Examination Warrant Number 14-00313-17965-R1

Report of Examination of

American Sentinel Insurance Company
Harrisburg, Pennsylvania

As of December 31, 2014

American Sentinel Insurance Company

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Harrisburg, Pennsylvania
January 22, 2016

Honorable Joseph DiMemmo, CPA
Deputy Insurance Commissioner
Commonwealth of Pennsylvania
Insurance Department
Harrisburg, Pennsylvania

Dear Sir:

In accordance with instructions contained in Examination Warrant Number 14-00313-17965-R1, dated, March 25, 2014, an examination was made of

American Sentinel Insurance Company, NAIC Code: 17965

a Pennsylvania domiciled multi-state property and casualty insurance company, hereinafter referred to as "Company" or "AMS." The examination was conducted at the Company's home office, located at 2407 Park Drive, Suite 200, Harrisburg, Pennsylvania 17110.

A report of this examination is hereby respectfully submitted.

SCOPE OF EXAMINATION

The Pennsylvania Insurance Department ("Department") has performed our examination of the Company, which was last examined as of December 31, 2009.

This examination covered the five-year period from January 1, 2010 through December 31, 2014.

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

The Handbook requires that the Department plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company, evaluate system controls and procedures used to mitigate those risks, and review subsequent events. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with statutory accounting principles.

The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

This examination report includes significant findings of fact, in accordance with

40 P.S. § 323.5(a), and general information about the Company and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Company.

For 2010 through 2012, the certified public accounting ("CPA") firm of Brown Schultz Sheridan & Fritz provided an unqualified audit opinion on the Company's year-end financial statements based on statutory accounting principles. For 2013 and 2014, the CPA firm of Johnson Lambert LLP ("JL") provided an unqualified audit opinion on the Company's year-end financial statements based on statutory accounting principles. Relevant work performed by JL, during its annual audit of the Company, was reviewed during the examination and incorporated into the examination workpapers.

The following company was examined at the same time during the above examination:

Company	NAIC Code
Aegis Security Insurance Company (Pennsylvania)	33898

HISTORY

The Company was incorporated on October 17, 1956, licensed by the Department on October 17, 1956 and commenced business on the same date.

There were no changes to the Company's Articles of Incorporation or By-laws during the examination period.

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, (c)(5) Boiler and Machinery, (c)(6) Burglary and Theft, (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, 2014, the Company's total capital was $15,656,804, consisting of 300,000 capital shares of issued and outstanding common stock with a par value of $10 per share amounting to $3,000,000; $1,509,000 in paid in and contributed surplus; and $11,147,804 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 $2,250,000 in capital and $1,125,000 in surplus. The Company has met all governing requirements throughout the examination period.

SHAREHOLDER

All shares of the Company's common stock are owned by its parent, Aegis Security Insurance Company ("ASIC"), a domestic stock property and casualty insurance company licensed by the Department in 1977, and wholly-owned by Aegis Security, Inc., a holding company organized in 1977. Aegis Security, Inc. was acquired by K2 Insurance Services, LLC ("K2") effective April 15, 2013.

The Company paid $2,900,000 of ordinary dividends to its sole shareholder, ASIC, for the period under examination. Dividends were paid as shown below:

