

Examination Warrant Number 11-00828-42390-R1

**Report of Examination of
AmGUARD Insurance Company
Wilkes-Barre, Pennsylvania**

As of December 31, 2011

For Informational Purposes Only

TABLE OF CONTENTS

Subject	Page
Salutation	1
Scope of Examination	1
History	2
Management and Control:	
Capitalization	3
Stockholder	3
Insurance Holding Company System	3
Board of Directors	6
Committees	7
Officers	8
Corporate Records:	
Minutes	8
Articles of Agreement	8
Bylaws	9
Service and Operating Agreements	9
Reinsurance:	
Ceded	12
Assumed	17
Territory and Plan of Operation	17
Significant Operating Ratios and Trends	18
Accounts and Records	19
Pending Litigation	19
Financial Statements:	
Comparative Statement of Assets, Liabilities, Surplus and Other Funds	20
Comparative Statement of Income	21
Comparative Statement of Capital and Surplus	22
Comparative Statement of Cash Flow	23
Summary of Examination Changes	24
Notes to Financial Statements:	
Assets:	
Investments	24
Liabilities:	
Loss and Loss Adjustment Expense Reserves	26
Subsequent Events:	26
Recommendations:	
Prior Examination	27
Current Examination	28
Conclusion	29

Harrisburg, Pennsylvania
May 28, 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 11-00828-42390-R, dated February 25, 2011, an examination was made of

AmGUARD Insurance Company, NAIC Code: 42390,

a Pennsylvania domiciled property & casualty company, hereinafter referred to as "Company" or "AIC". The examination was conducted at the Company's home office, located at 16 South River Street, Wilkes-Barre, Pennsylvania 18702.

A report of this examination is hereby respectfully submitted.

SCOPE OF EXAMINATION

The Company was last examined as of December 31, 2006.

This examination covered the five-year period from January 1, 2007 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.

AmGUARD Insurance Company

- 2 -

A change of CPA occurred in 2007, with KPMG selected to replace Kronick, Kalada, Berdy and Company. The Department was notified of the change and no-disagreement letters were obtained.

For each year during the period under examination, the Certified Public Accounting (“CPA”) firm of KPMG, 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 were examined concurrently with this examination:

Company	NAIC Code
NorGUARD Insurance Company (“NIC”)	31470
EastGUARD Insurance Company (“EIC”)	14702
WestGUARD Insurance Company (“WIC”)	11981

HISTORY

The Company was incorporated on June 10, 1982, licensed by the Department on June 22, 1983 and commenced business on July 26, 1983.

On May 30, 2007, Clal Insurance Enterprises Holdings, Ltd (“CLAL”) of Tel Aviv, Israel acquired GUARD Financial Group, Inc. (“GFG”) and its subsidiaries including Guard Insurance Group, Inc. (“GIG”), NorGUARD Insurance Company, AmGUARD Insurance Company, EastGUARD Insurance Company, and WestGUARD Insurance Company, collectively referred to as “Guard Insurers”. CLAL is one of Israel’s largest insurance groups and is publicly traded on the Tel Aviv Stock Exchange.

The Company made a minor wording change in its bylaws in 2008 concerning the place and time of the stockholder annual meeting.

The Company did not amend its Articles of Agreement during the period under examination.

The Company is currently authorized to transact those classes of insurance described in the Pennsylvania Insurance Company Law, 40 P.S. § 382, Section 202, Subsection (b), Paragraph (1) Property and Allied Lines, (2) Inland Marine and Physical Damage and (3) Ocean Marine, as well as Subsection (c), Paragraphs (1) Fidelity and Surety, (2) Accident and Health, (3) Glass, (4) Other Liability, (5) Boiler and Machinery, (6) Burglary and Theft, (7) Credit, (8) Water Damage, (9) Elevator, (10) Livestock, (11) Auto Liability, (12) Mine and Machinery, (13) Personal Property Floater, and (14) Worker’s Compensation.

MANAGEMENT AND CONTROL

CAPITALIZATION

As of the examination date, December 31, 2011, the Company's total capitalization was \$93,527,581, consisting of 333,000 capital shares of issued and outstanding common stock with a par value of \$16.00 per share amounting to \$5,328,000; \$25,114,745 in paid in and contributed surplus; and \$63,084,836 in unassigned funds (surplus).

Immediately following the completion of the acquisition on May 30, 2007, Clal Insurance Enterprises Holdings, Ltd. ("CLAL") of Tel Aviv, Israel contributed \$10,000,000 in capital to Guard Insurance Group, Inc. ("GIG") and its subsidiaries, of which the Company received \$2,000,000 as an addition to gross paid in and contributed 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 (c), is \$2,350,000 in capital and \$1,175,000 in surplus. The Company has met all governing requirements throughout the examination period.

STOCKHOLDER

The Company is owned 100% by its direct parent, Guard Insurance Group, Inc. ("GIG"), which holds all 333,000 shares of the issued and outstanding common stock.

The shareholders of Clal Insurance Enterprises Holdings, Ltd. ("CLAL") are IDB Development Corporation Ltd ("IDB") (approximately 55%), Bank Hapoalim (just under 10%), and public shareholders (approximately 35%). Through indirect (approximately 85%) ownership of IDB, the ultimate controlling persons of GIG and its insurance company subsidiaries are Nochi Dankner, Avraham Livnat, Isaac Manor and Ruth Manor.

Over the examination period, the Company paid ordinary dividends to the sole stockholder, GIG, of \$2,000,000 on April 10, 2010. The Board of Directors approved all ordinary dividend distributions. Department review and approval of the ordinary dividends was noted.

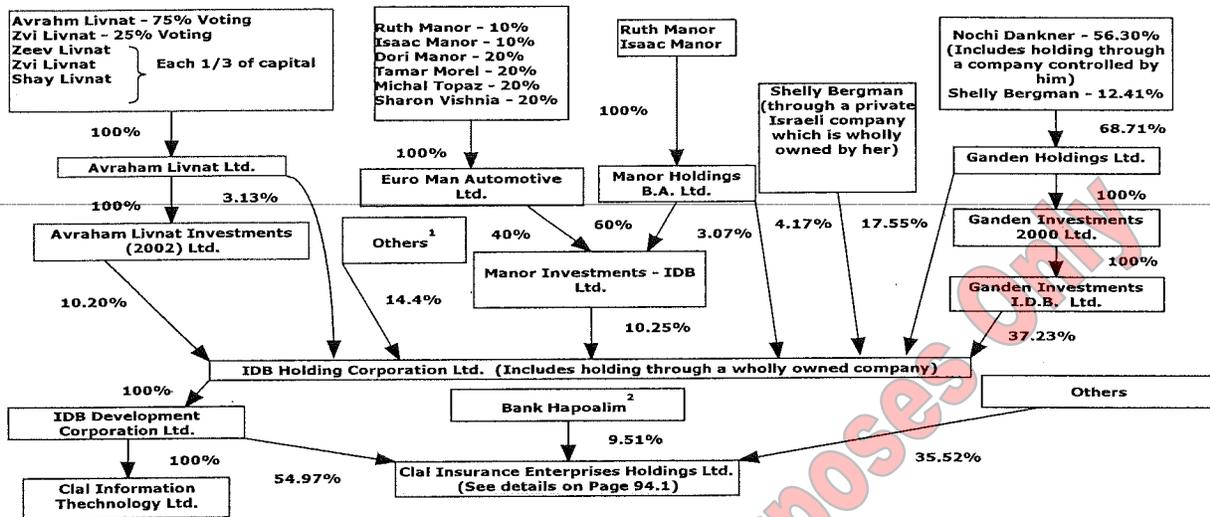
INSURANCE HOLDING COMPANY SYSTEM

The Company is a member of an insurance holding company system subject to the requirements for filing an insurance holding company system registration statement, in compliance with the 40 P.S. §§ 991.1401-991.1413. The holding company system includes several insurance and non-insurance entities. A compliance review indicates that Annual Insurance Holding Company System Registration Statements and various amendments have been filed with the Department for the period under examination.

