FINANCIAL EXAMINATION with the Insurance Commissioner pursuant to W.Va. Code § 33-2-9(j)(2). A copy of the REPORT OF FINANCIAL EXAMINATION is attached hereto as Exhibit A and incorporated herein as if set forth in full.

3. On or about September 28, 2011, a true and accurate copy of the REPORT OF FINANCIAL EXAMINATION was forwarded to the Company by certified mail, return receipt requested. On September 29, 2011, the Company received a copy of the REPORT OF FINANCIAL EXAMINATION.

4. Pursuant to W.Va. Code § 33-2-9(j)(2), the Company was notified and afforded a period of thirty (30) days after receipt of the REPORT OF FINANCIAL EXAMINATION within which to make a submission, rebuttal, or objection concerning any matter contained in the REPORT OF FINANCIAL EXAMINATION.

5. By letter dated September 30, 2011, management of the Company indicated that they had reviewed the REPORT OF FINANCIAL EXAMINATION and concurred with the findings of the examination. A copy of

the Company's response letter of September 30, 2011, is attached hereto as Exhibit B. By the letter dated September 30, 2011, the Company acknowledges that all issues so disputed with OIC concerning this Report of Financial Examination were resolved.

### **CONCLUSIONS OF LAW**

W.Va. Code § 33-2-9(j)(3)(A) provides that following a review of the REPORT OF FINANCIAL EXAMINATION, the examination work papers, and any written submission, rebuttal, or objection the Insurance Commissioner shall enter an ORDER adopting the REPORT OF FINANCIAL EXAMINATION as filed or with modifications or corrections.

### **ORDER**

It is therefore AGREED by the Parties and ORDERED the following:

1. It is **ORDERED** that the REPORT OF FINANCIAL EXAMINATION of WEST VIRGINIA NATIONAL AUTO INSURANCE COMPANY attached hereto as Exhibit A, is hereby ADOPTED and APPROVED by the Insurance Commissioner.

2. It is further **ORDERED** that a copy of this AGREED ORDER ADOPTING REPORT OF FINANCIAL EXAMINATION AND DIRECTING ACTION and the adopted REPORT OF FINANCIAL EXAMINATION shall be mailed to WEST VIRGINIA NATIONAL AUTO INSURANCE COMPANY by certified mail, return receipt requested upon entry of this Order by the Insurance Commissioner.

3. It is **ORDERED** that WEST VIRGINIA NATIONAL AUTO INSURANCE

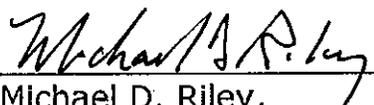
COMPANY shall file with the Insurance Commissioner, within thirty (30) days of the issuance of this ORDER, affidavits executed by each of its directors stating under oath that they have received a copy of the adopted REPORT OF FINANCIAL EXAMINATION and a copy of this AGREED ORDER ADOPTING REPORT OF FINANCIAL EXAMINATION and DIRECTING ACTION, in accordance with W.Va. Code § 33-2-9(j)(4).

4. It is **ORDERED** that WEST VIRGINIA NATIONAL AUTO INSURANCE COMPANY take whatever actions are required to comply with the recommendations set forth in the REPORT OF FINANCIAL EXAMINATION and shall demonstrate compliance to the satisfaction of the Insurance Commissioner.

5. That WEST VIRGINIA NATIONAL AUTO INSURANCE COMPANY waives any right to any notice, administrative hearing or appeal therefrom for the actions taken by the Insurance Commissioner herein this Agreed Order Adopting Report of Financial Examination and Directing Action. WEST VIRGINIA NATIONAL AUTO INSURANCE COMPANY reserves herein its rights to notice, administrative hearing or appeal for any future enforcement actions taken by the Commissioner that might result from this Agreed Order, if any.

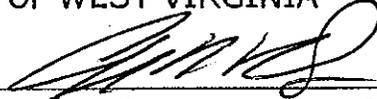
6. It is finally **ORDERED** that this administrative matter be hereby dismissed from the administrative docket of the Insurance Commissioner.

Entered this 21<sup>st</sup> day of November, 2011.