2014	2013	2012	2011	2010
$500,000	$700,000	$600,000	$600,000	$500,000

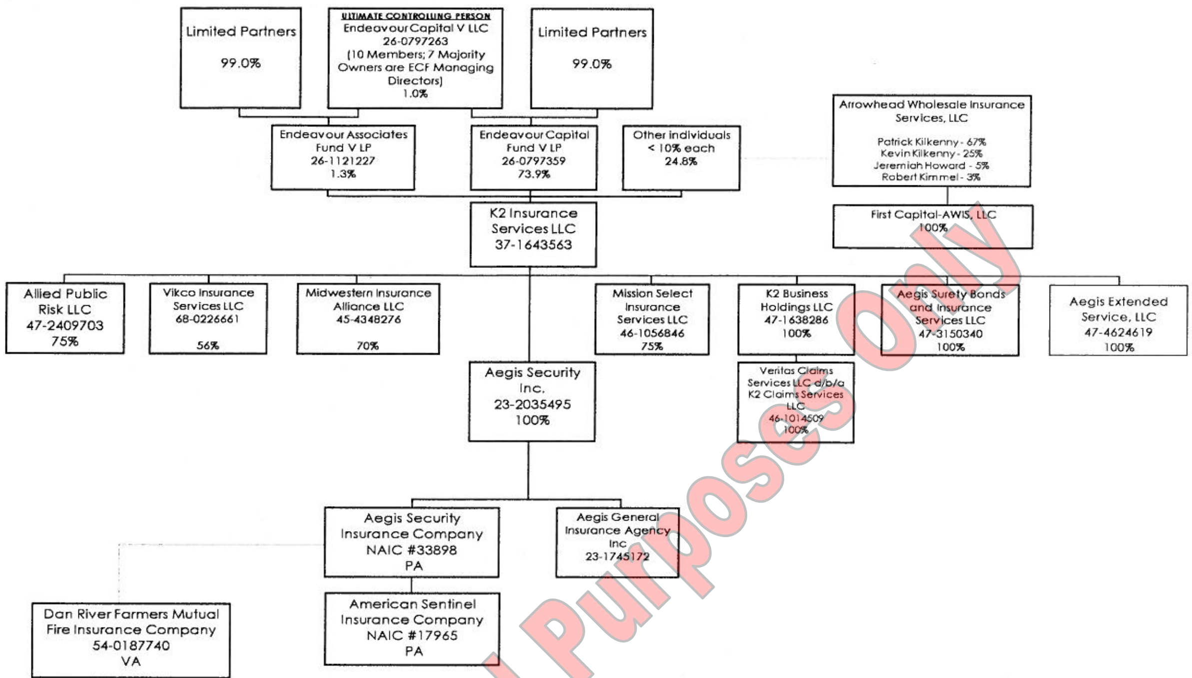
The Company provided notice to the Department for all dividends in accordance with 40 P.S. § 991.1404. No extraordinary dividends requiring authorization were paid during the examination period.

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. §§ 991.1401 - 991.1413. The Company has filed the required Insurance Holding Company System Registration Statements for all years under examination.

Endeavour Capital Fund V, LLC is named as the Ultimate Controlling Person ("UCP") in the system as of April 15, 2013. Martin G. Lane, Jr. had been the UCP prior to the K2 acquisition date.

An organizational chart of the insurance holding company system at December 31, 2015, is as follows:



FOOTNOTES:

(1) Dan River Farmers Mutual Fire Insurance Company is managed by Aegis Security Insurance Company. Aegis has no ownership interest.

(2) One individual that owns less than 10% of K2 also has a controlling interest in Arrowhead Wholesale Insurance Services LLC

Members of the insurance holding company system include the following entities briefly described below:

K2 Insurance Services LLC

K2, founded by Patrick Kilkenny and Robert Kimmel in 2011 with the goal of creating a leading specialty insurance services company through acquisitions that generate diverse earning streams and improve distribution economics, is located in Solana Beach, California. K2 owns 100.0% of Aegis Security, Inc. stock and is the ultimate parent of the affiliated entities. Endeavour Capital Fund V, LP and Endeavor Associates Fund V, LP hold approximately 73.9% and 1.3%, respectively, of the K2 stock. Endeavour Capital Fund V, LP and Endeavor Associates Fund V, LP are ultimately controlled by Endeavour Capital Fund V, LLC. Endeavour Capital Fund V, LLC is comprised of 10 members with 7 majority owners being the Endeavour Capital Fund managing directors.

