Examination Warrant Number 13-00212-22225-A1

Report of Examination of

21st Century Preferred Insurance Company
Harrisburg, Pennsylvania

As of December 31, 2013

21st Century Preferred Insurance Company

TABLE OF CONTENTS

Harrisburg, Pennsylvania
May 22, 2015

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 13-00212-22225-A1, dated March 1, 2013, an examination was made of

21st Century Preferred Insurance Company, NAIC Code: 22225

a Pennsylvania domiciled stock property and casualty insurance company, hereinafter referred to as "Company". The examination was conducted at the Company's main administrative office, located at 3 Beaver Valley Road, Wilmington, DE 19803.

A report of this examination is hereby respectfully submitted.

SCOPE OF EXAMINATION

The Company was last examined as of December 31, 2009.

This examination covered the four-year period from January 1, 2010 through December 31, 2013, 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 each year during the period under examination, the Certified Public Accounting ("CPA") firm of PricewaterhouseCoopers LLP, Los Angeles, CA provided an unmodified audit 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 work papers.

The following companies were examined at the same time during the above examination:

Company	NAIC Code	State of Domicile
21st Century Casualty Company	36404	CA
21st Century Insurance Company	12963	CA
21st Century Superior Insurance Company	43761	CA
21st Century Pacific Insurance Company	23795	CO
21st Century Assurance Company	44245	DE
American Pacific Insurance Company, Inc.	10805	HI
Farmers Insurance Hawaii, Inc.	28487	HI
21st Century Advantage Insurance Company	25232	MN
21st Century Auto Insurance Company of New Jersey	10184	NJ
21st Century Pinnacle Insurance Company	10710	NJ
21st Century National Insurance Company	36587	NY
21st Century North America Insurance Company	32220	NY
21st Century Centennial Insurance Company	34789	PA
21st Century Indemnity Insurance Company	43974	PA
21st Century Premier Insurance Company	20796	PA
21st Century Security Insurance Company	23833	PA
21st Century Insurance Company of the Southwest	10245	TX

HISTORY

The Company was incorporated in California on August 19, 1971, and re-domesticated to be a Pennsylvania corporation in 1995. The Company was known as the Bay Colony Insurance Company from 1994 until July 1, 2002, when its name was changed to GE Auto & Home Assurance Company. On August 29, 2003, the Company was sold by GE Financial Assurance Holdings, Inc., a subsidiary of the General Electric Company, to Lexington Insurance Company, an indirect subsidiary of American International Group, Inc. ("AIG"). Effective April 1, 2004, the Company's name was changed to AIG Preferred Insurance Company. Effective July 1, 2009, the Company and other member companies in the 21st Century Personal Auto Group ("21st Century PAG") were acquired by Farmers Group, Inc. ("FGI"), a subsidiary of Zurich Financial Services Ltd., from AIG. Subsequently on July 1, 2009, FGI sold the 21st Century PAG entities to Farmers Insurance Exchange ("FIE") (80%), Truck Insurance Exchange ("Truck") (10%) and Fire Insurance Exchange ("Fire") (10%). As a result of the acquisition by FIE, Truck and Fire, the Company became one of the Farmers Property and Casualty Companies ("the Farmers P&C Companies"). Effective April 1, 2010, the Company's name was changed to 21st Century Preferred Insurance Company.

The Company's Articles of Incorporation and By-Laws were amended effective April 1, 2010, changing its name to 21st Century Preferred Insurance Company and principal place of business to Wilmington, Delaware.

The Company is currently authorized to transact those classes of insurance described in 40 P.S. § 382, (b)(1) Fire and Allied Lines, (b)(2) Inland Marine and Auto Physical Damage, (b)(3) Ocean Marine, (c)(1) Fidelity and Surety, (c)(2) Accident and Health, (c)(3) Glass, (c)(4) Other Liability including professional liability, medical malpractice, etc., (c)(5) Boiler and Machinery, (c)(6) Burglary and Theft, (c)(7) Credit, (c)(8) Water Damage, (c)(9) Elevator, (c)(11) Auto Liability, (c)(13) Personal Property Floater, and (c)(14) Workers' Compensation.