  
\_\_\_\_\_  
Michael D. Riley,  
Acting Insurance Commissioner

THE PARTIES DO SO AGREE:

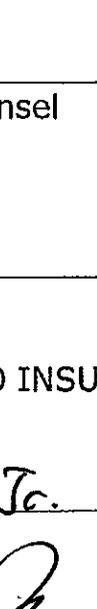
OFFICES OF THE INSURANCE COMMISSIONER  
STATE OF WEST VIRGINIA

By:   
Andrew R. Pauley, Associate Counsel  
Attorney Supervisor, APIR

11/21/11  
Date

WEST VIRGINIA NATIONAL AUTO INSURANCE COMPANY

BY: James W. Buchanan Jr.  
[Print Name]

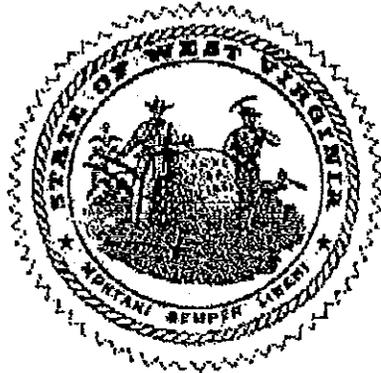
Signed: 

Its: President/CEO

Dated: 11/18/11

State Of West Virginia

West Virginia Insurance Commission



REPORT OF EXAMINATION



**West Virginia National Auto Insurance Company  
Examination as of December 31, 2010**

**TABLE OF CONTENTS**

Scope of Examination.....	3
History .....	3
Capital and Surplus .....	5
Management and Control.....	5
Conflict of Interest.....	6
Corporate Records .....	6
Affiliated Companies.....	7
Employees Welfare and Pension Plans.....	7
Fidelity Bonds and Other Insurance.....	7
Territory and Plan of Operations .....	8
Growth of the Company .....	8
Reinsurance.....	9
Accounts and Records .....	9
Financial Exhibits .....	9
Comparative Exhibit – Balance Sheet.....	11
Comparative Exhibit – Summary of Operations, Including Capital and Surplus Account.....	12
Reconciliation of Examination Changes To Surplus.....	13
Comments and Recommendations.....	13
Subsequent Events .....	14
Acknowledgement .....	15

**West Virginia National Auto Insurance Company  
Examination as of December 31, 2010**

September 28, 2011

Honorable Michael Riley  
West Virginia Insurance Commission  
1124 Smith Street  
Charleston, West Virginia 25301

Pursuant to the authority vested in the Insurance Commissioner of the State of West Virginia, an examination has been made of the affairs and financial condition of:

West Virginia National Auto Insurance Company  
330 Scott Avenue, Suite 2  
Morgantown, WV 26508

hereinafter referred to as the "Company". The examination was conducted at the Company's office located in Morgantown, West Virginia.

The following Report of Examination, reflecting the status of the Company as of December 31, 2010, is hereby respectfully submitted.

**West Virginia National Auto Insurance Company  
Examination as of December 31, 2010**

**SCOPE OF EXAMINATION**

A full scope examination was conducted of the Company's financial condition as of December 31, 2010. The examination covered the period from January 1, 2008 through December 31, 2010, and included any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

In conducting the exam, the examiners relied upon the workpapers and audit reports of the independent auditors and the opinions contained therein rendered by Parks, Foster & Morris, P.L.L.C. for the years ended December 31, 2008 through December 31, 2010. Such reports were prepared on a statutory basis and reconciled to the financial statements contained in the respective Annual Statements. The reports expressed an unqualified opinion for each year.

The examination was conducted in accordance with procedures and guidelines prescribed by the National Association of Insurance Commissioners for the purpose of determining the Company's financial condition. The examination was conducted using a risk-focused approach.

**HISTORY**

The Company was incorporated in West Virginia on April 29, 1998 and commenced business on June 1, 1998. The Company is a wholly-owned subsidiary of WVA National Company, L.L.C. (parent), a West Virginia limited liability company. The holding company is majority owned by Milan Puskar, who owns 73.89%. The remaining shares of the holding company are closely held and the shares are not traded publicly.

The Company was formed to engage in the business of writing casualty insurance and such other lines or types of insurance (including, without limitation, accident and sickness insurance, fire insurance, surety insurance, and marine insurance) as the Corporation may from time to time be legally authorized to write, including ceding or assuming reinsurance of any type or line of insurance which the Corporation may be legally authorized to write, as set forth in and authorized by the Code of West Virginia of 1931, Chapter 33, Article 1, Section 10, as it now or hereinafter exists. The duration of the Corporation shall be perpetual.