AmGUARD Insurance Company

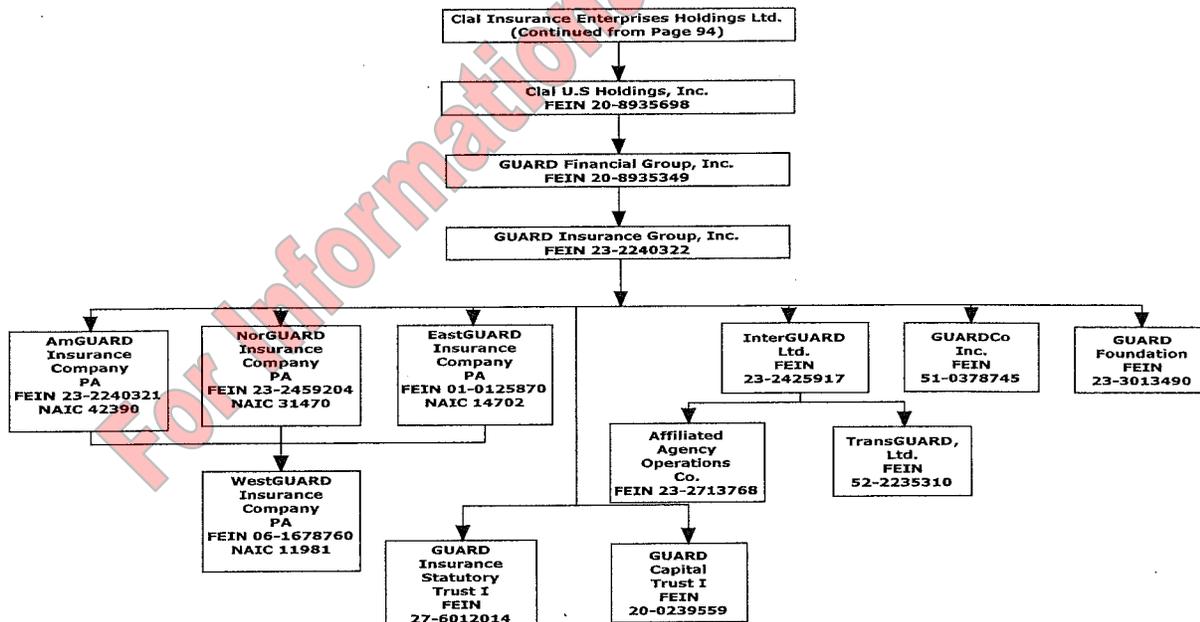
- 4 -

The following organizational chart depicts the Company's relationship within the holding company system at December 31, 2011:



1. Includes, among others, shares held by subsidiaries of Clal Insurance Enterprises Holdings Ltd. ("CIEH") for members of the public through, inter alia, mutual funds and provident funds which are managed by subsidiaries of CIEH, shares held by an associate company of CIEH and shares held by a subsidiary of Epsilon Investments House Ltd. (an indirect subsidiary of IDB Holding Corporation Ltd.) ("Epsilon") for members of the public through mutual funds.

2. Does not include shares held for members of the public through provident funds.



A brief description of the function of each Company in the U.S. holding system is as follows:

- Clal Insurance Enterprises Holdings, Ltd. ("CLAL") operates as an intermediate holding company, owning 100% of the outstanding capital stock of Clal U.S. Holdings, Inc.

AmGUARD Insurance Company

- 5 -

- Clal U.S. Holdings, Inc. – (“CUSH”) operates as an intermediate holding company, owning 100% of the outstanding capital stock of GUARD Financial Group, Inc.
- GUARD Financial Group, Inc. (“GFG”), a Delaware domiciled corporation, is the ultimate controlling company for the GUARD Insurance Group, Inc. (“GIG”). GFG operates as a holding company, owning 100% of the outstanding capital stock of GUARD Insurance Group, Inc. (“GIG”).
- GUARD Insurance Group, Inc. – (“GIG”), a Pennsylvania domiciled corporation, operating as an intermediate level holding company, owning 100% of the outstanding capital stock of the Company, NorGUARD Insurance Company (“NIC”), EastGUARD Insurance Company (“EIC”), InterGUARD, Ltd. (“IGL”), GUARDCo, Inc. and GUARD Foundation (“GF”). GIG provides administrative services to the insurance company subsidiaries under a Service Contract. GIG also owns 100% of two trust companies, GUARD Insurance Statutory Trust I and GUARD Capital Trust I, which hold trust preferred securities.
- AmGUARD, NorGUARD and EastGUARD Insurance Companies - are Pennsylvania domiciled property and casualty insurance companies, licensed in over 40 state jurisdictions and the District of Columbia. The companies mainly write mono-line worker’s compensation coverage for small to mid-size business owners. The companies together own 100% of the outstanding capital stock of WestGUARD Insurance Company, a Pennsylvania domiciled property and casualty insurance company, which also writes mono-line worker’s compensation business only in Pennsylvania.
- InterGUARD, Ltd. - (“IGL”), a Delaware domiciled corporation, is licensed as a Manager and a Producer in Pennsylvania, providing production related services to the insurance companies within the GUARD Insurance Group, Inc. (“GIG”) under a Program Manager Agreement. IGL owns 100% of the outstanding capital stock of Affiliated Agency Operations Company (“AAO”), and TransGUARD, Ltd. (“TGL”), and is a general partner in InterGUARD, LP (“ILP”).
- Affiliated Agency Operations Company - (“AAO”), a Pennsylvania domiciled corporation, operates as a marketing and administrative services company for specialized products.
- TransGUARD, Ltd. - (“TGL”), a New Hampshire domiciled corporation, operates as a transportation management company for the Group.
- GUARDCo, Inc. - (“GUARDCo”), certain activities related to claims and medical management are coordinated by GUARDCo, a subsidiary that allows the company to utilize the techniques of managed care in adjusting workers compensation losses.
- GUARD Foundation - (“GF”), a Pennsylvania non-profit, operates under Section 501(c) (3) of the Internal Revenue Code, providing contributions to community based charitable organizations.

AmGUARD Insurance Company

- 6 -

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
Sy Foguel New York, NY	President/Chief Executive Officer GUARD Insurance Group, Inc.
Susan W. Shoval Kingston, PA	Director NorGUARD Insurance Company.
Allan A. Kerin Plainview, NY	Executive Vice President/Chief Actuary GUARD Insurance Group, Inc.
Carl J. Witkowski Duryea, PA	Executive Vice President/Chief Operating Officer GUARD Financial Group, Inc.
Shy Talmon Mevaseret Zion, Isreal	Chief Executive Officer, Clal Insurance Enterprises, Ltd.
Jonathan Richard Elyachar New York, NY	Director GUARD Insurance Group, Inc.
Avigdor Kaplan Raanaana, Israel	Chairman, Clal Insurance Enterprises Holdings, Ltd.
Yair Jordan Svorai New York, NY	Director GUARD Insurance Group, Inc.

The members of the board and the officers of the Company signed annual conflict of interest disclosures, for each of the years during the period under examination, with no significant conflicts disclosed. Members of the Board of Directors are elected annually at the annual stockholder meeting to serve a term of one year until the next annual stockholder meeting.