MANAGEMENT AND CONTROL

CAPITALIZATION

As of the examination date, December 31, 2013, the Company's total capital and surplus was $39,607,254, consisting of 30,000 capital shares of issued and outstanding common stock with a par value of $100.00 per share amounting to $3,000,000; $10,435,637 in paid in and contributed surplus; and $26,171,617 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, is $2,350,000 in capital and $1,175,000 in surplus. The Company has met all governing requirements throughout the examination period.

STOCKHOLDER

All outstanding shares of the Company's stock are owned by 21st Century Centennial Insurance Company ("21st CCIC"), an insurance company domiciled in Pennsylvania. Effective July 1, 2009, the outstanding shares of 21st CCIC are owned 80% by FIE, 10% by Truck, and 10% by Fire. No dividends were approved or paid by the Company during the period under examination.

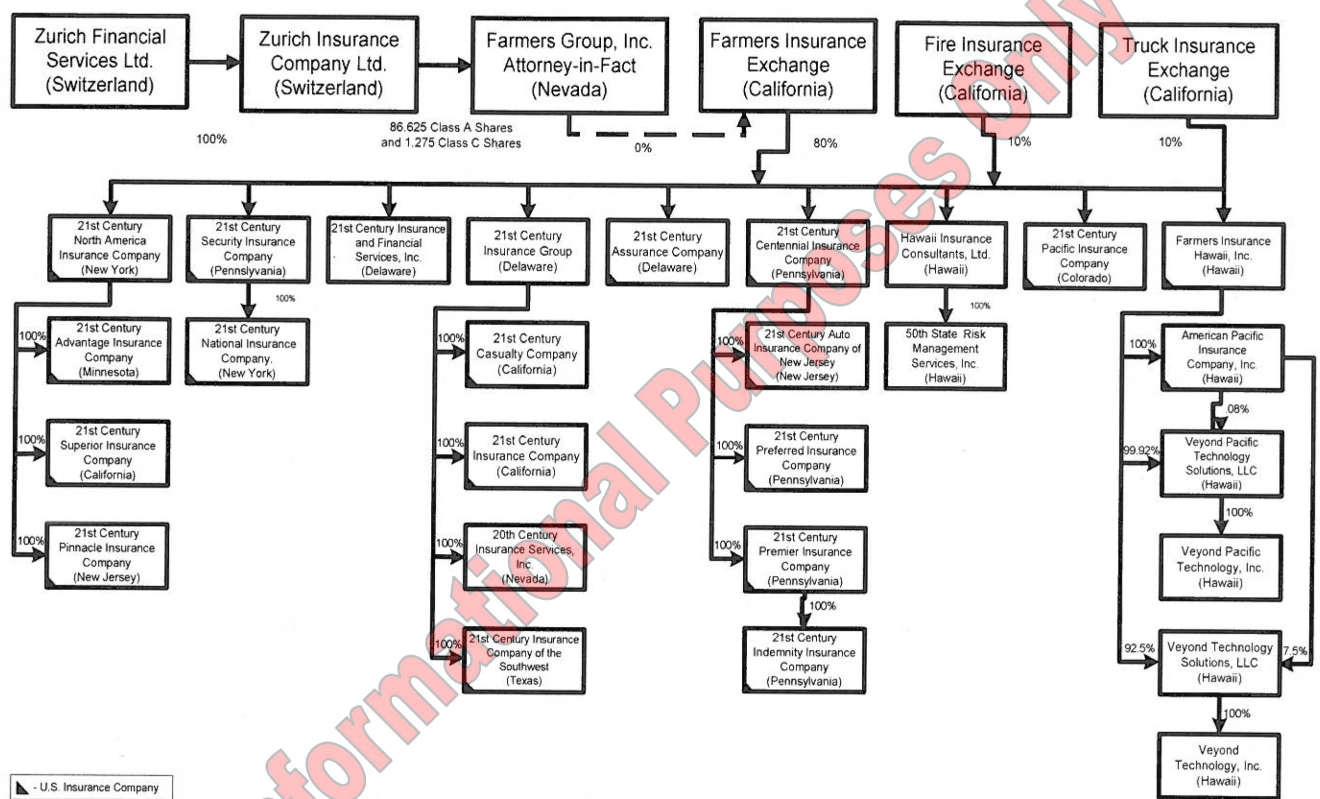
INSURANCE HOLDING COMPANY SYSTEM

The Company meets the requirements for filing an insurance holding company system registration statement, in compliance with the 40 P.S. § 991.1404. An Insurance Holding Company System Registration Statement and various amendments thereto appear to have been filed timely with the Department for the period under examination.

Farmers Insurance Exchange ("FIE") is a reciprocal insurer organized under California Insurance Code ("CIC") Section 1300 et. seq. and is controlled by its attorney-in-fact Farmers Group Inc. ("FGI"). FGI is a U.S. subsidiary of Zurich Financial Services Ltd. ("ZFS"), a Swiss holding company.

With the approval of the California Department of Insurance ("CDI") in December 2013, a unique National Association of Insurance Commissioners ("NAIC") Group Code has been assigned to the Farmers Group of companies (previously part of the Zurich NAIC Group Code 0212 and now included in the Farmers Group Code 0069). As such, Zurich Insurance Company Ltd. ("ZIC") is no longer named as the ultimate controlling party. However, disclosure continues to be provided in the Holding Company Annual Registration Statements regarding the relationship with ZIC and transactions involving entities with the ZIC NAIC Group Code 0212. ZFS is currently named as the ultimate controlling party.