The Company commenced business writing two lines of business, private passenger auto liability and auto physical damage. On September 3, 2004, the West Virginia Insurance Commission authorized the Company to write fire insurance. On December 26, 2006, the Company was authorized by the West Virginia Secretary of State to transact business under the West Virginia National Insurance Company trade name. The Company wrote its first fire insurance policy on June 8, 2007.

The Company became licensed in the State of Virginia in March 2010. All Virginia business is written by a single agency.

**Capital Stock**

The Company is authorized to issue two classes of stock. The Company is authorized to issue forty (40) shares of Class A Common Stock, each of which shall have a par value of \$50,000. The

**West Virginia National Auto Insurance Company**  
**Examination as of December 31, 2010**

Company is also authorized to issue ten (10) shares of Class B Common Stock, each with a par value of \$100. Each share of common stock, whether Class A or Class B, shall be entitled to one (1) vote.

At the option of the Corporation, shares of Class B common stock may be exchanged for the Company's subordinated notes pursuant to certain conditions and procedures stipulated in the Company's Articles of Incorporation. Under such an exchange, each share of Class B Common Stock shall be exchanged for a subordinated note with a face value of \$100,000, which shall be due 10 years after the date of exchange.

No such exchange may take place:

- a. Prior to May 31, 2001.
- b. Unless Company surplus after such exchange complies with West Virginia Code.
- c. Unless Risk Based Capital requirements are met after such exchange.
- d. Until the Company is able to demonstrate to the Insurance Commission that the exchange would not "place the Corporation in a financial position may be deemed hazardous."
- e. Until application has been made to and approved by the Insurance Commissioner of the State of West Virginia.

Procedures for the exchange call for:

- a. The Corporation's Board of Directors adopts a resolution calling for the exchange.
- b. At least thirty (30) days but not more than (90) days, the Corporation notifies the holders of Class B Common Stock of its intention to effect the exchange.
- c. The Corporation issues all the subordinated notes to the holders of the Class B Common Stock and makes the notes available upon demand.
- d. The Corporation identifies and segregates funds equal in amount to the aggregate amount of exchange fees due to the holders of Class B Common Stock and makes such funds available to the holders upon demand

Upon the exchange of each share of Class B Common Stock, each Class B shareholder, in addition to the subordinated note, shall be entitled to an exchange fee. After May 31, 2001, the fee for each share of Class B Common Stock shall be \$28,500. The exchange fee shall increase as of May 31, 2002 by \$9,500 and by a like amount each May 31 thereafter. The exchange fee per share shall be reduced the amount of any dividends paid or declared on the Class B Common Stock. Increases in the exchange fee called for shall be cumulative.

Once shares have been exchanged through the process described above, all outstanding shares of Class B Common Stock will be canceled.

The Articles of Incorporation may be amended as to any right, preference, privilege or power of holders of Class B Common Stock only with the consent of the holders of a majority of this stock.

At December 31, 2007, twenty (20) shares of Class A Common Stock were issued and outstanding to WV National Company, LLC. Ten (10) shares of Class B Common Stock were issued and outstanding to WV National Company, LLC.

**West Virginia National Auto Insurance Company  
Examination as of December 31, 2010**

Dividends

With respect to dividends and the distribution of assets upon liquidation, holders of common stock, whether Class A or Class B, shall participate in proportion to the aggregate par value of their holdings, and each outstanding share of stock, whether Class A or Class B, shall be of equal rank.

During the period under examination, no dividends were paid to the parent.

**CAPITAL AND SURPLUS**

West Virginia Code § 33-3-5b provides no insurer shall hereafter be licensed to transact the business of insurance in the state of West Virginia unless it has fully paid in capital stock of at least one million dollars (\$1,000,000). In addition, each such insurer shall have and maintain additional surplus funds of at least one million dollars (\$1,000,000). The Company maintained these minimum requirements in all years during the examination period. The Company did fail to comply with a reporting requirement within West Virginia Code §33-8-22. See "Comments and Recommendations" section of this report for more details.

**MANAGEMENT AND CONTROL**

The Articles of Incorporation and Bylaws of the Company were reviewed and compared to the actions of management. The minutes of the Board of Directors' meetings were reviewed. There were two meetings of the shareholders of the Parent during the examination period for which minutes were reviewed.

