Examination Warrant Number 11-01278-10675-A1

Report of Examination of

AAA Mid-Atlantic Insurance Company
Harrisburg, PA

As of December 31, 2011

AAA Mid-Atlantic Insurance Company

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Harrisburg, Pennsylvania
May 17, 2013

Honorable Stephen J. Johnson, CPA
Deputy Insurance Commissioner
Commonwealth of Pennsylvania
Insurance Department
Harrisburg, Pennsylvania

Dear Sir:

In accordance with instructions contained in Examination Warrant Number 11-01278-10675-A1, dated, August 13, 2012, an examination was made of

AAA Mid-Atlantic Insurance Company, NAIC Code:10675

a Pennsylvania domiciled stock property and casualty company, hereinafter referred to as "Company." The examination was conducted at the Company's administrative office, located at 3055 Oak Road, Walnut Creek, California 94597.

A report of this examination is hereby respectfully submitted.

SCOPE OF EXAMINATION

The Company was last examined as of December 31, 2008.

This examination covered the 3-year period from January 1, 2009 through December 31, 2011, and consisted of a general survey of the Company's business practices, management, and operations, and an evaluation of the Company's financial condition as of the latter date. Material subsequent events were also reviewed.

Work programs employed in the performance of this examination were designed to comply with the standards promulgated by the Pennsylvania Insurance Department ("Department") and the National Association of Insurance Commissioners ("NAIC").

The format of this report is consistent with the current practices of the Department and the examination format prescribed by the NAIC. It is limited to a description of the Company, a discussion of financial items that are of specific regulatory concern, and a disclosure of other significant regulatory information.

For the 2009 through 2010 years during the period under examination, the Certified Public Accounting ("CPA") firm Ernst & Young, LLC ("E&Y") provided an unqualified audit opinion on the Company's year-end financial statements based on statutory accounting principles. For the 2011 year during the period under examination, the Certified Public Accounting ("CPA") firm PricewaterhouseCoopers LLP provided an unqualified opinion on the Company's year-end financial statements based on statutory accounting principles. Relevant work performed by the CPA firm, during its annual audit of the Company, was reviewed during the examination and incorporated into the examination workpapers.

The following companies, in coordination with the California Department of Insurance and the New Jersey Department of Banking and Insurance, were examined at the same time during the above examination:

Company	**NAIC Code**
Keystone Insurance Company (PA)	**11681**
AAA Mid-Atlantic Insurance Company of New Jersey (NJ)	**42960**
AAA Northern California, Nevada & Utah Insurance Exchange (CA)	**15539**

HISTORY

The Company was incorporated on November 26, 1996 licensed by the Department on date of licensing and commenced business on July 28, 1997 as AAA Mid-Atlantic Insurance Company. The Company is wholly owned by Keystone Insurance Company. Effective January 1, 2011, the Keystone Insurance Company and its affiliates were acquired by AAA Northern California, Nevada, & Utah Insurance Exchange ("Exchange"), a California reciprocal insurer.

The Company is currently authorized to transact those classes of insurance described in 40 P.S. § 382, subsection (b), paragraphs (1) fire and allied lines and (2) inland marine and physical damage, and subsection (c), paragraphs (2) accident and health, (3) glass, (4) other liability, (6) burglary and theft, and (8) water damage, (11) auto liability, and (13) personal property floater.

MANAGEMENT AND CONTROL

CAPITALIZATION

As of the examination date, December 31, 2011, the Company's total capitalization was $21,042,849, consisting of 30,000 capital shares of issued and outstanding common stock with a par value of $100 per share amounting to $3,000,000 ; $15,500,000 in paid in and contributed surplus; and $2,542,849 in unassigned funds(surplus).

The Company's minimum capital and minimum surplus requirements for the types of business for which it is licensed, pursuant to 40 P. S. § 386.1, is $1,000,000 in capital and $500,000 in surplus. The Company has met all governing requirements throughout the examination period.