The following abridged organization chart depicts the Company's relationship within the holding company system at December 31, 2013:



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, 2013:

Name and Address	Principal Occupation
Kenneth W. Bentley Los Angeles, CA	Retired
Anthony J. Desantis Centerville, DE	President of Personal Lines Farmers Group, Inc.
Peter D. Kaplan Los Angeles, CA	Retired
David W. Louie Los Angeles, CA	Commercial Real Estate Broker
Dale A. Marlin Naples, FL	Retired
Ronald G. Myhan Laguna Beach, CA	Chief Financial Officer Farmers Exchanges
Donald E. Rodriguez Long Beach, CA	Executive Director Boys and Girls Club
John Tsu-Chao Wuo Arcadia, CA	President Real Estate Agency

The Company's By-Laws provide that directors be elected annually at the annual shareholders meeting for one-year terms.

The Company has a Business Code of Ethics and all directors execute a Conflict of Interest Questionnaire annually.

COMMITTEES

The Company does not have committees of its own; all of the committee functions are performed at the Farmers Insurance Exchange ("FIE") level.

The Directors and/or Officers were assigned to serve on the following FIE Committees as listed below:

Executive Committee	Investment Committee
Alan R. Gildemeister	Peter Teuscher, Chairman
Dennis J. Lorch	Jeffrey J. Daily
Dale A. Marlin	Scott R. Lindquist
Gary R. Martin	Ronald G. Myhan
Donnell Reid	Mhayse G. Samalya

Pension & Benefits Committee

Scott R. Lindquist, Chairman
Deborah Aldredge
James Hedreen
Anthony J. Morris
Bryan F. Murphy
Peter Teuscher
David A. Travers

Audit Committee

Guy M. Hanson, Chairman
Frederick H. Kruse
Gary R. Martin
Gerald A. McElroy
Donnell Reid
Stanley R. Smith
Joel Wallace

40 P.S.§ 991.1405 (c)(3) Standards of management of an insurer within a holding company system, states: "not less than one-third of the directors of a domestic insurer and 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 and who are not beneficial owners of a controlling interest in the voting stock of such insurer of 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 or any committee thereof."