The Board of Directors appoints several committees: Executive Committee, Audit/Compensation/Nominating Committee, Investment Committee and Policy Dividend Committee. The Company has interlocking directorates with several affiliated insurance and non-insurance entities to centralize various governance functions and gain efficiencies performing overlapping Board processes.

COMMITTEES

The Board appointed the following committee members to serve until the next annual stockholder meeting:

Audit/Compensation/Nominating Committee

Susan Shoval (Chairperson)
Yair Jordan Svorai
Jonathan R. Elyachar

Executive Committee

Sy Foguel (Chairperson)
Susan W. Shoval
Carl J. Witkowski

Investment Committee

Jonathan Elyachar (Chairperson)
Susan W. Shoval
Sy Foguel

Policy Dividend Committee

Sy Foguel (Chairperson)
Allan Kerin
Yair Jordan Svorai

Pennsylvania Holding Company Law, namely, 40 P.S. 991.1405 (c) (3) Standards of transactions between insurer and affiliate (within the holding company system) states, in part, that “not less than one-third of the directors of any 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”.

Likewise, Pennsylvania Holding Company Law, 40 P.S. 991.1405 (c) (4) Standards of transactions between affiliates (within the holding company system), further states that “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.”

A compliance review of the Company’s corporate minutes indicates that the Company has performed the required committee functions in compliance with Pennsylvania Insurance Company Law 40 P.S. § 991.1405(c) (3), (4) and (4.1), the Company’s Bylaws and Committee Charters.

AmGUARD Insurance Company

- 8 -

OFFICERS

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

Name	Title
Shy Talmon	Chairman of the Board
Sy Foguel	President and Chief Executive Officer
Jeffrey E. Picker	Chief Financial Officer and Treasurer
Marshall I. Kornblatt	Executive Vice President of Insurance Operations and Secretary
Carl J. Witkowski	Chief Operating Officer and Executive Vice President
Allan Kerin	Executive Vice President and Chief Actuary
Wayne E. McOwen	Senior Vice President of Government Affairs and Industry Relations
Ann Toole	Senior Vice President of Financial Analysis and Assistant Secretary
Daniel R. Brennan	Senior Vice President of Claims
Thomas A. Denis	Vice President of Sales
Lisa M. Thompson	Assistant Secretary

CORPORATE RECORDS

MINUTES

A compliance review of corporate minutes revealed the following:

- The stockholder elects the Board of Directors at such meetings in compliance with the Company's Bylaws.
- The stockholder ratified the prior year's actions of the Company's officers and directors.
- Quorums were present at all directors' meetings.
- All directors attend Board meetings regularly.
- The Board approves the Company's reinsurance contracts.
- Meetings of the Audit/Compensation/Nominating Committee were well attended and actions taken were in accordance with the Company's Articles of Agreement and Bylaws.
- Meetings of the Investment Committee were well attended with the actions of this committee being approved by the full Board.

ARTICLES OF AGREEMENT

No amendments to the Company's articles of agreement were noted during the examination period.

BYLAWS

The Company made minor wording changes to its Bylaws concerning the time and place of the annual stockholders' meeting during the examination period.

SERVICE AND OPERATING AGREEMENTS

The Company is party to numerous affiliated and non-affiliated service and operating agreements. Various amendments to the agreements were prepared and executed over the examination period to comply with the recommendations in the prior period's examination report. A compliance review of the agreements pursuant to the standards of Pennsylvania Insurance Company Law, 40 P.S. § 991.1405, revealed that the agreements appear to satisfy these standards.

The following agreements were disclosed and reviewed throughout the course of the examination:

PROGRAM MANAGER AGREEMENT

The program manager agreement is with InterGUARD, Ltd. ("IGL"), a Pennsylvania licensed manager under Pennsylvania Insurance Company Law 40 P.S. §322.2 through §322.4, and appears to contain all the necessary clauses required by Pennsylvania Insurance Company Regulation, Title 31, Pa. Code §127.1 through §127.5.

The agreement calls for IGL, an affiliated company, to perform various functions on behalf of the Company. Some of these functions include but are not limited to agent proposals and marketing; policy administration; collections; premium audits; claims settlement and review; risk inspection and loss control engineering services; record keeping (including accounting and management information systems); filings with rating bureaus, insurance departments, etc.; and implementation of procedures for compliance with applicable laws and regulations.

SERVICE AGREEMENT

The Company is party to a Service Agreement with its direct parent GUARD Insurance Group, Inc. ("GIG"), whereby GIG performs or supervises InterGUARD, Ltd. ("IGL") in providing the Company with education and training, advertising materials, corporate development services, and data processing services. The Company pays GIG for the services on a cost plus basis.

TAX ALLOCATION AGREEMENT

The Company, NorGUARD Insurance Company ("NIC"), EastGUARD Insurance Company, ("EIC"), WestGUARD Insurance Company ("WIC"), GUARD Insurance Group, Inc. ("GIG") and its other subsidiaries, as well as Guard Financial Group, Inc. ("GFG") and Clal U.S. Holdings, Inc. ("CUSH"), are parties to a tax allocation agreement. The tax liability of the

affiliated group is allocated to the several members of the group on the basis of the percentage of the total tax which the tax of such member if computed on a separate return or financial statement would bear to the total amount of the taxes for all members of the group so computed. Any resulting tax balance due to or from any one of the Guard Insurers will be paid each year prior to the due date (including extensions) of the tax return.

COOPERATIVE CARE AGREEMENT

The Company is party to an agreement between GUARDCo, Inc. and InterGUARD, Ltd. ("IGL"). Pursuant to the contract, GUARDCo provides workers' compensation managed care services with respect to select claims designated by IGL. The services include but are not limited to, access to a network of health care providers or provider networks; development and posting of physician panels; installation of workers' compensation managed care services; medical care coordination; telephonic case management; return to work plans for injured workers; and other miscellaneous support services.

INTER-COMPANY POOLING AGREEMENT

The Company participates in an inter-company pooling agreement with NorGUARD Insurance Company, ("NIC"), EastGUARD Insurance Company ("EIC"), and WestGUARD Insurance Company ("WIC"), affiliated Pennsylvania property and casualty insurance companies. The pool operates as follows:

- AIC, EIC and WIC each cede and transfer, and NIC reinsures and assumes, all losses, loss adjustment expenses, underwriting expenses, uncollectible premiums; and liability of return premiums (collectively referred to as "losses") of AIC, EIC and WIC arising from their new, renewal or in-force worker's compensation insurance policies, certificates, insurance contracts and reinsurance issued, written or assumed by the parties effective July 1, 2004. These "losses" coupled with those "losses" of NIC constitute the "pooled business". NIC then retrocedes and transfers, and AIC, EIC, and WIC reinsure and assume, their "applicable percentage" of the pooled business.
- Effective the date of this inter-company pooling agreement, AIC, EIC and WIC agree to pay to NIC any and all premiums due on the insurance to which this agreement applies. NIC agrees to pay to AIC, EIC and WIC such premiums collected according to their "applicable percentage" of the pooled business.
- AIC, NIC, EIC and WIC shall bear the "losses" that constitute the pooled business according to their respective percentages of such business, net of salvage and reinsurance recoveries.
- The current pool, which became effective July 1, 2004, has the following "applicable percentages" in place; AIC 35%, NIC 50%, EIC 10%, and WIC 5%.

AmGUARD Insurance Company

- 11 -

The Company is participating in two (2) additional inter-company pooling agreements, which are currently in run-off, that operate essentially the same as the current inter-company pooling agreement described above with the following “applicable percentages”:

- January 1, 2001 to June 30, 2004, AIC 45%, NIC 45%, EIC 10%.
- July 1, 1997 to December 31, 2000, AIC 52%, NIC 37%, EIC 11%.