STOCKHOLDER

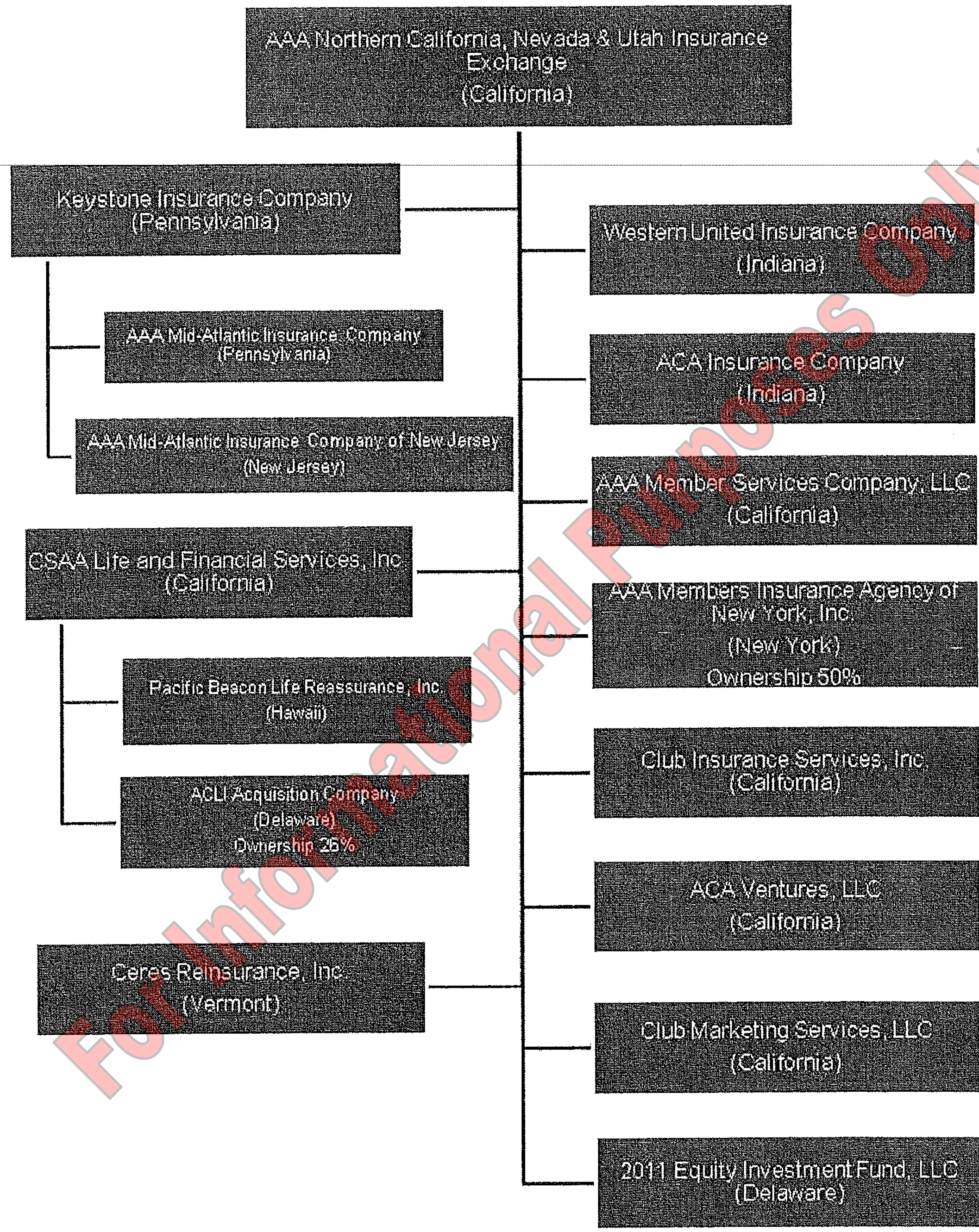
Effective January 1, 2011, as a result of an all out stock purchase of the Company's parent, Keystone Insurance Company (KIC), the Company is 100% wholly owned subsidiary of KIC, which is a 100% wholly owned subsidiary of the Exchange. No extraordinary dividends were paid during the examination period.

INSURANCE HOLDING COMPANY SYSTEM

The Company meets the requirements for filing and insurance holding company system registration statement, in compliance with the 40 P.S. §§ 991.1401-991.1413. The Form B insurance holding company system annual registration statement was filed with the Department on March 27, 2012.

The Exchange is named as the ultimate controlling person in the system. The Exchange is a California domiciled reciprocal insurer organized on June 20, 1914 and commenced business on August 14, 1914. It was sponsored by interests allied with the California State Automobile Association (CSAA), now called AAA Northern California, Nevada & Utah (Club), a motor club incorporated in 1907. The Exchange was created to offer insurance to members of the Club. As a reciprocal insurer, the Exchange has no shareholders and is not directly owned by any party. Effective February 11, 2011, the California Department of Insurance (CDI) approved the Certificate of Authority application to allow the Exchange to change its name to AAA Northern California, Nevada & Utah Insurance Exchange from California State Automobile Association Inter-Insurance Bureau.