40 P.S. § 991.1405 (c)(4), Standards of management of an insurer within a holding company system states: "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 and who are not beneficial owners of a controlling interest in the voting stock of the insurer or any such entity. The committee or committees shall have the responsibility for recommending the selection of independent certified public accountants, reviewing the insurer's financial condition, the scope and results of the independent audit and any internal audit, nominating candidates for director for election by 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)(4.1) Standards and management of an insurer within a holding company system, states: "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) Standards and management of an insurer within a holding company system, states: "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)."

The Company's indirect majority parent, FIE, a licensed insurer in PA, has established board and committees which comply with the requirements of 40 P.S. § 991.1405 (c)(3), (4) and (4.1).

OFFICERS

As of the examination date, December 31, 2013, the following officers were appointed and serving in accordance with the Company's By-Laws:

Name	Title
William D. Loucks Jr.	President
Glenn A. Pfeil	Treasurer & Chief Financial Officer
Doren E. Hohl	Secretary
James L. Nutting	Senior Vice President & Chief Actuary
Karen M. Alejnikov	Vice President
Michael A. Boyd	Vice President
Bryan F. Murphy	Vice President
Ronald G. Myhan	Vice President
Donald W. Procopio	Vice President
Jeffrey M. Sauls	Vice President
Karyn L. Williams	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.

ARTICLES OF INCORPORATION

The Company filed Amended and Restated Articles of Incorporation with the Pennsylvania Department of State, effective April 1, 2010, changing its name from AIG Preferred Insurance Company, Inc. to 21st Century Preferred Insurance Company. The Amended Articles of Incorporation also changed the principal place of business to 21st Century Plaza, 3 Beaver Valley Road, Wilmington, DE 19803.

BY-LAWS

The Company filed amended By-Laws with the Department, effective April 1, 2010, to bring it into line with the above mentioned changes and be consistent with the corporate governance culture of the Farmers Insurance Group.

SERVICE AND OPERATING AGREEMENTS

FEDERAL INCOME TAX SHARING AGREEMENT

The Company participates in a consolidated federal income tax sharing agreement with FIE effective July 1, 2009. FIE receives from its affiliates the tax they would pay if they had filed separate returns and pays to the affiliates amounts for the tax benefit realized by the consolidated group through utilization of their net losses. Any expense or benefit is recognized in the respective affiliate's current year tax provision. Intercompany tax balances are settled monthly based on estimates with the final settlement made annually within 30 days after the return has been filed.

INTERCOMPANY EXPENSE AGREEMENT

FIE provides management services to the members in the 21st Century Intercompany Insurance Pool through an intercompany expense agreement effective July 1, 2009. The services include, but are not limited to preparation of insurance policies; maintenance of adequate policyholder records; billings and collection of premiums; accounting and financial reporting; claim adjustment services and payment of claims; investment management services; preparation and filing of forms and reports to regulatory authorities.

All written agreements were approved by the Board of Directors. The intercompany agreements were determined to be fair and reasonable and met the requirements of 40 P.S. § 991.1405 (a)(1).

REINSURANCE

INTERCOMPANY POOLING AGREEMENT

The Company is party to an intercompany pooling agreement, the 21st Century Intercompany Pooling Agreement ("Agreement"). In accordance with the terms and conditions of the Agreement, 100% of the net business written by each of the participants is ceded to 21st Century North America Insurance Company ("21st CNAIC"), the lead company in the 21st Century Intercompany Pool ("Pool").

Effective June 30, 2009, the Agreement was amended and restated. Liabilities relating to losses with a date of loss prior to July 1, 2009, will be ceded to the pool members by 21st CNAIC based on each pool member's fixed pooling participation percentage. Losses which have a date of loss on and after July 1, 2009, will be ceded to FIE by 21st CNAIC under a 100%

quota share reinsurance agreement. Under this agreement, 21st CNAIC will cede 100% of the net liability of the Pool for losses with a date of loss on and after July 1, 2009, to FIE.