ASSET MANAGEMENT AGREEMENT

The Company is party to an agreement between GUARD Insurance Group, Inc. (“GIG”) and its subsidiaries, NorGUARD Insurance Company (“NIC”), EastGUARD Insurance Company (“EIC”), the Company and its affiliate, Guard Security Bank (“GSB”) and Conning Asset Management Company (“Conning”). Pursuant to the agreement, Conning provides investment advisory and portfolio management services. This agreement was effective in 2001 and was terminated in 2012, subsequent to the examination period.

INVESTMENT MANAGEMENT AGREEMENT

The Company is a party to an agreement between GUARD Insurance Group, Inc. (“GIG”), its wholly owned subsidiaries and Boyd Watterson Asset Management, LLC. In accordance with the agreement, Boyd Watterson Asset Management, LLC manages the assets of the accounts held by the Company.

MANAGING GENERAL AGENCY AGREEMENT

The Company is party to an agreement between GUARD Insurance Group, Inc. (“GIG”), on behalf of the Company and NorGUARD Insurance Company with Britamerica Management Group, Inc. Pursuant to the agreement, Britamerica Management Group, Inc. acts as a Managing General Agent for the Company to the extent defined in the agreement.

INSURANCE CLAIMS SERVICE CONTRACT

The Company is party to an agreement between InterGUARD, Ltd. (“IGL”), on behalf of its affiliates, NorGUARD Insurance Company (“NIC”), WestGUARD Insurance Company (“WIC”), and EastGUARD Insurance Company (“EIC”) and the Company and Gallagher Basset Services, Inc. Pursuant to the agreement, Gallagher Basset Services, Inc. will provide claims administration services for the Company’s workers compensation claims as provided in the agreement.

MASTER SERVICES AND LICENSE AGREEMENT

The Company is party to an agreement between GUARDCo, Inc., on behalf of its insurance affiliates and Ingenix Inc. Pursuant to the agreement, Ingenix Inc. provides the

Company with certain data, software, and consulting products and services as set forth in the agreement.

AGREEMENTS FOR SUBROGATION RECOVER SERVICES

The Company is party to an agreement between InterGUARD, Ltd. ("IGL"), on behalf of its insurance company subsidiaries and Insurance Recover Group, Inc. Insurance Recover Group, Inc. will provide subrogation recovery services as described within the agreement on a case by case basis.

The Company is party to an agreement between InterGUARD, Ltd. ("IGL"), on behalf of its insurance company affiliates and Subrogation Division, Inc. Subrogation Division, Inc. will provide subrogation recovery services when assigned to them by the Company as described within the agreement.

REINSURANCE

CEDED

Reinsurance for the Guard Insurers is negotiated on a group basis. Each company pays its share of the premiums charged for the reinsurance based on their percentage of direct written premiums to the total of the Guard Group's direct written premium. The reinsurance program is operated on a pre-pooled basis. Reinsurance recoverables due from unauthorized reinsurers were adequately funded through letters of credit, cash advances, or funds withheld. All treaties contained an appropriate insolvency and arbitration clause.

The following treaties were in force as of the examination date, December 31, 2011, with the retention layer references shown below applying to each company separately; not the Guard Group as a whole.

Quota Share

The Company participates in quota share reinsurance programs written directly through General Reinsurance Company.

A brief synopsis of these treaties is shown below:

Reinsurer: General Reinsurance Corporation
Intermediary: None
Type of Contract: Quota Share
Effective Date: April 1, 2009
Term: Until terminated.
Business Covered: Commercial Umbrella
Reinsurance Limits: 80% up to \$5,000,000 per policy, \$5,000,000 aggregate limit, 80% of losses in excess of policy limits or extra contractual obligations up to \$2,000,000 per policy or \$2,000,000 aggregate

AmGUARD Insurance Company

- 13 -

Reinsurer: General Reinsurance Corporation
Intermediary: None
Type of Contract: Quota Share
Effective Date: July 1, 2011
Term: One Year
Business Covered: Commercial Umbrella
Reinsurance Limits: 100% \$5,000,000 in excess of \$5,000,000, Special
Acceptance

The Company participates in a quota share reinsurance program written directly through Broadgate Syndicate at Lloyd's.

A brief synopsis of the treaty is shown below:

Reinsurer: Broadgate Syndicate at Lloyd's
Intermediary: None
Type of Contract: Quota Share
Effective Date: December 10, 2011
Term: One Year
Business Covered: Reinsurance to an MGA facility provided by BritAmerica Management Group, Inc. covering Policies of Equine Mortality Insurance
Retention: 10%
Reinsurance Limits: 90% up to \$500,000 any one animal

The Company participates in an Equipment Breakdown Coverage Reinsurance Agreement with The Hartford Steam Boiler Inspection and Insurance Company.

A brief synopsis of the treaty is shown below:

Reinsurer: The Hartford Steam Boiler Inspection and Insurance Company
Intermediary: None
Type of Contract: Quota Share
Effective Date: January 1, 2008
Term: Until terminated by either party
Business Covered: Equipment Breakdown
Reinsurance Limits: 100% up to \$25,000,000 per accident

Excess of Loss

The Guard Companies maintain a multi-tiered workers compensation excess of loss reinsurance program.

AmGUARD Insurance Company

- 14 -

The first tier treaty is underwritten through AON Benfield, Inc., a licensed reinsurance intermediary in Pennsylvania, and covers \$4,000,000 excess of \$1,000,000 per occurrence with a \$28,000,000 aggregate limit. 100% of this layer is subscribed to by external reinsurers.

A brief synopsis of this first tier treaty is shown below:

Reinsurer: Various
Intermediary: AON Benfield, Inc.
Type of Contract: Excess of Loss
Effective Date: July 1, 2011
Term: One year, expiring June 30, 2012.
Business Covered: Worker's Compensation & Employer's Liability
Retention: \$1,000,000 per occurrence.
Reinsurance Limits: \$4,000,000 per occurrence with a \$28,000,000 aggregate limit.

The Second tier treaty is underwritten through AON Benfield, Inc., a licensed reinsurance intermediary in Pennsylvania, and covers \$5,000,000 excess of \$5,000,000 per occurrence with a \$20,000,000 aggregate limit. 100% of this layer is subscribed to by external reinsurers.

A brief synopsis of this second tier is shown below:

Reinsurer: Various, 100%.
Intermediary: AON Benfield, Inc.
Type of Contract: Excess of Loss
Effective Date: July 1, 2011
Term: One year, expiring June 30, 2012.
Business Covered: Worker's Compensation & Employer's Liability
Retention: \$5,000,000 per occurrence.
Reinsurance Limits: \$5,000,000 per occurrence with a \$20,000,000 aggregate limit for the contract term.

The third tier is underwritten through Guy Carpenter, Inc., a licensed reinsurance intermediary in Pennsylvania, and covers \$3,000,000 excess of \$10,000,000 per occurrence with a \$6,000,000 aggregate limit. 100% of this layer is subscribed to by external reinsurers.

A brief synopsis of this third tier treaty is shown below:

Reinsurer: Safety National Casualty Corp 100%
Intermediary: Guy Carpenter
Type of Contract: Excess of Loss- Per person
Effective Date: July 1, 2011
Term: One Year, expiring June 30, 2012.
Business Covered: Worker's Compensation.
Retention: \$10,000,000 per occurrence.
Reinsurance Limits: \$3,000,000 per occurrence with a \$6,000,000 aggregate limit.