Board of Directors

The Articles of Incorporation state that the number of directors shall be no less than five (5) nor more than nine (9). At each year under examination and at December 31, 2007, the Company had five individuals serving on the Board of Directors.

Those members elected and serving and their principal affiliations at December 31, 2010 were as follows:

<u>Name</u>	<u>Title</u>
Milan Puskar	Chairman of the Board
James Walter Buchanan, Jr.	Director, President and CEO of the Company
Parry Petroplus	Director
David Mitchell Maynard	Director
William B. Kania	Director

Committees

The Board of Directors has designated from among its members the following committees in accordance with Article III of the Company's Bylaws:

West Virginia National Auto Insurance Company  
Examination as of December 31, 2010

Executive Committee  
Compensation Committee  
Audit Committee

Officers

The Bylaws of the Company require that officers of the Company are elected by the Board of Directors at their regular annual meeting. The principal officers of the Company consist of the President, Treasurer and Secretary. The following is a list of key Officers and their respective titles as of December 31, 2010:

<u>Officer</u>	<u>Title</u>
James Buchanan, Jr.	President
David Charles Remmells	Secretary and Treasurer

CONFLICT OF INTEREST

The Company does have a formal conflict of interest procedure. Statements are completed as part of the annual independent audit and retained by the Company's auditors.

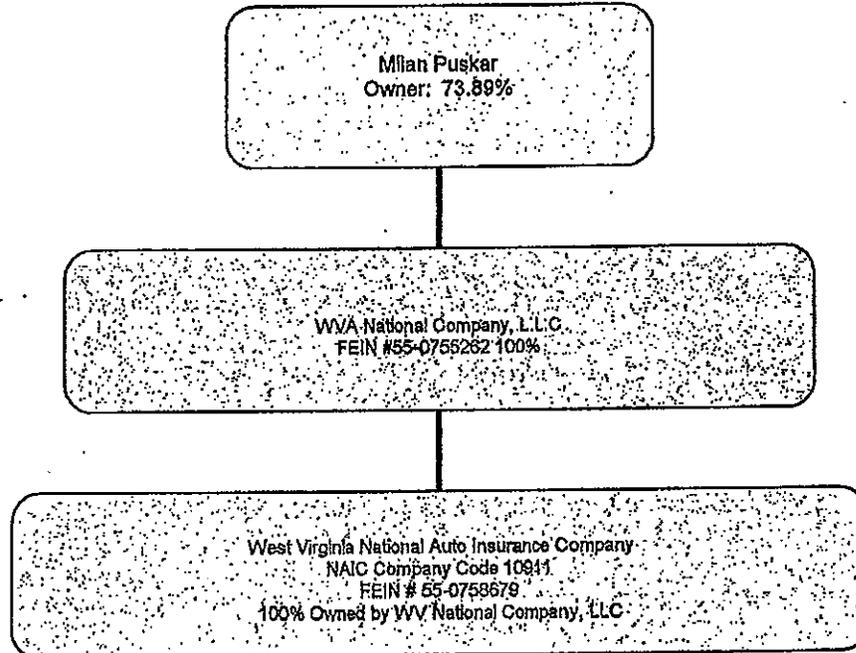
CORPORATE RECORDS

Board of Director Minutes

The Board of Directors meeting minutes were reviewed for the period under examination and through the date of field work. It was noted that the minutes did not always record the approval of material transactions or events. See "Comments and Recommendations" section of this report for more details.

West Virginia National Auto Insurance Company  
Examination as of December 31, 2010

**AFFILIATED COMPANIES**



- (a) The remaining 26.11% ownership of WVA National Company, L.L.C. is closely held by approximately 30 investors. This includes 1.2739% owned by Jim Buchanan, the Company's President.
- (b) WVA National Company, L.L.C owns 100% of West Virginia National Auto Insurance Company, Inc.

**EMPLOYEES WELFARE AND PENSION PLANS**

During 2003, the Company created a Savings Incentive Match Plan for Employees (IRS designated "SIMPLE IRA" plan). The plan is a defined contribution plan allowing employees to make pre-tax voluntary contributions through payroll deduction of up to \$11,500 per year in 2010. The Company matches the employee's contribution up to 3% of the employee's salary. The Company's matching contribution to the plan was \$21,479 for 2010 and \$20,031 for 2009.