The following table lists each of the participants in the Pool and the applicable pooling participation percentages as of December 31, 2013:

Company	State of Domicile	Pool %
21st Century North America Insurance Company	NY	23.00%
21st Century Centennial Insurance Company	PA	20.00%
21st Century Insurance Company	CA	20.00%
21st Century Premier Insurance Company	PA	10.00%
21st Century Security Insurance Company	PA	8.00%
Farmers Insurance Hawaii, Inc.	HI	4.00%
21st Century Assurance Company	DE	2.00%
21st Century Indemnity Insurance Company	PA	2.00%
21st Century Pacific Insurance Company	CO	2.00%
21st Century Preferred Insurance Company	PA	2.00%
21st Century Pinnacle Insurance Company	NJ	1.75%
21st Century Auto Insurance Company of New Jersey	NJ	1.50%
21st Century Advantage Insurance Company	MN	1.00%
21st Century National Insurance Company	NY	1.00%
21st Century Superior Insurance Company	CA	1.00%
American Pacific Insurance Company, Inc.	HI	0.50%
21st Century Casualty Company	CA	0.25%
21st Century Insurance Company of the Southwest	TX	0.00%

The following summarizes the primary reinsurance contract in effect at December 31, 2013:

Type of contract:	Intercompany Pooling Agreement
Reinsurer:	21st Century North America Insurance Company
Effective date:	June 30, 2009
Term:	Continuous, may be terminated upon six months written notice
Business covered:	All net business written and liability
Participation:	2.00% of liabilities relating to losses with a date of loss prior to July 1, 2009, are retained by the Company. Zero percentage retained by Company for liabilities relating to losses with a date of loss on and after July 1, 2009.
Reinsurance limits:	None

The 21st Century Intercompany Pooling Agreement was determined to be fair and reasonable and met the requirements of 40 P.S. § 991.1405(a)(1).

The contract contains satisfactory insolvency and arbitration clauses as required under 40 P.S. § 442.1(c) and SSAP No. 62 Paragraph 8(a). Additionally, the reinsurance contract transfers risk.

ASSUMED

The Company did not assume any business other than that from participating in the Pool.

TERRITORY AND PLAN OF OPERATION

The Company is domiciled in Pennsylvnia and is licensed in the following 13 jurisdictions:

Arizona	California	Connecticut	Delaware	Florida
Illinois	Maryland	New Jersey	New York	Oregon
Pennsylvania	Texas	Washington		

As of December 31, 2013, the Company is engaged in the sale of personal automobile insurance and primarily markets it through mass marketing programs of the 21st Century PAG division.

In August 2009, 21st Century PAG management announced that the Agency Auto business would be transitioned to other Farmers P&C Companies which focus on business written through independent agents. The 21st Century PAG companies generally ceased writing new Agency Auto business as of September 18, 2009.

The following chart summarizes the Company's Direct and Assumed, Ceded and Net Written Premium by line of business for the year 2013:

Line of Business	Direct and Assumed Premium	Ceded Premium	Net Written Premium	Percentage of Total
December 31, 2013				
Private passenger auto liability	$ 9,945,332	$ 9,945,332	$ 0	0.0%
Auto physical damage	4,457,947	4,457,947	0	0.0%
Totals	$ 14,403,279	$ 14,403,279	$ 0	100.0%

SIGNIFICANT OPERATING RATIOS AND TRENDS

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

	Amount	Percentage
Premiums earned	$ 0	0.0 %
Losses incurred	$ 499,441	95.2 %
Loss expenses incurred	(507,247)	(96.7)%
Other underwriting expenses incurred	25,166	4.8 %
Net income of protected cells	0	0.0 %
Net underwriting gain or (loss)	(17,360)	(3.3)%
Totals	$ 0	0.0 %