Members of the Holding Company System include the following entities briefly described below:



BOARD OF DIRECTORS

Management of the Company is vested in its Board of Directors ("Board"), which was comprised of the following members as of the examination date, December 31, 2011:

Name and Address	Principal Occupation
Paula F. Downey (Chair) Walnut Creek, CA	President & CEO AAA Northern California, Nevada, & Utah Insurance Exchange
Michael S, Day Walnut Creek, CA	Treasurer AAA Northern California, Nevada, & Utah Insurance Exchange
Steven George Walnut Creek, CA	Executive AAA Northern California, Nevada, & Utah Insurance Exchange
Mark Simmonds Walnut Creek, CA	Vice President AAA Northern California, Nevada, & Utah Insurance Exchange
Michael Randall Walnut Creek, CA	Vice President Claims AAA Northern California, Nevada, & Utah Insurance Exchange
Brian Suzuki Walnut Creek, CA	Vice President AAA Northern California, Nevada, & Utah Insurance Exchange
Michael J. Zukerman Walnut Creek, CA	Secretary AAA Northern California, Nevada, & Utah Insurance Exchange

Each member of the Board of Directors serves the same term which is from one Annual Stockholder Meeting to the next, or until his/her successor is elected and qualified, or until his/her earlier resignation or removal. Directors are all elected at the same time at the Annual Meetings.

The Company has implemented a conflict of interest policy. The Company has a conflict of interest statement asserting that the director or officer has reviewed the policy, and they are not aware of any conflict of interest or they have disclosed any known conflict of interest of the Company.

COMMITTEES

Committees are maintained at the Exchange level, the ultimate parent of the Company. The Directors of the Exchange were assigned to serve on the following Committees as listed below:

Audit Committee
David C. Carney (Chair)
Kenneth L. Coleman
Vivian M. Stephenson
Michael S. Day (Staff Committee Liaison)

Compensation & Governance Committee
Mary B. Cranston (Chair)
Jack E. Brown
Gilbert W. Chester
Maria L. Andel (Staff Committee Liaison)
Mike Zukerman (Staff Committee Liaison)

Investment Committee
Robert N. Barone (Chair)
Allen J. DeWalle
Edgar H. Grubb
Michael S. Day (Staff Committee Liaison)

The legal requirements for the structure of boards of directors and committees thereof are delineated below:

- 40 P.S. § 991.1405(c)(3) "(i)Not less than one-third of the directors of a domestic insurer shall be persons who are not officers or employees of such insurer or of any entity controlling, controlled by or under common control with such insurer and who are not beneficial owners of a controlling interest in the voting stock of such insurer or any such entity. At least one such person must be included in any quorum for the transaction of business at any meeting of the board of directors. (ii)Not less than one-third of the members of each committee of the board of directors of any domestic insurer shall be persons who are not officers or employees of such insurer or of any entity controlling, controlled by or under common control with such insurer. At least one such person must be included in any quorum for the transaction of business at any meeting of each committee."
- 40 P.S. § 991.1405(c)(4), "The board of directors of a domestic insurer shall establish a committee comprised solely of directors who are not officers or employees of the insurer or of any entity controlling, controlled by or under common control with the insurer and who are not beneficial owners of a controlling interest in the voting stock

of the insurer or any such entity. The committee shall have responsibility for recommending the selection of independent certified public accountants and reviewing the insurer's financial condition, the scope and results of the independent audit and any internal audit. The committee may also have the responsibilities described in paragraph (4.1) if one or more committees described in paragraph (4.1) are not separately established."

- 40 P.S. § 991.1405(c)(4.1), "The board of directors of a domestic insurer shall establish one or more committees comprised solely of directors who are not officers or employees of the insurer or of any entity controlling, controlled by or under common control with the insurer. The committee or committees shall have responsibility for recommending candidates to be nominated by the board of directors, in addition to any other nominations by voting shareholders or policyholders, for election as directors by voting shareholders or policyholders, evaluating the performance of officers deemed to be principal officers of the insurer and recommending to the board of directors the selection and compensation of the principal officers."
- 40 P.S. § 991.1405(c)(5), "The provisions of paragraphs (3), (4) and (4.1) shall not apply to a domestic insurer if the person controlling such insurer is an insurer, an attorney in fact for a reciprocal exchange, a mutual insurance holding company or a publicly held corporation having a board of directors and committees thereof which already meet the requirements of paragraphs (3), (4) and (4.1)."

Based on the structure of the Company's board committees as compared with the requirements of 40 P.S. § 991.1405(c)(3)-(5) delineated above, the Company complies with these requirements.