At December 31, 2014, Endeavour Capital Fund V, LP and Endeavour Associates Fund V held 75.2% of the K2 stock. The remaining stock was held by Patrick J. Kilkenny (9.6%), Martin G. Lane, Jr. (9.6%), and other individuals and entities (5.6%).

Endeavour Capital Fund V, LLC is required to file as UCP annually.

K2 provides overall leadership and strategic guidance for the affiliates. K2 executive management includes:

Patrick J. Kilkenny, CEO

Robert J. Kimmel, President

Matthew T. LuBien, COO

Nathan D. Hunter, CFO

Aegis Security, Inc. ("ASI")

ASI is an insurance holding company organized in 1977 pursuant to the laws of the Commonwealth of Pennsylvania, with its principal place of business in Harrisburg, Pennsylvania. ASI is the sole shareholder of the Company. Effective April 15, 2013, ASI was acquired by K2.

ASI provides a financial guarantee, through the pledge of ASIC and Aegis General Insurance Agency stock, on the combined debt facility structured as two lines of credit with M&T Bank, one in the amount of $7.5 million for K2 and one in the amount of $10.0 million for ASI.

Lakeside Insurance Company became a wholly owned subsidiary of ASI through the exchange of stock involving minority ownership of Cabrillo Pacific Insurance Agency and Tidewater Pacific Insurance Adjusters. Lakeside Insurance Company was liquidated in 2014.

Aegis Insurance Group ("Group")

The Group is comprised of ASIC, AMS, and Aegis General Insurance Agency ("AGIA") (formerly Mobile-Rec, Inc. ("Mobile-Rec")). The Group specializes in insurance for manufactured homes, other low-value dwellings and motorcycles. The insurance companies underwrite surety bonds, accident and health products and other niche business. The main office is located in Harrisburg, Pennsylvania with remote offices located in Syracuse, New York and Wayne, Pennsylvania as of December 31, 2014.

The Group and K2 operate under a written management services agreement effective May 1, 2013. K2 provides oversight of business operations, including investment advice, property and casualty rate and form development, business development, and overall operational guidance and management in exchange for a monthly fee from the Company and ASIC.

For the year ended December 31, 2014, the amount paid by the Company and ASIC to K2 under the management agreement was $600,000 and $1,800,000, respectively.

American Sentinel Insurance Company

The Company is a domestic stock casualty insurance company wholly-owned by ASIC. The Company writes accident and health products and disability products for individuals and groups. The Company is licensed and authorized to write business in 49 states and the District of Columbia. As of December 31, 2014, ASIC was writing business in 38 states and the District of Columbia.

ASIC's investment in the Company was properly reported in its December 31, 2014, Annual Statement at its statutory equity value of $15,656,804. A separate Report of Examination, as of December 31, 2014, is being issued for ASIC.

The Company pays rent to ASIC for space utilized in the common home office pursuant to a written rent sharing agreement.

The Company and ASIC operate under an intercompany pooling reinsurance agreement ("pooling agreement") whereby the Company cedes 100.0% of its net business to ASIC then assumes 25.0% of the combined business back from ASIC.

Aegis Security Insurance Company

ASIC is a domestic stock property and casualty insurance company wholly-owned by ASI. ASIC specializes in manufactured home and low value dwelling products. Additionally, ASIC underwrites contract and commercial surety bonds, accident and health products, difference in conditions products, and power sports and recreational vehicle products. ASIC is licensed and authorized to write business in 50 states and the District of Columbia. As of December 31, 2014, ASIC was writing business in all licensed states except Alaska and Hawaii.

Aegis General Insurance Agency ("AGIA")

AGIA, formerly known as Mobile-Rec, prior to January 1, 2014, is a Pennsylvania licensed insurance agency that specializes in mobile home and recreational vehicle coverages.

AGIA is party to an agency agreement with ASIC whereby ASIC pays commission based on premium volume, and AGIA is eligible for contingent commissions based on specific criteria. AGIA pays rent to ASIC for space utilized in the common home office pursuant to a written rent sharing agreement.