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

	2013	2012	2011	2010
Admitted assets	$ 41,250,836	$ 41,937,619	$ 43,532,137	$ 48,347,575
Liabilities	$ 1,643,582	$ 3,132,169	$ 6,037,488	$ 12,949,353
Surplus as regards policyholders	$ 39,607,254	$ 38,805,450	$ 37,494,649	$ 35,398,222
Gross premium written	$ 14,403,279	$ 18,167,333	$ 22,142,202	$ 22,353,362
Net premium written	$ 0	$ 0	$ 0	$ 0
Underwriting gain/(loss)	$ (280,842)	$ (517,325)	$ 649,016	$ 131,791
Investment gain/(loss)	$ 1,131,980	$ 1,374,892	$ 1,540,396	$ 1,535,572
Other gain/(loss)	$ 0	$ 0	$ 0	$ 0
Net income	$ 1,049,115	$ 1,101,136	$ 2,109,423	$ 1,808,294

ACCOUNTS AND RECORDS

The records necessary to conduct the insurance operations of the Company are maintained at the Wilmington, Delaware administrative office location. Essentially all records are maintained electronically. Many of the processing systems interface with the general ledger and financial reporting systems.

FGI maintains an internal audit framework which is in accordance with industry guidelines ("COSO framework"). The Internal Audit ("IA") group provides objective assessments of risk management, internal control and governance processes throughout the FGI organization. The IA function uses a risk based audit approach and its efforts are coordinated with other control and governance functions.

There is a dedicated assurance group within FGI known as Internal Control Governance ("ICG") which facilitates with management documentation of processes and controls that are related to the critical operations and related to Internal Control Financial Reporting. It is the primary governance group overseeing control testing under the principles of Sarbanes Oxley ("SOX") and the Model Audit Rule ("MAR"). ICG performs testing of IT, Operation and Compliance controls under a central testing unit within ICG. Both IA and ICG are part of the Integrated Assurance Network which also consists of Compliance and Risk Management.

PENDING LITIGATION

As of December 31, 2013, the Company and certain of the Farmers P&C Companies are subject to litigation and arbitration arising in the normal course of business. Some of these matters seek punitive as well as compensatory damages, none of which will, in the opinion of management, have a material adverse effect on the Company's financial position or results of operations as of the date of this examination report.

FINANCIAL STATEMENTS

The financial condition of the Company, as of December 31, 2013, and the results of its operations for the four-year 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,

	2013	2012	2011	2010
Bonds	$ 40,092,683	$ 39,193,667	$ 37,340,210	$ 36,567,307
Cash, cash equivalents, and short term investments	862,535	2,011,019	5,542,098	10,970,305
Subtotals, cash and invested assets	40,955,218	41,204,686	42,882,308	47,537,612
Investment income due and accrued	238,474	398,662	490,904	513,771
Amounts recoverable from reinsurers	0	0	0	211,528
Net deferred tax asset	34,022	281,333	71,668	84,664
Receivable from parent, subsidiaries and affiliates	23,122	52,938	87,257	0
Total	$ 41,250,836	$ 41,937,619	$ 43,532,137	$ 48,347,575
Losses	$ 1,171,974	$ 2,283,152	$ 4,342,838	$ 9,135,323
Reinsurance payable on paid loss and loss adjustment expenses	65,035	217,191	359,739	598,923
Loss adjustment expenses	406,573	631,826	1,334,911	2,941,226
Current federal and foreign income taxes	0	0	0	4,605
Ceded reinsurance premiums payable (net of ceding commissions)	0	0	0	(2)
Payable to parent, subsidiaries and affiliates	0	0	0	269,278
Total liabilities	1,643,582	3,132,169	6,037,488	12,949,353
Common capital stock	3,000,000	3,000,000	3,000,000	3,000,000
Gross paid in and contributed surplus	10,435,637	10,435,637	10,435,637	10,435,637
Unassigned funds (surplus)	26,171,617	25,369,813	24,059,012	21,962,585
Surplus as regards policyholders	39,607,254	38,805,450	37,494,649	35,398,222
Totals	$ 41,250,836	$ 41,937,619	$ 43,532,137	$ 48,347,575