AmGUARD Insurance Company

- 15 -

The fourth tier is underwritten through Guy Carpenter, a licensed reinsurance intermediary in Pennsylvania, and covers \$30,000,000 excess of \$10,000,000 per occurrence with various aggregate limits. 100% of this layer is subscribed to by external reinsurers.

A brief synopsis of this fourth tier treaty is shown below:

Reinsurer: Various Reinsurance Companies

Intermediary: Guy Carpenter
Type of Contract: Excess of loss
Effective Date: July 1, 2011
Term: One Year, expiring July 1, 2012
Business Covered: Worker's Compensation & Employer's Liability
Retention: \$10,000,000
Reinsurance Limits: \$30,000,000 per occurrence.
\$60,000,000 aggregate.
\$30,000,000 aggregate for one loss occurrence
\$30,000,000 aggregate Terrorism losses.

The Guard Group maintains a multi-tiered property per risk excess of loss reinsurance program.

The first tier treaty is underwritten through Guy Carpenter, a licensed reinsurance intermediary in Pennsylvania, and covers \$4,000,000 excess of \$1,000,000 per risk. 100% of this layer is subscribed to by external reinsurers.

A brief synopsis of this first tier treaty is shown below:

Reinsurer: Various
Intermediary: Guy Carpenter
Type of Contract: Excess of Loss
Effective Date: July 1, 2011
Term: One year, expiring June 30, 2012.
Business Covered: Business Owners Written or Renewed
Retention: \$1,000,000 per risk
Reinsurance Limits: \$4,000,000 per risk

The Second tier treaty is underwritten through Guy Carpenter., a licensed reinsurance intermediary in Pennsylvania, and covers \$5,000,000 excess of \$5,000,000 per risk. 100% of this layer is subscribed to by external reinsurers.

A brief synopsis of this second tier is shown below:

Reinsurer: Various, 100%.
Intermediary: Guy Carpenter
Type of Contract: Excess of Loss

AmGUARD Insurance Company

- 16 -

Effective Date: July 1, 2011
Term: One year, expiring June 30, 2012.
Business Covered: Business Owners Written or Renewed
Retention: \$5,000,000 per risk
Reinsurance Limits: \$5,000,000 per risk

The third tier is underwritten through Guy Carpenter, Inc., a licensed reinsurance intermediary in Pennsylvania, and covers \$10,000,000 excess of \$10,000,000 per risk. 100% of this layer is subscribed to by external reinsurers.

A brief synopsis of this third tier treaty is shown below:

Reinsurer: Various, 100%
Intermediary: Guy Carpenter
Type of Contract: Excess of Loss
Effective Date: July 1, 2011
Term: One Year, expiring June 30, 2012.
Business Covered: Business Owners Written or Renewed
Retention: \$10,000,000 per risk
Reinsurance Limits: \$10,000,000 per risk

The Company also held a Property Catastrophe Reinsurance contract through AON Benfield, Inc., a licensed reinsurance intermediary in Pennsylvania and covers \$7,000,000 excess of \$7,000,000. A brief synopsis of this treaty is shown below:

Reinsurer: Various, 100%
Intermediary: AON Benfield, Inc
Type of Contract: Excess of loss
Effective Date: July 1, 2011
Term: One Year, expiring June 30, 2012
Business Covered: Business Owners Package Business
Retention: \$7,000,000
Reinsurance Limits: \$7,000,000 with \$14,000,000 aggregate

The Guard Group holds a casualty clash excess of loss reinsurance contract. A brief synopsis of this treaty is shown below.

A brief synopsis of this third tier treaty is shown below:

Reinsurer: Various, 100%
Intermediary: Guy Carpenter
Type of Contract: Excess of Loss
Effective Date: July 1, 2011
Term: One Year, expiring June 30, 2012.
Business Covered: Commercial Automobile, Umbrella, Excess and

AmGUARD Insurance Company

- 17 -

Section II of Business Owners policies classified by the Company as Casualty.
Reinsurance Limits: \$3,000,000 x \$2,000,000 Clash with \$2,000,000 x \$1,000,000 Basket, Basket covers against multiple retentions from same insured

The Guard Group holds a Casualty Excess of Loss Facultative Reinsurance Contract. A Brief synopsis of this treaty is shown below:

Reinsurer: Various, 100%
Intermediary: Guy Carpenter
Type of Contract: Excess of Loss
Effective Date: July 1, 2011
Term: 7/1/2011 – 12/31/2011, renews annually
Business Covered: Comprehensive Personal Liability, Farm Owners
Comprehensive Personal Liability, Commercial
General Liability and Farm Owners Commercial
General Liability
Retention: \$1,000,000
Reinsurance Limits: \$1,000,000

ASSUMED

The extent of the Company's assumed reinsurance is its participation in an inter-company pooling agreement, described earlier in this report under "Service and Operating Agreements", and mandatory pools with the National Council on Compensation Insurance, Indiana and Mississippi Workers' Compensation Assigned Risk Reinsurance Pool.

TERRITORY AND PLAN OF OPERATION

The Company is licensed in the following 46 jurisdictions: Alabama, Arizona, Arkansas, California, Colorado, Connecticut, Delaware, District of Columbia, Florida, Georgia, Idaho, Illinois, Indiana, Iowa, Kansas, Kentucky, Louisiana, Maine, Maryland, Massachusetts, Michigan, Minnesota, Mississippi, Missouri, Montana, Nebraska, Nevada, New Hampshire, New Jersey, New Mexico, New York, North Carolina, Ohio, Oklahoma, Oregon, Pennsylvania, Rhode Island, South Carolina, South Dakota, Tennessee, Texas, Utah, Vermont, Virginia, West Virginia, and Wisconsin. The Company wrote direct premiums in 37 of these jurisdictions as of December 31, 2011.

The Company is primarily a worker's compensation carrier that experienced steady growth over the five-year period under examination. As of December 31, 2011, over 63% of its direct written premium is concentrated in the following five states; California, Georgia, New

AmGUARD Insurance Company

- 18 -

Jersey, New York and Pennsylvania. The Company concentrates its business in small to mid-size companies and has shifted to lower risk class companies over the past five years.

Line of Business	Direct and Assumed Premium	Ceded Premium	Net Written Premium	Percentage of Total
December 31, 2011				
Fire	\$ 9,505	\$ 3,325	\$ 6,180	0.0%
Commercial multiple peril	22,272,911	2,634,203	19,638,708	17.3%
Inland marine	1,718,230	1,546,407	171,823	0.2%
Workers' compensation	198,771,025	105,386,243	93,384,782	82.3%
Other liability - occurrence	319,326	257,292	62,034	0.1%
Commercial auto liability	151,839	1,087	150,752	0.1%
Auto physical damage	37,826	1,070	36,756	0.0%
Totals	<u>\$ 223,280,662</u>	<u>\$ 109,829,627</u>	<u>\$ 113,451,035</u>	<u>100.0%</u>

SIGNIFICANT OPERATING RATIOS AND TRENDS

The underwriting ratios summarized below are on an earned/incurred basis, and encompass the five (5) year period covered by this examination.