OFFICERS

As of the examination date, December 31, 2011, the following officers were appointed and serving in accordance with the Company's By-laws:

Name	Title
Paula Francinne Downey	President & CEO
Michael Steven Day	Treasurer & CFO
Michael Jay Zukerman	Secretary
Michael James Scimeca	Assistant Secretary
John Joseph Richmond	Assistant Secretary
Michael Campbell Simmons	Assistant Vice President
Brian Tohru Suzuki	Assistant Vice President

CORPORATE RECORDS

MINUTES

A compliance review of corporate minutes revealed the following:

- The Annual Meetings of the Company's stockholder were held in compliance with its By-laws.
- The stockholder elects directors at such meetings in compliance with the By-laws.
- The stockholder ratified the prior year's actions of the officers and directors.
- Quorums were present at all directors' meetings.
- The Company's investment transactions are approved quarterly by the Board.
- All directors attend Board meetings regularly.
- The Company's Board meeting minutes document approval of the reinsurance contracts.

ARTICLES OF AGREEMENT

There were minor changes to the Company's Articles of Agreement during the examination period. The Board of Directors resolved to change, and the Company changed, on March 25, 2011 the registered office and agent to CT Corporation Systems in the state of Virginia.

BY-LAWS

There were changes to the Company's By-Laws during the examination period. The Company's By-laws, which were amended and restated on January 1, 2011, stipulated in Article I Section 1 that annual meetings of stockholders shall be held at such date and time as shall be designated from time to time by the Board of Directors of the Company and stated in the notice of the meeting. The meeting shall be held at the Company's Headquarters unless otherwise designated.

In addition the By-laws included a change that indicated unless otherwise restricted by the Articles of Incorporation or these By-Laws, any action required or permitted to be taken at any meeting of the Board of Directors or of any committee thereof may be taken without a meeting, if all members of the Board of Directors or committee, as the case may be, consent thereto in writing, and the writing or writings are filed with the minutes of proceedings of the Board of Directors or committee.

SERVICE AND OPERATING AGREEMENTS

The Company maintains an intercompany services agreement with the Exchange. The agreement stipulated that the Exchange will provide the Company with various operating and administrative services and that the Company will reimburse the Exchange for the cost of these services. Services include, but are not limited to, investment services, financial services and other administrative services.

Through August 2011, the Company maintained an expense cost sharing agreement with its subsidiaries that distributed shared services costs on a pro-rata basis via its intercompany pooling agreement. Beginning September 2011, each subsidiary pays its own share of expenses directly.

The Company maintains an intercompany tax allocation agreement with the Exchange, whereby the members of the holding company system group agreed that the consolidated federal income tax liability of the members subject to the agreement shall be apportioned among each member. Each subsidiary shall pay the Exchange the amount of deferred income taxes that the subsidiary would have paid if filed separate. The intercompany tax allocation agreement was in writing and was approved by the Board of Directors.

The Service and Operating Agreements meet the fair and reasonable standards in accordance with 40 P.S. §991.1405(a)(1).

REINSURANCE

CEDED

The Exchange, the Company's ultimate parent company, analyzes its catastrophe exposure and utilizes reinsurance to protect surplus, improve capital efficiency, and reduce required economic capital in line with the group's economic capital modeling. In selecting its reinsurers, the group weighs issues of reinsurer credit quality and diversification.

Following the purchase of the Company in 2010, the Exchange evaluated the necessity of continuing to renew the Company's reinsurance programs.

As a result of the analysis, the Company's reinsurance programs were non-renewed. The property catastrophe reinsurance program is a three year program with two-thirds (67%) of the program remaining in place as of July 1, 2011 (33% will remain in place at July 1, 2012). The program will be completely terminated as of July 1, 2013.

The Company also had a separate top layer catastrophe program, which ran for one year from August 1, 2010 to August 1, 2011. This program was also non-renewed.

The limits and retentions of the Company's 2011 reinsurance treaty programs were as follows:

Property Catastrophe	First Layer: 67% of $4,000,000 in excess of

	$6,000,000 each and every occurrence, Second Layer: 67% of $8,000,000 in excess of $10,000,000, Third Layer: 67% of $10,000,000 in excess of $18,000,000, Fourth Layer: 67% of $22,000,000 in excess of $28,000,000.
Property Catastrophe (Top Layer)	100% of $10,000,000 in excess of $50,000,000

Beginning January 1, 2013 the Company's portfolio will be included in the Exchange's main catastrophe program, which attaches at $200 million and provides $450 million in coverage, with one reinstatement.