Comparative Statement of Income
For the Year Ended December 31,

Underwriting Income	2013	2012	2011	2010
Premiums earned	$ 0	$ 0	$ 0	$ 0
Deductions:				
Losses incurred	197,899	551,545	(348,508)	98,505
Loss expenses incurred	82,943	(34,220)	(300,508)	(255,462)
Other underwriting expenses incurred	0	0	0	25,166
Aggregate write-ins for underwriting deductions	0	0	0	0
Total underwriting deductions	280,842	517,325	(649,016)	(131,791)
Net underwriting gain or (loss)	(280,842)	(517,325)	649,016	131,791
Investment Income				
Net investment income earned	1,138,669	1,336,693	1,540,374	1,538,736
Net realized capital gains or (losses)	(6,689)	38,199	22	(3,164)
Net investment gain or (loss)	1,131,980	1,374,892	1,540,396	1,535,572
Net income before dividends to policyholders and before federal and foreign income taxes	851,138	857,567	2,189,412	1,667,363
Federal and foreign income taxes incurred	(197,977)	(243,569)	79,989	(140,931)
Net income	$ 1,049,115	$ 1,101,136	$ 2,109,423	$ 1,808,294

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

	2013	2012	2011	2010
Surplus as regards policyholders,				
December 31, previous year	$ 38,805,450	$ 37,494,649	$ 35,398,222	$ 33,276,746
Net income	1,049,115	1,101,136	2,109,423	1,808,294
Change in net deferred income tax	(198,077)	(156,743)	(243,468)	(257,918)
Change in nonadmitted assets	(49,234)	(59,640)	230,472	171,100
Cumulative effect of changes in accounting principles	0	426,048	0	0
Capital changes:				
Paid in	0	0	0	400,000
Change in surplus as regards policyholder for the year	801,804	1,310,801	2,096,427	2,121,476
Surplus as regards policyholders,				
December 31, current year	$ 39,607,254	$ 38,805,450	$ 37,494,649	$ 35,398,222

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

	2013	2012	2011	2010
Cash from Operations				
Premiums collected net of reinsurance	$ 0	$ 0	$ 2	$ 180
Net investment income	1,358,254	1,533,772	1,720,870	1,682,604
Miscellaneous income	0	0	0	0
Total income	1,358,254	1,533,772	1,720,872	1,682,784
Benefit and loss related payments	1,461,233	2,753,779	4,471,633	10,233,382
Commissions, expenses paid and aggregate write-ins for deductions	308,196	668,865	1,305,807	2,299,385
Federal and foreign income taxes paid (recovered)	(201,579)	(223,000)	84,605	182,712
Total deductions	1,567,850	3,199,644	5,862,045	12,715,479
Net cash from operations	(209,596)	(1,665,872)	(4,141,173)	(11,032,695)
Cash from Investments				
Proceeds from investments sold, matured or repaid:				
Bonds	11,746,136	7,048,314	4,447,104	1,135,081
Total investment proceeds	11,746,136	7,048,314	4,447,104	1,135,081
Cost of investments acquired (long-term only):				
Bonds	12,714,840	8,947,840	5,377,602	1,996,440
Total investments acquired	12,714,840	8,947,840	5,377,602	1,996,440
Net cash from investments	(968,704)	(1,899,526)	(930,498)	(861,359)
Cash from Financing and Miscellaneous Services				
Other cash provided (applied):				
Capital and paid in surplus, less treasury stock	0	0	0	400,000
Other cash provided or (applied)	29,816	34,319	(356,536)	4,674,783
Net cash from financing and miscellaneous sources	29,816	34,319	(356,536)	5,074,783
Reconciliation of cash and short-term investments:				
Net change in cash and short-term investments	(1,148,484)	(3,531,079)	(5,428,207)	(6,819,271)
Cash and short-term investments:				
Beginning of the year	2,011,019	5,542,098	10,970,305	17,789,576
End of the year	$ 862,535	$ 2,011,019	$ 5,542,098	$ 10,970,305

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

INVESTMENTS

As of December 31, 2013, the Company's invested assets were distributed as follows:

	Amount	Percentage
Bonds	$ 40,092,683	97.9 %
Short-term investments	862,535	2.1 %
Totals	$ 40,955,218	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	$ 40,955,218	100.0 %
Totals	$ 40,955,218	100.0 %