**FIDELITY BONDS AND OTHER INSURANCE**

Fidelity bonds provide coverage to the insured business or individual for money or other property lost because of dishonest acts of its bonded employees. While the need for fidelity bond coverage can vary from company to company, it is recommended that those who have access to cash and investments be bonded. This includes the people who have the ability to authorize wire transfers, write checks and those who can buy, sell, or transfer investments. The terms of each policy may vary; however, it is recommended that the policy be written to cover material acts of theft or dishonesty by bonded employees. Based upon the NAIC guidelines for the exposure index of

**West Virginia National Auto Insurance Company  
Examination as of December 31, 2010**

Company, it is recommended the Company obtain insurance to protect itself from dishonest acts of employees in the amount of \$175,000-\$200,000. West Virginia National Auto Insurance Company maintained coverage for fidelity losses at December 31, 2010 in the amount of \$200,000.

The Company maintained other types of insurance that were in-force at December 31, 2010 including auto, business property, and catastrophe and directors and officers liability insurance. A review of these insurance policies indicates that adequate protection appears to be maintained by the Company for these other coverages.

**TERRITORY AND PLAN OF OPERATIONS**

The Company is licensed to write business in West Virginia and Virginia. The Company originally wrote two lines of business, private passenger auto liability and auto physical damage. In 2004, the West Virginia Insurance Commission authorized the Company to write fire insurance. The dwelling fire product includes the lines of fire, allied lines, other liability, and mine subsistence.

The Company markets its products through independent agents located throughout West Virginia and through a single independent agent in Virginia. The Company has no branch offices; all claims handling and administrative functions are handled at the home office. Underwriting functions are handled at the home office in West Virginia and at the single agent in Virginia. Oversight for the underwriting function handled by the Virginia location is done by the West Virginia home office. The Company contracts with approximately 150 agencies.

In 2008, the Company filed for an overall rate increase of 2.9% including a 3.4% increase for Liability and no change in Physical Damage which was approved by the West Virginia Insurance Commission effective August 1, 2008. In February 2010, the Company was approved a rate increase of 5.2% for West Virginia Private Passenger Auto coverage.

**GROWTH OF THE COMPANY**

The following exhibit depicts the growth of the Company throughout the examination period:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Surplus</u>	<u>Premiums Earned</u>	<u>Net Income (Loss)</u>
2008	\$9,307,659	\$4,738,901	\$4,568,758	\$7,437,710	\$20,872
2009	\$9,340,360	\$4,654,280	\$4,686,080	\$7,232,240	\$82,592
2010	\$10,701,974	\$5,929,956	\$4,772,018	\$7,797,496	\$4,769

The Company's surplus increased 4% since 2008. The Company experienced net income in all years under examination. Total admitted assets increased by approximately 15% overall during the examination period.

**West Virginia National Auto Insurance Company**  
**Examination as of December 31, 2010**

**REINSURANCE**

Because the majority of the Company's Private Passenger Automobile policies provide the minimum level of insurance coverage required by law, the Company has determined that the cost of reinsurance coverage exceeds the corresponding benefit in West Virginia. Consequently, the reinsurance treaties between the Company and its reinsurer related to its automobile line of business terminated effective May 15, 2001 on a run-off basis. The company will continue to pay the ceded premiums on all policies with an inception date of May 15, 2001 and prior. Any payments or reserves on claims incurred on these policies will be subject to the terms of the reinsurance treaties. As of December 31, 2010, the Company had no reinsurance on new or renewal business related to its automobile line of business in West Virginia after May 15, 2001. Changes were made to the Company's underwriting rules to offset the effect of no reinsurance, which includes a 3-month policy for most policies written or renewed after October 1, 2001 and a requirement of a 12-month paid-in-full policy for any coverage with limits in excess of \$25,000 / \$50,000 / \$25,000 to limit the exposure to unreinsured high limit losses. At December 31, 2010, the Company had one (1) policy in force with limits in excess of \$25,000 / \$50,000 / \$25,000.

At December 31, 2010, the Company was contracted to reinsure losses and loss adjustment expenses paid under the dwelling line of business. Its reinsurance agreement with Scor Re Company calls for the Company to cede 80% of premiums written and losses and loss adjustment expenses incurred under these policies, with the exception of the Mine Subsidence Coverage.