The Company's reinsurance intermediary, Towers Watson is licensed by the Department as required by 40 P.S. §321.2 (a) Reinsurance intermediaries; licensing. The Company also has this program operating pursuant to a properly executed written authorization between the Company and Towers Watson as required by Pennsylvania Insurance Company Law.

A review was performed of the reinsurance treaties outlined above and the contracts contain appropriate insolvency and arbitration clauses. The agreements appeared to appropriately transfer risk.

ASSUMED

The Company did not participate in assumed reinsurance other than participation in industry pools.

POOLING

Effective January 1, 2011, the Company entered into a pooling agreement whereby it cedes 100% of its direct and assumed business to the pool with the Exchange as the lead insurer. The pooling participations were as follows:

- The Exchange (94.1%)
- Western United Insurance Company (WUIC) (3.0%)
- ACA Insurance Company (ACAIC) (0.5%)
- Keystone Insurance Company (KIC) (1.5%)
- AAA Mid-Atlantic Insurance Company of New Jersey (MANJ) (0.6%)
- AAA Mid-Atlantic Insurance Company (MAIC) (0.3%)

All business written by each of the pooling participants is subject to pooling. Reinsurance may be ceded on a facultative and/or treaty basis by any pool participant prior to the pooling and each pool participant has a contractual right to direct recovery from its own reinsurers.

TERRITORY AND PLAN OF OPERATION

The Company is licensed in the following jurisdictions: Delaware, Maryland, Pennsylvania and Virginia. The Company mainly writes personal auto, homeowners and related lines to AAA club members throughout the Mid-Atlantic region.

Line of Business	Direct and Assumed Premium	Ceded Premium	Net Written Premium
December 31, 2011			
Fire	$ 154,010	$ 0	$ 154,010
Allied lines	1,853	0	1,853
Homeowners' multiple peril	1,843,984	0	1,843,984
Inland marine	34,820	0	34,820
Earthquake	7,399	0	7,399
Group accident and health	18,666	0	18,666
Other accident and health	3,382	0	3,382
Workers' compensation	92	0	92
Other liability - occurrence	87,902	0	87,902
Private passenger auto liability	37,828,975	34,575,753	3,253,222
Auto physical damage	23,952,712	21,384,301	2,568,411
Reinsurance - Non-proportional Assumed Property	259,463	0	259,463
Aggregate write-ins for other lines of business	872	0	872
Totals	$ 64,194,130	$ 55,960,054	$ 8,234,076

SIGNIFICANT OPERATING RATIOS AND TRENDS

The underwriting ratios summarized below are on an earned/incurred basis, and encompass the 3 -year period covered by this examination.

	Amount	Percentage
Premiums earned	$ 51,147,951	100.0 %
Losses incurred	$ 31,847,082	62.2 %
Loss expenses incurred	7,087,889	13.9 %
Other underwriting expenses incurred	16,004,197	31.3 %
Aggregate write-ins for underwriting deductions	141	0.0 %
Net underwriting gain or (loss)	(3,791,358)	(7.4)%
Totals	$ 51,147,951	100.0 %

The Company reported the following net underwriting, investment and other gains or losses during the period under examination:

	2011	2010	2009
Admitted assets	$ 30,764,179	$ 24,613,786	$ 24,755,465
Liabilities	$ 9,721,330	$ 14,848,061	$ 14,415,057
Surplus as regards policyholders	$ 21,042,849	$ 9,765,725	$ 10,340,408
Gross premium written	$ 64,194,130	$ 65,867,325	$ 63,703,597
Net premium written	$ 8,234,076	$ 11,240,336	$ 10,567,329
Underwriting gain/(loss)	$ (125,122)	$ (1,663,382)	$ (840,418)
Investment gain/(loss)	$ 792,216	$ 1,117,684	$ 788,206
Other gain/(loss)	$ 706,458	$ 154,469	$ 167,348
Net income	$ 1,475,184	$ (415,248)	$ (75,844)

ACCOUNTS AND RECORDS

AAA Mid-Atlantic Insurance Company of New Jersey, AAA Mid-Atlantic Insurance Company and Keystone Insurance Company (collectively referred to as MAIG) share data processing and storage facilities (Data Center) resident in Mount Laurel, NJ. This includes data for all key MAIG business processes such as premium, claims, cash, and others. Vital Records Inc. (VRI) is a vendor located in Flagstaff, NJ that stores backup copies of all MAIG data records for business resumption contingency and disaster recovery purposes.