AGIA started two new divisions during 2014, **Aegis Specialty** and **Aegis Powersports**. Aegis Specialty underwrites and produces homeowners and dwelling products in California, Oregon, Washington, Arizona and Nevada. Aegis Powersports writes extended service contracts and service maintenance agreements primarily in the state of California. Aegis Powersports was spun off into a separate limited liability company in July 2015, known as **Aegis Extended Service, LLC.**

Effective January 1, 2016, the officers of AGIA are Patrick J. Kilkenny, Chief Executive Officer; Robert J. Kimmel, President; Matthew T. LuBien, Chief Operating Officer and Secretary; Nathan D. Hunter, Chief Financial Officer and Rebecka Kilkenny, Chief Information Officer.

Midwestern Insurance Alliance LLC ("MIA")

MIA, an agency based in Louisville, Kentucky, is 70.0% owned by K2. MIA writes workers' compensation insurance on behalf of QBE Insurance Corporation ("QBE"), Praetorian Insurance Company ("Praetorian"), and North Pointe Insurance Company ("North Pointe"). Its primary insureds are commercial truckers in Kentucky, Tennessee, Louisiana, South Carolina, and Indiana. MIA also writes workers' compensation in California for a variety of businesses and writes coverage for the forestry industry through Stonewood National Insurance Company.

ASI provides a financial guarantee on behalf of MIA to M&T Bank for an Irrevocable Standby Letter of Credit, established to collateralize premium escrow funds collected on behalf of Praetorian. K2 provides a financial guarantee on behalf of MIA to M&T Bank for an Irrevocable Standby Letter of Credit, established to collateralize premium escrow funds collected on behalf of QBE, Praetorian and North Pointe. MIA is the program administrator on behalf of the workers' compensation coverage it writes through the above named carriers.

Mission Select Insurance Services LLC ("MSIS")

MSIS is a start-up agency operation formed in October 2012 by K2, Dave Lacefield and Ashley Hunter. K2 owns 75.0% of the agency. This agency writes low value homeowners' coverage in Texas through National Unity Insurance Company. Effective March 2015, the agency began writing homeowners' coverage through ASIC.

Vikco Insurance Services LLC ("Vikco")

Vikco is a California based agency, acquired by K2 on July 31, 2014, that specializes in the sales and service of difference in conditions ("DIC") policies on commercial risks of approximately $20.0 million total insured value, primarily multi-family and small office or retail complexes, located in California. Perils covered include earthquake shock, flood, and earthquake sprinkler leakage with policy limits of $5.0 million on a primary, excess of loss, or quota share basis. Policy limits of up to $10.0 million are available with facultative reinsurance. The program has two predominant restrictions; no unreinforced masonry buildings and no flood coverage in specific zones. Vikco writes on behalf of two carriers, ASIC and Allied World Insurance Company ("AWIC"). K2 owns 43.75% of Vicko as of December 31, 2014.

As of March 31, 2015, K2 owns 56.0% of Vikco. The remaining ownership of Vikco is First Capital – AWIS, LLC (31.5%) and Brian Cindric (12.5%). First Capital-AWIS, LLC is discussed further below.

K2 Business Holdings, LLC

This entity was formed August 1, 2014, with its sole member being K2. The entity's sole asset is its investment in a claims adjusting company, Veritas Claims Services, LLC d/b/a K2 Claims Services, LLC.

Veritas Claims Services, LLC d/b/a K2 Claims Services, LLC

This entity, wholly owned by K2 Business Holdings, LLC and formed subsequent to the formation of K2 Business Holdings, LLC, will provide claims adjusting services on behalf of affiliated and non-affiliated carriers as a third party administrator. The target date for this entity to begin providing claims adjusting services for affiliated and non-affiliated entities is the first quarter of 2016.