In April 2010, the Company entered into contracts to reinsure losses and loss adjustment expenses paid under the new Private Passenger Automobile line of business in Virginia. Its reinsurance agreement with Scor Re Company and Platinum Underwriters Reinsurance, Inc. calls for the Company to cede 70% of premiums written and losses and loss adjustment expenses incurred under these policies.

It is mandatory for the Company to offer Mine Subsidence Coverage with its new dwelling fire line of business. This Mine Subsidence Coverage is reinsured 100% with the West Virginia Board of Risk and Insurance Management. The Company receives a ceding commission in the amount of 30% of ceded premiums written to its reinsurers on this treaty.

The Company did not assume any reinsurance premiums during the examination period.

**ACCOUNTS AND RECORDS**

The Company's accounting procedures, practices, records and supporting data were reviewed and tested to the extent deemed necessary. The trial balance prepared from the Company's general ledger for the year ended December 31, 2010 was agreed to the Company's 2010 Annual Statement. There were no permitted practices issued by the WVOIC as of December 31, 2010. The security of the Company's records was noted during the examination. See the "Comments and Recommendations" section of this report for additional details.

**FINANCIAL EXHIBITS**

The following statement of admitted assets and liabilities, together with the accompanying

**West Virginia National Auto Insurance Company  
Examination as of December 31, 2010**

statement of income and other selected supporting exhibits, reflect the financial condition of the Company at December 31, 2010 and its transactions during the year 2010, as determined through this examination.

Amounts in the financial statements for the years ended December 31, 2008, and December 31, 2009 were taken from the Company's Annual Statements as filed with the West Virginia Offices of the Insurance Commissioner. Amounts for the year ended December 31, 2010 are amounts per examination.

**West Virginia National Auto Insurance Company**  
**Examination as of December 31, 2010**

**Comparative Exhibit – Balance Sheet**

**As of December 31, 2010**

	2010	2009	2008
<b>Assets:</b>			
Bonds	\$7,553,469	\$8,161,600	\$7,826,698
Common stock	132,927	105,381	82,691
Cash and short term investments	135,693	525,067	906,873
<b>Subtotals, Cash and Invested Assets</b>	<b>\$7,822,089</b>	<b>\$8,792,048</b>	<b>\$8,816,262</b>
Investment income due and accrued	\$77,140	\$80,255	\$78,437
Premiums and agents' balances in course of collection	2,229,247	314,302	288,424
Amounts recoverable from reinsurers	400,932	31,904	4,921
Federal income tax recoverable	0	0	0
Net deferred tax asset	172,566	121,851	119,615
<b>Total Assets</b>	<b>\$10,701,974</b>	<b>\$9,340,360</b>	<b>\$9,307,659</b>
<b>Liabilities:</b>			
Losses	\$2,906,241	\$2,794,860	\$2,871,632
Loss adjustment expenses	650,582	610,418	627,142
Commissions payable and contingent commissions	145,401	145,255	149,354
Other expenses	47,837	12,240	8,637
Taxes, licenses and fees	106,646	17,860	18,072
Federal and foreign income taxes	29,137	1,109	16,082
Unearned premiums	1,575,761	823,693	843,407
Advanced premiums	142,339	121,905	138,225
Ceded reinsurance premiums payable	240,532	53,016	21,166
Amounts withheld for account of others	9,116	8,164	9,264
Payable to parent, subsidiaries and affiliates	10,880	10,872	10,916
Aggregate write-in - Uncashed checks pending escheat	65,484	53,888	25,044
<b>Total Liabilities</b>	<b>\$5,929,956</b>	<b>\$4,654,280</b>	<b>\$4,738,901</b>
Common capital stock	\$1,001,000	\$1,001,000	\$1,001,000
Gross paid in and contributed surplus	1,999,000	1,999,000	1,999,000
Unassigned Funds	1,772,018	1,686,080	1,568,758
<b>Surplus as regards policyholders</b>	<b>\$4,772,018</b>	<b>\$4,686,080</b>	<b>\$4,568,758</b>
<b>Total Liabilities and Surplus</b>	<b>\$10,701,974</b>	<b>\$9,340,360</b>	<b>\$9,307,659</b>