	Amount	Percentage
Premiums earned	<u>\$ 387,455,850</u>	<u>100.0 %</u>
Losses incurred	\$ 204,589,497	52.7 %
Loss expenses incurred	37,118,281	9.6 %
Other underwriting expenses incurred	120,710,602	31.2 %
Net underwriting gain or (loss)	<u>25,037,470</u>	<u>6.5 %</u>
Totals	<u>\$ 387,455,850</u>	<u>100.0 %</u>

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

	2011	2010	2009	2008	2007
Admitted assets	\$ 371,887,889	\$ 314,124,166	\$ 278,221,396	\$ 269,061,009	\$ 263,526,254
Liabilities	\$ 278,360,308	\$ 232,520,266	\$ 207,415,448	\$ 210,577,214	\$ 201,995,143
Surplus as regards policyholders	\$ 93,527,581	\$ 81,603,900	\$ 70,805,948	\$ 58,483,795	\$ 61,531,111
Gross premium written	\$ 223,280,662	\$ 170,469,231	\$ 129,233,548	\$ 135,476,889	\$ 132,118,929
Net premium written	\$ 113,451,035	\$ 86,416,684	\$ 68,942,310	\$ 70,408,034	\$ 69,187,335
Underwriting gain/(loss)	\$ 3,389,209	\$ 4,625,315	\$ 5,481,075	\$ 11,711,580	\$ (169,709)
Investment gain/(loss)	\$ 9,168,032	\$ 9,444,308	\$ 7,655,542	\$ (527,633)	\$ 8,179,434
Other gain/(loss)	\$ 46,175	\$ (76)	\$ 70	\$ 0	\$ 0
Net income	\$ 10,050,558	\$ 10,965,802	\$ 9,863,741	\$ 334,819	\$ 4,667,266

ACCOUNTS AND RECORDS

The Company maintains its accounts and records at its home office in Wilkes-Barre, Pennsylvania, through an administrative services agreement with Guard Tech. The Company, as a purchaser of the services, has its accounting, premium, and claim processing records kept on an automated and integrated accounting system with respect to the general ledger, trial balance, receivables, and payables.

PENDING LITIGATION

The Company is involved in various legal, compliance actions and proceedings that arise in the ordinary course of business. A review of the legal representation letters from both internal and external legal counsel indicates that counsel has not given substantive attention to, nor represented the Company in connection with material litigation or other loss contingencies which would be required to be disclosed in the statutory financial statements of the Company.

FINANCIAL STATEMENTS

The financial condition of the Company, as of December 31, 2011, and the results of its operations for the five-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

AmGUARD Insurance Company

- 20 -

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

	2011	2010	2009	2008	2007
Bonds	\$ 175,677,353	\$ 182,893,696	\$ 176,255,504	\$ 168,994,661	\$ 159,380,922
Preferred stocks	0	1,188,100	2,217,900	2,203,529	4,440,522
Common stocks	34,480,265	35,462,675	20,180,842	17,788,360	26,306,197
Mortgage loans on real estate	600,000	600,000	900,000	1,200,000	1,600,000
Cash, cash equivalents, and short term investments	41,712,890	10,518,089	15,690,030	14,753,535	13,883,188
Other invested assets	13,884,883	9,636,786	6,698,457	8,074,202	7,897,046
Receivable for securities	19,904	47,735	30,531	565,408	0
Aggregate write-ins for invested assets	0	0	0	0	1,062,508
Subtotals, cash and invested assets	266,375,295	240,347,081	221,973,264	213,579,695	214,570,383
Investment income due and accrued	1,576,148	1,688,286	1,619,710	1,801,525	1,771,155
Premiums and agents' balances due	87,909,567	67,159,828	50,658,220	49,291,536	42,500,636
Amounts recoverable from reinsurers	6,470,334	767,406	503,230	1,557,780	92,066
Funds held by or deposited with reinsured companies	35,479	25,143	34,605	33,706	33,559
Current federal and foreign income tax recoverable and interest thereon	960,561	0	0	0	0
Net deferred tax asset	8,532,500	4,013,200	3,383,100	2,747,500	2,684,400
Guaranty funds receivable or on deposit	27,712	22,853	49,267	49,267	27,794
Receivable from parent, subsidiaries and affiliates	0	68,675	0	0	1,846,261
Aggregate write-ins for other than invested assets	293	31,694	0	0	0
Total	\$ 371,887,889	\$ 314,124,166	\$ 278,221,396	\$ 269,061,009	\$ 263,526,254
Losses	\$ 166,932,908	\$ 143,509,859	\$ 138,941,872	\$ 141,260,192	\$ 137,796,649
Reinsurance payable on paid loss and loss adjustment expenses	4,362,406	451,485	398,817	238,282	3,538
Loss adjustment expenses	18,037,691	16,149,100	14,094,130	14,348,652	13,432,625
Other expenses	203,635	222,368	276,259	352,583	2,976,157
Taxes, licenses and fees	9,979,662	6,946,981	4,609,812	3,817,297	249,865
Current federal and foreign income taxes	0	2,618,000	1,502,000	2,544,000	2,269,000
Unearned premiums	49,092,791	38,864,141	32,189,889	29,619,690	29,295,851
Ceded reinsurance premiums payable (net of ceding commissions)	25,063,383	20,512,192	12,261,936	14,125,511	13,649,297
Funds held by company under reinsurance treaties	3,268,259	3,128,674	2,838,301	2,717,061	2,250,215
Provision for reinsurance	52,406	0	0	0	0
Payable to parent, subsidiaries and affiliates	373,082	0	206,102	1,460,086	0
Payable for securities	0	30,862	30,862	36,996	0
Aggregate write-ins for liabilities	994,085	86,604	65,468	56,864	71,946
Total liabilities	278,360,308	232,520,266	207,415,448	210,577,214	201,995,143
Common capital stock	5,328,000	5,328,000	5,328,000	5,328,000	5,328,000
Gross paid in and contributed surplus	25,114,745	25,114,745	25,114,745	25,114,745	25,114,745
Unassigned funds (surplus)	63,084,836	51,161,155	40,363,203	28,041,050	31,088,366
Surplus as regards policyholders	93,527,581	81,603,900	70,805,948	58,483,795	61,531,111
Totals	\$ 371,887,889	\$ 314,124,166	\$ 278,221,396	\$ 269,061,009	\$ 263,526,254

**Comparative Statement of Income
For the Year Ended December 31,**

	2011	2010	2009	2008	2007
Underwriting Income					
Premiums earned	\$ 103,222,385	\$ 79,742,432	\$ 66,372,111	\$ 70,084,195	\$ 68,034,727
Deductions:					
Losses incurred	59,528,676	41,288,779	33,739,519	31,115,216	38,917,307
Loss expenses incurred	9,098,669	7,926,064	5,188,506	6,260,023	8,645,019
Other underwriting expenses incurred	31,205,831	25,902,274	21,963,011	20,997,376	20,642,110
Total underwriting deductions	99,833,176	75,117,117	60,891,036	58,372,615	68,204,436
Net underwriting gain or (loss)	3,389,209	4,625,315	5,481,075	11,711,580	(169,709)
Investment Income					
Net investment income earned	7,062,839	7,079,890	7,215,280	7,820,156	7,766,124
Net realized capital gains or (losses)	2,105,193	2,364,418	440,262	(8,347,789)	413,310
Net investment gain or (loss)	9,168,032	9,444,308	7,655,542	(527,633)	8,179,434
Other Income					
Aggregate write-ins for miscellaneous income	46,175	(76)	70	0	0
Total other income	46,175	(76)	70	0	0
Net income before dividends to policyholders and before federal and foreign income taxes	12,603,416	14,069,547	13,136,687	11,183,947	8,009,725
Dividends to policyholders	483,778	(47,253)	147,939	1,224,816	374,629
Federal and foreign income taxes incurred	2,069,080	3,150,998	3,125,007	9,624,312	2,967,830
Net income	\$ 10,050,558	\$ 10,965,802	\$ 9,863,741	\$ 334,819	\$ 4,667,266