Affiliates under common ownership or control

The Dan River Farmers Fire Mutual Insurance Company ("Dan River")

Dan River is a Virginia domiciled mutual assessment property and casualty insurance company. ASIC provides management and administrative oversight of Dan River. The Board of Directors of Dan River is comprised of ASIC and K2 management.

First Capital-AWIS, LLC

This entity is a program administrator contracted with AGIA to administer a commercial trucking program. Arrowhead Wholesale Insurance Services ("AWIS"), which owns 100.0% of First Capital-AWIS, LLC, is owned by Pat Kilkenny (67.0%), Kevin Kilkenny (25.0%), Jeremiah Howard (5.0%) and Bob Kimmel (3.0%). Jeremiah Howard is an employee of MIA.

Affiliates sold or dissolved during the examination period

JMT Property Corporation ("JMT")

JMT was a provider of transportation services. ASIC had contracted with JMT for various transportation services from January 1, 2010, through the date of the acquisition by K2 on April 15, 2013. This entity was disposed of on the date of the K2 acquisition. The assets were transferred to JGS Partnership ("JGS") which is owned by Martin G. Lane, Jr., the prior UCP of the Company.

Mobile-Rec entered into a three-year Master Lease and Aircraft Availability Agreement with JGS for the right to use specific real estate and assets in exchange for quarterly payments totaling $6.4 million over the life of the lease. This lease terminated December 31, 2015.

Picnic Lane Holdings

This entity, an inactive yellow page directory advertising business, was dissolved December 31, 2012.

Capital Advantage Group

This entity, a real-estate development and leasing company, was dissolved December 31, 2012.

Global HR Research PA, LLC
Global HR Research NE, LLC

ASI owned the majority of the stock and voting rights of Global HR Research PA, LLC, which in turn owned the majority of the stock and voting rights of Global HR Research NE, LLC as of the prior examination. The Global HR companies provide human resource technology services, talent assessment and employee screening services. The prior UCP acquired these assets on April 15, 2013.

New entities formed subsequent to December 31, 2014

Allied Public Risk, LLC ("APR")

APR was initially formed as a division of AGIA in April 2014. January 1, 2015, APR became a limited liability company and the entire APR division was transferred to the entity. Its membership consists of K2 (75.0%) and AWIC (25.0%). Allied World Assurance Company ("AWAC"), a division of AWIC, is APR's carrier partner. The entity specializes in underwriting and distribution of public entity risks for townships, boroughs, etc., and is the program manager for AWIC's municipal package product serving populations under 100,000. Policy coverage includes property, crime, inland marine, auto liability and physical damage, general liability, cyber liability, educators' legal liability, public officials' liability, law enforcement liability, employment practices liability, umbrella liability, and following form/excess liability.

Aegis Surety Bonds and Insurance Services, LLC

This entity was formed March 1, 2015, originally as Aegis Surety, LLC with a subsequent name change. K2 owns 100.0% of its membership. The entity was formed for the purpose of underwriting and distributing contract and commercial surety products offered by ASIC and will serve as program administrator for the surety program business on behalf of ASIC. The target date for this entity to start operations is early 2016.

Aegis Extended Service, LLC

This entity, formed in July 2015, is a spin-off from AGIA and formerly known as Aegis Powersports. Aegis Extended Service, LLC provides extended service contracts to the motorcycle and all-terrain vehicle industry. Aegis Extended Service, LLC filed with the California Secretary of State as a domestic company on July 20, 2015, and with the Texas Secretary of State as a foreign limited liability company on October 13, 2015.

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, 2014:

Name and Address	Principal Occupation
Patrick J. Kilkenny DelMar, CA	Chairman of the Board K2 Insurance Services LLC Managing Member Seaview Surety LLC
Leland M. Jones West Pasadena, CA	Managing Director DVSM LLC
William R. de Jonge New York, NY	President/Managing Director de Jonge LLC
Russell R. Kilkenny Portland, OR	Attorney Scarboro, McNeese, O'Brien & Kilkenny, P.C.
Martin G. Lane, Jr. Tavernier, FL	Former Majority Shareholder Aegis Security, Inc.