**West Virginia National Auto Insurance Company**  
**Examination as of December 31, 2010**

**Comparative Exhibit – Summary of Operations, Including Capital and Surplus Account**

**As of December 31, 2010**

	2010	2009	2008
<b>Underwriting Income:</b>			
Premiums Earned	\$7,797,496	\$7,232,240	\$7,437,710
<b>Deductions:</b>			
Losses Incurred	4,341,456	4,455,802	4,715,192
Loss Expenses Incurred	941,912	838,624	732,354
Other Underwriting Expenses	2,926,867	2,308,968	2,379,917
<b>Total Underwriting Deductions</b>	<b>\$8,210,035</b>	<b>\$7,603,394</b>	<b>\$7,827,463</b>
<b>Net Underwriting Gain (Loss)</b>	<b>(\$412,539)</b>	<b>(\$371,154)</b>	<b>(\$389,753)</b>
Net Investment Income Earned	\$247,055	\$280,373	\$293,909
Net Realized Capital Gains or (Losses)	(695)	(1,125)	(47,456)
<b>Net Investment Gain or (Loss)</b>	<b>\$246,360</b>	<b>\$279,248</b>	<b>246,453</b>
<b>Other Income:</b>			
Net Gain (loss) From Premium Balances Charged Off	(\$4,339)	(\$3,204)	(\$3,697)
Finance Charges Not Included in Premiums	186,610	180,750	182,093
Aggregate Write-ins for Miscellaneous Income	18,705	1,979	3,147
<b>Total Other Income</b>	<b>\$200,976</b>	<b>\$179,525</b>	<b>\$181,543</b>
<b>Net Income Before FIT and Dividends</b>	<b>\$34,797</b>	<b>\$87,619</b>	<b>\$38,243</b>
Dividends to Policyholders	0	0	0
Federal Income Taxes Incurred	30,028	5,027	17,461
<b>Net Income or (loss)</b>	<b>\$4,769</b>	<b>\$82,592</b>	<b>\$20,782</b>
<b>Capital and Surplus Account:</b>			
Surplus, December 31, Previous Year	\$4,686,080	\$4,568,758	\$4,494,974
Net Income	4,769	82,592	20,782
Change in Unearned Capital Gains	27,546	13,870	(117)
Change in Net Deferred Income Tax	51,816	(6,721)	35,443
Change in Non-admitted Assets	1,807	27,581	17,676
Change in Surplus Notes	0	0	0
Change in Paid in Capital	0	0	0
Change in Surplus adjustments- Paid in Capital	0	0	0
Dividends to Stockholders	0	0	0
<b>Net Change in Surplus for the Year Ended</b>	<b>\$85,938</b>	<b>\$117,322</b>	<b>\$73,784</b>
<b>Surplus, December 31, Current Year</b>	<b>\$4,772,018</b>	<b>\$4,686,08</b>	<b>\$4,568.75</b>

## Reconciliation of Examination Changes to Surplus

December 31, 2010

There were no adjustments to surplus made as a result of the examination.

### COMMENTS AND RECOMMENDATIONS

The following items represent a summary of recommendations per this examination.

#### Finding # 1 – Duties of the Board of Directors

As per Article III, Section 1.A. of the Company's Bylaws "The Board of Directors shall manage and control the business and property of the Corporation." In addition, as per Article IV, Section 7.A. of said document "The Secretary shall keep the minutes of the proceedings....." No evidence was obtained during the examination reflecting the approval of the Company's expansion into Virginia.

RECOMMENDATION: It is recommended that the Board of Directors officially approve and record in the meeting minutes any material items impacting the Company.

#### Finding # 2 – Computer Server Location

The Company's computer server is not located in a secure location.

RECOMMENDATION: It is recommended the Company place the server in a location which is protected from environmental hazards and prohibits unauthorized access.

#### Finding # 3 – Compliance with West Virginia Code §33-8-22

The Company has failed to submit the reconciliation and summary supplements as required by West Virginia Code §33-8-22, specifically subsection (c) of the code which reads:

*"Monitoring and reporting. --*

A property and casualty, financial guaranty, mortgage guaranty or accident and health sickness insurer shall supplement its annual statement with a reconciliation and summary of its assets and reserve requirements as required in subsection (a) of this section. A reconciliation and summary showing that an insurer's assets as required in said subsection are greater than or equal to its undiscounted reserves referred to in said subsection are sufficient to satisfy this requirement. Upon prior notification, the commissioner may require an insurer to submit a reconciliation and summary with any quarterly statement filed during the calendar year."