For Informational Purposes Only

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

	2011	2010	2009	2008	2007
Surplus as regards policyholders,					
December 31, previous year	\$ 81,603,900	\$ 70,805,948	\$ 58,483,795	\$ 61,531,111	\$ 53,332,964
Net income	10,050,558	10,965,802	9,863,741	334,819	4,667,266
Net unrealized capital gains or (losses)	(2,574,753)	374,050	1,183,012	2,291,565	1,710,081
Change in net deferred income tax	2,418,700	475,800	472,800	176,800	1,275,000
Change in nonadmitted assets	3,255,000	982,300	802,600	(5,850,500)	(1,454,200)
Change in provision for reinsurance	(52,406)	0	0	0	0
Surplus adjustments:					
Paid in	0	0	0	0	2,000,000
Dividends to stockholders	0	(2,000,000)	0	0	0
Aggregate write-ins for gains and losses in surplus	(1,173,418)	0	0	0	0
Change in surplus as regards policyholder for the year	11,923,681	10,797,952	12,322,153	(3,047,316)	8,198,147
Surplus as regards policyholders,					
December 31, current year	\$ 93,527,581	\$ 81,603,900	\$ 70,805,948	\$ 58,483,795	\$ 61,531,111

For Informational Purposes Only

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

	2011	2010	2009	2008	2007
Cash from Operations					
Premiums collected net of reinsurance	\$ 97,242,151	\$ 78,174,794	\$ 65,711,152	\$ 64,093,348	\$ 71,646,108
Net investment income	8,573,191	8,536,647	8,441,663	8,912,004	8,705,003
Miscellaneous income	46,175	(76)	70	0	0
Total income	105,861,517	86,711,365	74,152,885	73,005,352	80,351,111
Benefit and loss related payments	37,897,634	36,932,300	34,842,754	34,226,638	36,592,959
Commissions, expenses paid and aggregate write-ins for deductions	35,406,820	29,463,675	26,689,848	20,074,991	20,062,415
Dividends to policyholders	483,778	(47,253)	147,939	1,224,816	374,629
Federal and foreign income taxes paid (recovered)	6,781,207	3,308,146	4,404,071	4,854,348	(646,618)
Total deductions	80,569,439	69,656,868	66,084,612	60,380,793	56,383,385
Net cash from operations	25,292,078	17,054,497	8,068,273	12,624,559	23,967,726
Cash from Investments					
Proceeds from investments sold, matured or repaid:					
Bonds	63,531,671	47,291,764	69,687,342	29,397,868	23,171,049
Stocks	10,704,469	14,785,457	11,972,759	10,346,725	12,740,246
Mortgage loans	0	0	0	0	2,088,500
Other invested assets	1,410,726	967,618	1,705,694	1,987,761	1,299,125
Net gain or (loss) on cash and short-term investments	14	0	655	(10)	(6)
Miscellaneous proceeds	27,831	0	534,877	534,096	0
Total investment proceeds	75,674,711	63,044,839	83,901,327	42,266,440	39,298,914
Cost of investments acquired (long-term only):					
Bonds	53,866,402	54,316,228	78,767,739	44,432,025	46,041,251
Stocks	10,647,355	24,968,943	10,026,390	11,982,779	9,799,191
Other invested assets	5,574,151	3,973,925	1,108,685	1,363,830	1,231,894
Miscellaneous applications	30,862	17,204	6,134	0	982,907
Total investments acquired	70,118,770	83,276,300	89,908,948	57,778,634	58,055,243
Net cash from investments	5,555,941	(20,231,461)	(6,007,621)	(15,512,194)	(18,756,329)
Cash from Financing and Miscellaneous Services					
Other cash provided (applied):					
Capital and paid in surplus, less treasury stock	0	0	0	0	2,000,000
Dividends to stockholders (paid)	0	2,000,000	0	0	0
Other cash provided or (applied)	346,782	5,023	(1,124,157)	3,757,982	(1,640,017)
Net cash from financing and miscellaneous sources	346,782	(1,994,977)	(1,124,157)	3,757,982	359,983
Reconciliation of cash and short-term investments:					
Net change in cash and short-term investments	31,194,801	(5,171,941)	936,495	870,347	5,571,380
Cash and short-term investments:					
Beginning of the year	10,518,089	15,690,030	14,753,535	13,883,188	8,311,808
End of the year	<u>\$ 41,712,890</u>	<u>\$ 10,518,089</u>	<u>\$ 15,690,030</u>	<u>\$ 14,753,535</u>	<u>\$ 13,883,188</u>

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	\$ 175,677,353	66.0 %
Common stocks	34,480,265	12.9 %
Mortgage loans on real estate	600,000	0.2 %
Cash	819,349	0.3 %
Short-term investments	40,893,541	15.4 %
Other invested assets	13,884,883	5.2 %
Receivable for securities	19,904	0.0 %
Totals	<u>\$ 266,375,295</u>	<u>100.0 %</u>

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

NAIC Designation	Amount	Percentage
1 - highest quality	\$ 201,882,320	93.3 %
2 - high quality	10,709,613	4.9 %
3 - medium quality	3,140,217	1.4 %
4 - low quality	448,080	0.2 %
5 - lower quality	390,664	0.2 %
Totals	<u>\$ 216,570,894</u>	<u>100.0 %</u>

Years to Maturity	Amount	Percentage
1 year or less	\$ 62,603,562	29.0 %
2 to 5 years	57,268,528	26.4 %
6 to 10 years	56,096,809	25.9 %
11 to 20 years	27,101,528	12.5 %
over 20 years	13,500,467	6.2 %
Totals	<u>\$ 216,570,894</u>	<u>100.0 %</u>

AmGUARD Insurance Company

- 25 -

As shown above, the Company's invested assets are primarily concentrated in a portfolio of bonds and stocks, comprising 78.9% of the Company's total invested assets. The overall quality of the bond portfolio, which comprises the largest portion of the Company's invested assets, is of the highest quality with 98.2% of the investment in bonds rated at the NAIC's highest designations of (1 - highest quality) and (2 - high quality).

The primary goal of the Company's investment portfolio is to provide the highest after tax total return on invested assets consistent with prudent risk. This is to be accomplished within the specified guidelines and identified constraints of the portfolio. Listed below are the primary objectives of the investment portfolio:

- To preserve and grow the capital and surplus of the Company in order to improve the Company's competitive position and support the success of its insurance operations.
- To maximize risk adjusted after tax total returns.
- To ensure sufficient cash flow and liquidity to fund expected liabilities when due and otherwise support the Company's underwriting strategy.
- To maintain compliance with statutory and Pennsylvania investment law regulations.

The Company utilizes external independent professional investment managers, in addition to a Company Management Investment Committee, to manage its investment portfolio, as follows:

- Boyd Waterson Asset Management
- Conning Asset Management Company

The Company's investment portfolio of bonds, stocks, and short-term investments, during the period under examination, was held under custodial agreements with U.S. Bank, NA. The Agreement complied with the standards as required by Pennsylvania Insurance Regulation, Title 31, Pa. Code § 148a.3.

The Company has a written investment policy as required by the Pennsylvania Insurance Company Law 40 P.S. § 653(b). The investment policy is reviewed and approved, on an annual basis, by the Board of Directors. The Company, at December 31, 2011, was following its investment policy.

LIABILITIES

LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES

The Company reported reserves in the amount of \$ 166,932,908 for losses and \$18,037,691 for loss adjustment expenses on the December 31, 2011 annual statement.