Years to Maturity	Amount	Percentage
1 year or less	$ 3,935,058	9.6 %
2 to 5 years	36,612,021	89.4 %
6 to 10 years	170,241	0.4 %
11 to 20 years	212,688	0.5 %
over 20 years	25,210	0.1 %
Totals	$ 40,955,218	100.0 %

The Company has maintained a fairly conservative investment portfolio consisting of bonds and short-term investments. The bonds held are primarily U.S. government and states bonds. 100% of the bonds and short-term investments received an NAIC designation of "1 – highest quality". The bonds all appear to be valued correctly.

The Company's investment portfolio is held under a custodial agreement with JP Morgan Chase Bank, N.A., New York, NY. The agreement was in compliance with the standards for custodial agreements as required in 31 Pa. Code § 148a.3.

The Company has a written investment policy as required by 40 P.S. § 653 b (b). The investment policy is reviewed and approved on an annual basis by the Board of Directors. The Company, at December 31, 2013, was following its investment policy.

LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES

The Company reported reserves in the amount of $1,171,974 for losses and $406,573 for loss adjustment expenses ("LAE") on the December 31, 2013 Annual Statement. These reserve amounts represent the Company's share of the Pool.

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

December 31,	Actuary and Credentials	Title
2010-2012	Donald Procopio, FCAS, MAAA	SVP, Chief Actuary, 21st Century
2013	James L. Nutting, FCAS, MAAA	SVP, Chief Actuary, FGI

There were no disagreements, either resolved or unresolved, related to the content of the Opinion on matters of risk of material adverse deviation, required disclosures, scope, data, procedure or data quality with each appointed actuary. The Company has limited net exposure due to its participation in the Pool. For each year in the examination period, the appointed actuary issued an Opinion concluding that reserves made a reasonable provision.

In order for the examination team to gain an adequate comfort level with the Company's loss and LAE reserve estimates, the California Department of Insurance ("CDOI") engaged American Actuarial Consulting Group, ("AACG"), as an authorized representative of the CDOI to perform independent actuarial reserve analysis of the Company's loss and LAE reserves for all companies in the Pool. AACG reviewed the reconciliation of the data used in the appointed actuary's work to the data in Schedule P and found them to be consistent. Based upon the analysis performed and results obtained, AACG obtained sufficient documentation that the Company's reported loss and LAE reserve amounts are reasonably stated on both a gross and net of reinsurance basis.

A Senior Casualty Actuary of the CDOI reviewed the AACG actuarial analysis and concluded that the net carried reserves for the companies are reasonably stated as of December 31, 2013. The Pennsylvania examination team also accepts the work and conclusions of the CDOI that the reserve amounts carried by the Company "make a reasonable provision in the aggregate for all of the Company's unpaid loss and loss expense obligations under the terms of its contracts and agreements" as of December 31, 2013.

SUBSEQUENT EVENTS

No subsequent events occurred that would have a material impact on the examination report as of the date of this examination report.

RECOMMENDATIONS

PRIOR EXAMINATION

The prior examination report contained no examination recommendations.

CURRENT EXAMINATION

As a result of the current examination, no recommendations are being made.

CONCLUSION

As a result of this examination, the financial condition of 21st Century Preferred Insurance Company, as of December 31, 2013, was determined to be as follows:

	Amount	Percentage
Admitted assets	$ 41,250,836	100.0 %
Liabilities	$ 1,643,582	4.0 %
Surplus as regards policyholders	39,607,254	96.0 %
Total liabilities and surplus	$ 41,250,836	100.0 %

Since the previous examination made as of December 31, 2009, the Company's assets decreased by $17,485,988, its liabilities decreased by $23,816,496, and its surplus increased by $6,330,508.

This examination was conducted by Kelly Willison, CFE and Richard Kramer, CFE, with the latter in charge.

Respectfully,

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

Philip M. Judge, CFE
Examination Manager

Richard Kramer, CFE
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.