Investment Accounting and Schedule D records were maintained and prepared by a vendor, SunGard, during the period 2009 and 2010 . Soon after the Company was acquired by the Exchange on January 1, 2011, all related records and responsibilities for the Company's investment portfolio were transitioned to the Exchange. The accounting for investments and Schedule D records were maintained by a third party administrator, State Street Kansas City Insurance Services ("SSKC"). SSKC accounts for all investment transactions on its proprietary accounting system, Princeton Asset Management ("PAM"). All ledger activities through December 31, 2010 were transferred to the Exchange's PeopleSoft general ledger effective January 1, 2011.

All records related to reinsurance were also transitioned to the Exchange's home office in Walnut Creek, California.

All financial reporting and other accounting related files (spreadsheets/word documents), now reside on the Exchange's financial server that is backed-up each night and follow the backup and security procedures in place by the Exchange. In addition, all journal vouchers and other significant items are scanned to a server that is also backed-up nightly and monthly tapes created and rotated offsite. Back-up tapes are maintained based on various record retention policies.

PENDING LITIGATION

The examination team was advised by the Company that it is not a party to any lawsuits arising in the ordinary course of business that may have a material impact on its financial position.

FINANCIAL STATEMENTS

The financial condition of the Company, as of December 31, 2011, and the results of its operations for the 3 period under examination, are reflected in the following statements:

Comparative Statement of Assets, Liabilities, Surplus and Other Funds;
Comparative Statement of Income;
Comparative Statement of Capital and Surplus; and
Comparative Statement of Cash Flow

Comparative Statement of Assets, Liabilities, Surplus and Other Funds
As of December 31,

	2011	2010	2009
Bonds	$ 24,430,686	$ 17,128,783	$ 19,411,712
Preferred stocks	0	780,201	744,001
Cash, cash equivalents, and short term investments	2,578,438	3,421,702	1,452,231
Subtotals, cash and invested assets	27,009,124	21,330,686	21,607,944
Investment income due and accrued	244,925	222,942	265,412
Premiums and agents' balances due	(1,136,021)	2,482,179	2,108,500
Amounts recoverable from reinsurers	4,317,493	0	0
Net deferred tax asset	178,682	577,979	773,609
Receivable from parent, subsidiaries and affiliates	149,976	0	0
Total	$ 30,764,179	$ 24,613,786	$ 24,755,465
Losses	$ 3,084,735	$ 6,050,506	$ 6,317,279
Reinsurance payable on paid loss and loss adjustment expenses	495,240	0	0
Loss adjustment expenses	584,134	1,110,671	1,156,102
Commissions payable, contingent commissions and other similar charges	335,628	28,143	23,166
Other expenses	286,137	245,321	659,732
Taxes, licenses and fees	30,626	84,478	91,167
Current federal and foreign income taxes	36,828	344,031	456,266
Unearned premiums	3,948,714	5,839,216	5,469,037
Advance premium	2,198	0	0
Ceded reinsurance premiums payable (net of ceding commissions)	1,657	0	0
Payable to parent, subsidiaries and affiliates	915,433	1,145,695	242,308
Total liabilities	9,721,330	14,848,061	14,415,057
Common capital stock	3,000,000	3,000,000	3,000,000
Gross paid in and contributed surplus	15,500,000	5,500,000	5,500,000
Unassigned funds (surplus)	2,542,849	1,265,725	1,840,408
Surplus as regards policyholders	21,042,849	9,765,725	10,340,408
Totals	$ 30,764,179	$ 24,613,786	$ 24,755,465

Comparative Statement of Income
For the Year Ended December 31,

Underwriting Income	2011	2010	2009
Premiums earned	$ 8,133,774	$ 10,870,155	$ 10,560,152
Deductions:			
Losses incurred	4,838,331	7,153,660	6,770,561
Loss expenses incurred	915,164	1,669,103	1,337,843
Other underwriting expenses incurred	2,505,260	3,710,774	3,292,166
Aggregate write-ins for underwriting deductions	141	0	0
Total underwriting deductions	8,258,896	12,533,537	11,400,570
Net underwriting gain or (loss)	(125,122)	(1,663,382)	(840,418)
Investment Income			
Net investment income earned	452,116	1,100,392	1,188,264
Net realized capital gains or (losses)	340,100	17,292	(400,058)
Net investment gain or (loss)	792,216	1,117,684	788,206
Other Income			
Net gain or (loss) from agents' or premium balances charged off	(77,352)	(13,525)	(13,180)
Finance and service charges not included in premiums	784,165	141,710	142,224
Aggregate write-ins for miscellaneous income	(355)	26,284	38,304
Total other income	706,458	154,469	167,348
Net income before dividends to policyholders and before federal and foreign income taxes	1,373,553	(391,229)	115,136
Federal and foreign income taxes incurred	(101,631)	24,019	190,980
Net income	$ 1,475,184	$ (415,248)	$ (75,844)