John Herzfeld, FCAS, MAAA of Milliman, Inc., is the Company's appointed actuary for the period of examination. For each year of the examination period, the appointed actuary issued a Statement of Actuarial Opinion ("Opinion") concluding that the Company's reserves made a reasonable provision for all unpaid loss and loss adjustment expense obligations of the Company.

The Department's internal property and casualty actuarial staff performed a review of the Company's Actuarial Report prepared in support of the December 31, 2011 Opinion. The appointed actuary first performs the reserve analysis on a pooled basis, as the Company is part of an inter-company pooling agreement with its affiliates, NorGUARD Insurance Company ("NIC"), WestGUARD Insurance Company ("WIC") and EastGUARD Insurance Company ("EIC") and then allocates reserves based on pooling percentages.

In order for the examination team to gain an adequate comfort level with the Company's loss and loss adjustment expense reserve estimates, the actuarial staff performed a risk-focused review of the Company's loss and loss adjustment expense reserves in conjunction with this examination. As part of the review, the actuarial staff reviewed the Company's internal reserve analysis prepared by Allan Kerin, FCAS, MAAA, Chief Actuary, as of December 31, 2011.

Based upon all procedures performed, the actuarial staff obtained sufficient evidence to support that the Company's loss and loss adjustment expense reserve estimates at December 31, 2011 appear reasonable.

The Department accepts the appointed actuary's conclusion, as of December 31, 2011, that reserves "make a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its contracts and agreements."

SUBSEQUENT EVENTS

GUARD Insurance Group, Inc. ("GIG") was acquired by National Indemnity Company ("NICO"), a wholly owned subsidiary of Berkshire Hathaway, Inc. on October 25, 2012. The Company maintains its operations and headquarters in Wilkes-Barre, PA. As of the time of the preparation of this report, there were no plans for any operational changes at the Company due to this transaction.

Effective December 31, 2012, GIG entered into a Loss Portfolio Agreement with its new parent, NICO. Under this agreement, NICO assumed 50% of the Company's outstanding net loss and loss adjustment expense reserves at December 31, 2012 in the amount of \$260.4 million. This agreement is not considered retro-active reinsurance (SSAP No. 62R Paragraph 31) because the agreement is held with NICO, the 100% owner of GIG.

An Agreement of Reinsurance between NICO and the Guard Companies was entered into and became effective January 1, 2013. The Agreement is a Quota Share Agreement of

Reinsurance for 50% Quota Share on unearned net premium as of January 1, 2013 and any new premium thereafter. NICO will pay 50% of the net loss sustained on claims and losses relating to said premium and occurring on or after January 1, 2013.

Effective October 26, 2012, Guard Companies entered into a Tax Allocation Agreement with its new ultimate controlling parent, Berkshire Hathaway, Inc. The purpose of the agreement is to establish a method for allocating Subsidiary's share of any consolidated tax liability of the Affiliated Group between Parent and Subsidiary, for reimbursing their Parent for payment of such tax liability, and for compensating Subsidiary for the use of its losses and tax credits. Parent and Subsidiaries are members of an affiliated group joining in a consolidated federal tax return.

Effective April, 2013. Jeffrey E. Picker retired as the Company's Chief Financial Officer and Eitan Ajchenbaum took over the position. Mr. Picker will maintain a consulting relationship with the Company for at least one year after his retirement.

RECOMMENDATIONS

PRIOR EXAMINATION

The following recommendations were made as a result of the prior period examination.

1. It is recommended that the Company file amendments to its holding company registration statement within fifteen days after the end of the month in which there is a reportable event in compliance with Pennsylvania Insurance Regulations, Title 31, Pa. Code § 25.17 (c) and Title 31, Pa. Code § 25.21 (b)

The Company has complied with this recommendation.

2. It is recommended that the Company comply with its Bylaws by having the Board Investment Committee exercise the charge bestowed on it by the Company's Bylaws or amend such Bylaws to conform with its current practice of having a Management Investment Committee exercise this charge, ensuring that this committee's membership is in compliance with Pennsylvania Insurance Company Law 40 P.S. § 991.1405(c)(3)

The Company has complied with this recommendation.

3. It is recommended that the Company comply with its Bylaws, specifically Article I, Section 1, and hold its Stockholders' Meetings on the first Tuesday of April in each year, or if such day is a legal holiday, then on the next business day thereafter, at 10:00 o'clock A.M., or at such other time or place on such other day falling on or before the thirtieth (30th) day of April in each year as shall be set by the Board of Directors

The Company has complied with this recommendation.

4. It is recommended that the Company revise its Program Manager Agreement, Service Agreement, Tax Allocation Agreement, Inter-Company Pooling

Agreement, and its IGL Managed Care Agreement to include provisions for penalties and interest in case of late payments in order to comply with Pennsylvania Insurance Company Law 40 P.S. § 991.1405. It is further recommended that the Company revise its Inter-Company Pooling Agreement to include provisions for payment due dates and comply with the settlement terms as specified in its Program Manager Agreement, Service Agreement, and Tax Allocation Agreement in order to comply with Pennsylvania Insurance Company Law 40 P.S. § 991.1405

The Company has complied with this recommendation.

5. It is recommended that the Company revise its Program Manager Agreement in order to comply with Pennsylvania Insurance Company Regulation, Title 31, Pa. Code §127.4(a) and SSAP number 25, paragraph 16 (as of December 31, 2006)

The Company has complied with this recommendation.

6. It is recommended that the Company obtain comparison bid or bids from an unaffiliated third party or parties in order to provide justification that the fees charged under its Service Agreement are fair and reasonable in compliance with Pennsylvania Insurance Company Law 40 P.S. § 991.1405.

The Company has complied with this recommendation.

7. It is recommended that the Company comply with Pennsylvania Insurance Department Notice 1998-04 and the NAIC Annual Statement Filing Instructions and properly classify its investments in its affiliated entities on both Schedules BA and Schedules D of its annual statement. It is further recommended that the company properly disclose the percentage of ownership in its hedge fund and limited partnership investments per the NAIC Annual Statement Filing Instructions and that the Company base the value of its Joint Ventures, Partnerships, and Limited Liability Companies in which the entity has a minor ownership interest on the underlying audited U.S. GAAP equity of the Joint Ventures, Partnerships, and Limited Liability Company as required by SSAP number 48, paragraph 8. Financial statements for these investments should be obtained each year. The use of the SSAP's is dictated by Pennsylvania Insurance Company Law 40 P.S. § 443 and Pennsylvania Insurance Department Notice 1998-04, Codification of Statutory Accounting Principles

The Company has complied with this recommendation.

CURRENT EXAMINATION

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

AmGUARD Insurance Company

- 29 -

CONCLUSION

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

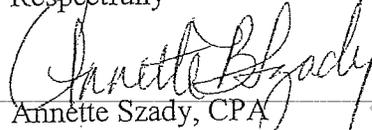
	Amount	Percentage
Admitted assets	\$ 371,887,889	100.0 %
Liabilities	\$ 278,360,308	74.9 %
Surplus as regards policyholders	93,527,581	25.1 %
Total liabilities and surplus	\$ 371,887,889	100.0 %

Since the previous examination, made as of December 31, 2006, the Company's assets increased by \$131,948,223, its liabilities increased by \$91,753,606, and its surplus increased by \$40,194,617.

For Informational Purposes Only

This examination was conducted by Barbara Kowalski, David Hughes, Stephanie Ohnmacht, CFE, William Umbaugh, CFE, CISA, AES, Joseph Evans, CFE and April Spevak, CFE with the latter in charge.

Respectfully



Annette Szady, CPA

Director, Bureau of Financial Examinations



Joseph Evans, CFE

Examination Manager



April Spevak, 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.

For Informational Purposes Only