Francis E. Lauricella, Jr. San Francisco, CA	CFO/Seaview Insurance Company Managing Director/FL Advisors LLC
John E. Von Schlegell Portland, OR	Managing Director Endeavour Capital

Directors are elected to serve one year terms at the Annual meeting. Directors serve until their successors have been elected and qualified.

The Company has a conflict of interest policy with statements signed annually by each Director and Officer of the Company.

The Board appointed Audit, Investment, and Recommendation and Review Committees for all years under examination except 2014.

COMMITTEES

During all years, except 2014, of the period under examination, the Board appointed directors to serve on various committees. The committees were determined to be acting in accordance with the Company's By-laws. At December 31, 2014 the standing committees and the members serving were as follows:

Investment	**Audit**	**Recommendation and Review**
Leland M. Jones	Leland M. Jones	Leland M. Jones
Francis E. Lauricella, Jr.	Francis E. Lauricella, Jr.	Francis E. Lauricella, Jr.
William R. de Jonge	William R. de Jonge	William R. de Jonge

As of December 31, 2014, the Company did not have a committee performing the functions of compensation and/or nominating committees in accordance with 40 P.S. § 991.1405(c)(4). The Recommendation and Review Committee was appointed, but held no meetings subsequent to April 15, 2013.

The Company did not have board and committee membership that met the necessary independence and has not established independent committees to comply with 40 P.S. § § 991.1405(c)(3), (4), and (4.1) as of December 31, 2014.

Upon communication of the Board independence and committee independence issues to the Company and subsequent to the examination date, an additional independent director was added to the Company's Board of Directors. The independent director was also appointed to the Audit, Investment and Recommendation and Review Committees by the Board of Directors bringing the Company into compliance with 40 P.S.§§ 991.1405(c)(3), (4), and part of (4.1).

It is recommended the Company appoint a committee in accordance with 40 P.S. § 991.1405(c)(4.1) and ensure the committee is active and performing the required responsibilities outlined with regards to nominations, principal officer performance evaluations and compensation recommendations.

OFFICERS

As of the examination date, December 31, 2014, the following officers were appointed and serving in accordance with the Company's By-laws:

Name	Title
Robert J. Kimmel	Chief Executive Officer
William J. Wollyung, III	Chief Financial Officer
Darleen J. Fritz	President
Deborah A. Good	Secretary

Effective January 1, 2016, the officers of ASIC and AMS, are William J. Wollyung, III, Chief Executive Officer/President; Brett G. Crise, Chief Financial Officer; Deborah A. Good, Secretary; and Darleen J. Fritz, Chief Risk Officer.

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 for all years except 2014.
- The shareholder elected directors at such meetings in compliance with the By-laws for all years except 2014.
- The shareholder ratified the prior year's actions of the officers and directors for all years except 2014.
- Quorums were not present at all directors' meetings subsequent to April 15, 2013.
- The Company's investment transactions were approved quarterly by the Board.
- All directors attended Board meetings regularly prior to April 15, 2013. Subsequent to April 15, 2013 some directors did not attend Board meetings regularly.
- The Investment Committee and Audit Committee meetings were held in conjunction with the Board meetings.
- The Company's Board meeting minutes do not document review and approval of the reinsurance program.

Upon communication of the lack of compliance with the Company's By-laws, the Company agreed to hold meetings as required by its By-laws and this was done for 2015.

ARTICLES OF INCORPORATION

There were no changes to the Company's Articles of Incorporation during the examination period.

BY-LAWS

There were no changes to the Company's By-laws during the examination period.