As further clarification to the Company, subsection (a) as noted above reads:

"(a) Subject to all other limitations and requirements of this article, a property and casualty, financial guaranty, mortgage guaranty or accident and sickness insurer shall maintain an amount at least equal to one hundred percent of adjusted loss reserves and loss adjustment

**West Virginia National Auto Insurance Company**  
**Examination as of December 31, 2010**

expense reserves, one hundred percent of adjusted unearned premium reserves and one hundred percent of statutorily required policy and contract reserves in:

- (1) Cash and cash equivalents;
- (2) High and medium grade investments that qualify under section twenty-four or twenty-five of this article;
- (3) Equity interests that qualify under section twenty-six of this article and that are traded on a qualified exchange;
- (4) Investments of the type set forth in section thirty of this article if the investments are rated in the highest generic rating category by a nationally recognized statistical rating organization recognized by the SVO for rating foreign jurisdictions and if any foreign currency exposure is effectively hedged through the maturity date of the investments;
- (5) Qualifying investments of the type set forth in subdivision (2), (3) or (4) of this subsection that are acquired under section thirty-two of this article;
- (6) Interest and dividends receivable on qualifying investments of the type set forth in subdivisions (1) through (5), inclusive, of this subsection; or
- (7) Reinsurance recoverable on paid losses."

RECOMMENDATION: It is recommended that the Company comply with the provisions of West Virginia Code §33-8-22 (c).

Finding # 4 – Inadequate Password Protection

The Company maintains computer system passwords; however the protection the passwords provide is inadequate.

RECOMMENDATION: It is recommended that the Company develop parameters to be used in the development of passwords as well as ensure that all computer users have their own unique log in and password. Sharing of passwords should never occur.

SUBSEQUENT EVENTS

Subsequent to the period under examination, the Company filed for a 1.1% overall rate increase in West Virginia Private Passenger Auto coverage. The rate increase was approved by the West Virginia Offices of the Insurance Commissioner effective February 1, 2011.

**ACKNOWLEDGEMENT**

This is to certify that the undersigned is a duly qualified Examiner appointed by the West Virginia Offices of the Insurance Commissioner. The undersigned, assisted by E. Joy Little, CPA, CFE, Examiner-in-Charge, of the firm Smith-Little, LLC and Walter Anderson, CPA, CFF of the West Virginia Offices of the Insurance Commissioner, performed an examination of West Virginia National Auto Insurance Company as of December 31, 2010.

The examination was performed in accordance with those procedures authorized by the NAIC Financial Condition Examiner's Handbook and other procedures appropriate for this examination. The attached report of examination is a true and complete report of financial condition of West Virginia National Auto Insurance Company as of December 31, 2010 as determined by this examination.

Linda S. Tolley-Raffle, CPA, CFF

Linda S. Tolley-Raffle, CPA, CFF, Smith-Little, LLC  
Examiner

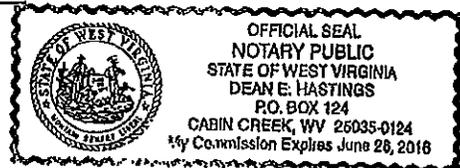
On behalf of the West Virginia Offices of the Insurance Commissioner

Subscribed and sworn before me by Linda S. Tolley-Raffle on

this 28<sup>th</sup> day of September 2011.

Dean E. Hastings

Notary Public



My commission expires June 26, 2016 (Date)

Under the Supervision of,

J. Leah Cooper, CPA, CFE

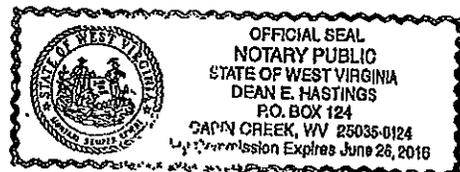
J. Leah Cooper, CPA, CFE  
Director/Chief Examiner  
West Virginia Insurance Commission

Subscribed and sworn before me by J. Leah Cooper on

this 28<sup>th</sup> day of September 2011.

Dean E. Hastings

Notary Public



My commission expires June 26, 2016 (Date)