Comparative Statement of Capital and Surplus
For the Year Ended December 31,

	2011	2010	2009
Surplus as regards policyholders,			
December 31, previous year	$ 9,765,725	$ 10,340,408	$ 9,994,336
Net income	1,475,184	(415,248)	(75,844)
Net unrealized capital gains or (losses)	139,484	36,195	290,003
Change in net deferred income tax	(109,416)	(507,131)	25,211
Change in nonadmitted assets	(228,128)	311,501	106,702
Surplus adjustments:			
Paid in	10,000,000	0	0
Change in surplus as regards policyholder for the year	11,277,124	(574,683)	346,072
Surplus as regards policyholders,			
December 31, current year	$ 21,042,849	$ 9,765,725	$ 10,340,408

Comparative Statement of Cash Flow
For the Year Ended December 31,

	2011	2010	2009
Cash from Operations			
Premiums collected net of reinsurance	$ 9,851,974	$ 10,866,656	$ 10,587,420
Net investment income	653,304	1,153,548	1,215,231
Miscellaneous income	706,458	154,469	167,348
Total income	11,211,736	12,174,673	11,969,999
Benefit and loss related payments	11,626,355	7,420,432	6,887,735
Commissions, expenses paid and aggregate write-ins for deductions	3,652,652	5,841,429	4,820,689
Federal and foreign income taxes paid (recovered)	388,703	136,254	304,665
Total deductions	15,667,710	13,398,115	12,013,089
Net cash from operations	(4,455,974)	(1,223,442)	(43,090)
Cash from Investments			
Proceeds from investments sold, matured or repaid:			
Bonds	29,548,968	5,703,403	5,058,281
Stocks	4,265,420	0	0
Total investment proceeds	33,814,388	5,703,403	5,058,281
Cost of investments acquired (long-term only):			
Bonds	36,328,816	3,413,869	4,123,875
Stocks	3,492,620	0	0
Total investments acquired	39,821,436	3,413,869	4,123,875
Net cash from investments	(6,007,048)	2,289,534	934,406
Cash from Financing and Miscellaneous Services			
Other cash provided (applied):			
Capital and paid in surplus, less treasury stock	10,000,000	0	0
Other cash provided or (applied)	(380,242)	903,379	296,981
Net cash from financing and miscellaneous sources	9,619,758	903,379	296,981
Reconciliation of cash and short-term investments:			
Net change in cash and short-term investments	(843,264)	1,969,471	1,188,297
Cash and short-term investments:			
Beginning of the year	3,421,702	1,452,231	263,934
End of the year	$ 2,578,438	$ 3,421,702	$ 1,452,231

SUMMARY OF EXAMINATION CHANGES

There were no examination changes to the preceding financial statements as filed with regulatory authorities over the review period.

NOTES TO FINANCIAL STATEMENTS

ASSETS

INVESTMENTS

As of December 31, 2011, the Company's invested assets were distributed as follows:

	Amount	Percentage
Bonds	$ 24,430,686	90.4 %
Cash	(8,422)	0.0 %
Short-term investments	2,586,860	9.6 %
Totals	$ 27,009,124	100.0 %

The Company's bond and short-term investment portfolio had the following quality and maturity profiles:

NAIC Designation	Amount	Percentage
1 - highest quality	$ 26,171,780	96.9 %
2 - high quality	845,766	3.1 %
Totals	$ 27,017,546	100.0 %

Years to Maturity	Amount	Percentage
1 year or less	$ 3,569,655	13.2 %
2 to 5 years	10,009,673	37.0 %
6 to 10 years	11,787,017	43.6 %
11 to 20 years	1,447,878	5.4 %
over 20 years	203,323	0.8 %
Totals	$ 27,017,546	100.0 %

The Company utilized investment advisors, Prime Advisors, Inc., to provide recommendations for purchases and sales of securities and investment allocation options for consideration of management and the Investment Committee of the Board of Directors.

The Company has a written investment policy as required by the Pennsylvania Insurance Company Law 40 P.S. § 653 b (b). The investment policy is reviewed and approved on an annual basis by the Board of Directors.