SERVICE AND OPERATING AGREEMENTS

Federal Tax Allocation Agreement

ASI, ASIC, AMS, Mobile-Rec, JMT, and Management Solution Associates, Inc. ("Management Solutions") executed a tax allocation agreement on December 31, 1998. The agreement was amended on December 31, 2002, removing Management Solutions from the agreement as a result of its dissolution and again on April 15, 2013, removing JMT as party to the allocation agreement following the sale of ASI to K2 and the sale of JMT to Martin G. Lane, Jr. The agreement was not amended subsequent to Mobile-Rec's name being changed to AGIA effective January 1, 2014. The agreement and subsequent amendments to the agreement have been approved by the Company's Board of Directors as required by 40 P.S. § 991.1405(a)(1)(iii).

The consolidated tax liability is allocated based upon the percentage that each member's individual tax liability bears to the sum of the individual tax liabilities for all members. Settlement between parties is defined as being within 60 days of tax payment date.

The Company was not settling the tax liability in accordance with the terms of the agreement during the examination period as required by 40 P.S. § 991.1405(a)(2) - *Standards for Transactions between Insurer and Affiliate.* Settlement was occurring within 60 days of the filing of the consolidated tax return when tax liabilities were determined and not when estimated tax payments were being made.

It is recommended the tax allocation agreement, as well as other intercompany agreements naming Mobile-Rec, Inc., be amended to reflect the current name of Aegis General Insurance Agency from Mobile-Rec, Inc.

It is further recommended the tax allocation agreement settlement terms be amended to reflect the Company's operational strategy of tax settlement after the consolidated tax return has been filed.

The amended tax allocation agreement, and any other agreement requiring the name change, is to be filed with the Department in accordance with 40 P.S. § 991.1405(a)(2) - Standards for Transactions between Insurer and Affiliate.

Cost Sharing Agreement

AMS and Mobile-Rec executed a cost sharing agreement January 4, 1999, for the actual costs incurred by Mobile-Rec on behalf of the two companies.

Mobile-Rec is reimbursed by AMS for actual costs incurred for operational expenses. The agreement terms meet the requirements of SSAP No. 25 as settlement terms are included in the agreements.

This agreement was terminated and reported to the Department on October 28, 2015, in a Form B filing.

Rent Sharing Agreement

ASIC, AMS and Mobile-Rec executed a rent sharing agreement October 1, 1999. This agreement was amended August 1, 2001, following ASIC purchasing the home office building. ASIC has leases for office space with AMS ($4,500 per month) and Mobile-Rec ($1,875 per month) based upon estimated square footage utilized by each entity.

Claims Management Agreement – AMS

ASIC and AMS executed a claims management agreement on November 1, 2001, which was amended on January 1, 2013. AMS acts as claims administrator for business produced by the Wilson Gregory Agency ("WGA") in exchange for a percentage of total written premium of WGA. Settlement is defined as 45 days following month-end which may be offset against intercompany balances.

Management Services Agreement – K2

K2 provides investment advice, property and casualty product rate and form development, business development, overall operational guidance and management to AMS, ASIC, and Mobile-Rec under a management services agreement executed May 1, 2013. Fees to be paid by Mobile-Rec are not discussed in the agreement and are not currently being assessed. AMS and ASIC pay a monthly fee of $50,000 and $150,000, respectively. Reconciliations are performed at least quarterly and settlement terms are included in the agreement.

The agreement was submitted to the Department for approval, and approved, pursuant to 40 P.S. § 991.1405(a)(2) - *Standards for Transactions between Insurer and Affiliate.*

Martin Lane Consulting and Director Agreement

ASIC and Martin G. Lane, Jr. executed a three-year Consulting and Director Agreement effective April 15, 2013, whereby Mr. Lane provides management and strategic consulting services to ASIC and affiliates as requested by the Board of Directors. Mr. Lane also serves on the ASIC and AMS Boards of Directors. The agreement includes confidentiality and non-compete clauses.