The Company's Custodial Agreement with the Bank of New York Mellon (Custodian Agreements) is not in compliance with Pennsylvania Insurance Regulations, 31 Pa. Code § 148a.3. (a)(13)(ii.) "The custodian shall provide the insurer with the following: Annual reports of the review of the insurer's trust accounts by the custodian's trust committee."

It is recommended that the Company modify the custodial agreement to comply with Pennsylvania Insurance Regulations, 31 Pa. Code § 148a.3. (a)(13)(ii.).

Bonds

The Company reported $24,430,686 in its December 31, 2011 Annual Statement under the above caption. The Company invests in quality taxable and tax exempt bonds. As of December 31, 2011, the bond portfolio was comprised of 96.9% NAIC 1 – highest quality and 3.1% NAIC 2 – high quality bonds.

Common Stock

Investments utilized by the Company to provide capital appreciation and after tax realized gain primarily include common and preferred stocks.

The Company did not have investments in parents, subsidiaries, or affiliates during the period under examination. Also, the Company did not hold any investments in derivatives.

Valuation and Review for Impairment

The Company does have an Other Than Temporary Impairment ("OTTI") policy to document how to assess possible impairments of investment holdings. Investments were reviewed and no impaired securities were identified as of December 31, 2011.

LIABILITIES

LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES

The Company reported reserves in the amount of $3,084,735 for losses and $584,134 for loss adjustment expenses on the December 31, 2011 Annual Statement.

For the years under examination, the Board appointed two different independent qualified actuaries to provide the Statement of Actuarial Opinion ("Opinion") on the Company's loss and loss adjustment expense ("LAE") reserve amounts carried on the balance sheet at each respective year-end date as follows:

December 31,	Actuary	Firm
2008 - 2010	Ronald Kuehn, FCAS, MAAA	Huggins Actuarial Services
2011	Jianlu Xu, FCAS, MAAA	Exchange employee

For each year–end date reflected above, each respective actuary rendered an Opinion concluding that the Company's reserves made a reasonable provision for all unpaid loss and LAE obligations of the Company under the terms of its policies and agreements.

As stated earlier in this report of examination, the Company entered into a pooling agreement effective January 1, 2011 with other affiliates. Reserve analysis is prepared on a pooled basis for all companies in the Group. The change in actuary was commensurate with the change in Company ownership and pooling agreement.

The Department Actuarial Examiners provided planning support to this risk focused examination to review and consider information from the following documents: NAIC Profile Reports, Annual Statements and supporting filings, the historical Opinions, and confidential Actuarial Opinion Summaries. Based on this review, no immediate or major concerns were noted.

In addition, a credentialed casualty actuary of the California Department of Insurance (CDI) reviewed the Actuarial Report prepared by Mr. Xu, the Company's appointed actuary, and concurred that the loss and LAE reserves of each company in the Group are reasonably stated as of December 31, 2011. The Department examiners accept the work and conclusion of the CDI examiners.

SUBSEQUENT EVENTS

Effective July 18, 2012, Paula Downey, President of the Company, appointed Phyllis Tobe Solomon an Assistant Secretary and Officer of the Company in accordance with the Company's By-Laws.

RECOMMENDATIONS

PRIOR EXAMINATION

The prior examination report contained no recommendations.

CURRENT EXAMINATION

As a result of the current examination, the following recommendations are being made:

1. It is recommended that the Company modify the custodial agreement to comply with Pennsylvania Insurance Regulations, 31 Pa. Code § 148a.3. (a)(13)(ii.).

CONCLUSION

As a result of this examination, the financial condition of AAA Mid-Atlantic Insurance Company, as of December 31, 2011, was determined to be as follows:

	Amount	Percentage
Admitted assets	$ 30,764,179	100.0 %
Liabilities	$ 9,721,330	31.6 %
Surplus as regards policyholders	21,042,849	68.4 %
Total liabilities and surplus	$ 30,764,179	100.0 %

Since the previous examination, made as of December 31, 2008, the Company's assets increased by $6,182,733, its liabilities decreased by $4,865,780, and its surplus increased by $11,048,513.

This examination was conducted by John Romano, CPA, CFE, and Kelli Owen, CPA, CFE, ARe, MBA with the latter in charge.

Respectfully

Annette B. Szady

Annette B. Szady, CPA
Director, Bureau of Financial Examinations

John Romano -cdd

John Romano, CPA, CFE
Examination Manager

Kelli Owen -cdd

Kelli Owen, CPA, CFE, ARe, MBA
Examiner-in-Charge

The CFE designation has been conferred by an organization not affiliated with the federal or any state government. However the CFE designation is the only designation recognized by the NAIC for the purposes of directing statutory Association examinations of insurance companies.