Mr. Lane receives an annual compensation, paid quarterly, reimbursement for healthcare insurance, and reimbursement for a specified threshold for business expenses per year.

ASIC provides accounting services to Mr. Lane for his personal financial affairs, including the JGS Partnership.

Advisory Agreement

K2 and DVSM, LLC ("DVSM"), an affiliate of Endeavor Capital Fund V, LP and Endeavour Associates Fund V, LP, executed an Advisory Agreement effective April 15, 2013, which is effective so long as the Endeavour entities, directly or indirectly, hold any of the outstanding voting equity of K2 or any successor entity resulting from reorganization or restructuring of K2.

DVSM provides financial, operational, organizational and other advisory services to K2, affiliates, and the K2 Board of Managers in exchange for a quarterly fee based on a percentage of aggregate capital contributions.

The agreements with affiliates meet the fair and reasonable standards in 40 P.S. § 991.1405(a)(1) as of the examination date.

REINSURANCE

The Company is named on the ASIC reinsurance agreements. ASIC manages the reinsurance program for the Group. As such, the discussion below includes the details of the Group reinsurance program as relates to AMS. The intercompany reinsurance pooling agreement between the Company and ASIC is net of external reinsurance.

As of December 31, 2014, ASIC had six quota share agreements, five excess of loss agreements, and an intercompany reinsurance pooling agreement that were active. There were also seven quota share agreements in runoff, with four having immaterial case reserves remaining as of the examination date. ASIC utilizes facultative reinsurance when necessary.

ASIC's reinsurance agreements name ASIC, AMS, Dan River and the Texas Republic Group ("Republic Group") of Companies (4 named) as insureds. The Texas companies are included on the reinsurance treaties, as part of an agreement made in the mid 1980's when ASIC began writing business in Texas.

ASIC assumed 100.0% of the business written on Southern County Mutual, Republic Lloyds, Republic Vanguard, and Southern Insurance Company (all of Dallas, TX) paper. The Texas business is covered under the catastrophe treaties.

ASIC ceded business to AMS, Florida Hurricane CAT Fund (mandatory pool), various authorized insurers (primarily Lloyd's Syndicates), and to unauthorized insurers, the most significant of which is SBOA TI Reinsurance Ltd. with approximately 94.0 % of the total premiums ceded to unauthorized insurers as of the examination date.

AMS reported an immaterial amount of reinsurance recoverable as of the examination date, none of which were overdue or in dispute. ASIC holds an immaterial amount of letters of credit for two unauthorized reinsurers. AMS does not hold any letters of credit.

Subsequent to the examination date, ASIC made changes to the reinsurance program and entered into reinsurance intermediary agreements with Guy Carpenter & Company, LLC ("Guy Carpenter"), Vista Reinsurance Intermediaries ("Vista Re") and Willis Re, Inc. ("Willis Re"). ASIC established reinsurance relationships through quota share agreements to facilitate the expansion of the "core" manufactured housing products and increase surplus.

CEDED

ASIC executed reinsurance agreements through Guy Carpenter and Vista Re, acting as intermediaries with the subscribing reinsurers, and with six direct companies for the 2014 reinsurance program. The reinsurance agreements name ASIC, AMS, Dan River and the Republic Group as insureds. ASIC pays all reinsurance premiums. The agreements include settlement provisions, proper insolvency and arbitration clauses, extra contractual obligation ("ECO") and losses in excess of policy limits ("XPL") coverage. ASIC retains the right to cancel subscribing reinsurers in the event of specified triggers.

The reinsurance intermediaries, Guy Carpenter and Vista Re, are licensed by the Department as required by 40 P.S. § 321.2(a) *Reinsurance intermediaries; licensing*. ASIC did not have the programs operating pursuant to properly executed written authorizations between ASIC and the intermediaries in accordance with 40 P.S. § 321.3 as of the examination date.

Prior to the end of examination fieldwork, ASIC executed reinsurance intermediary authorization agreements with Guy Carpenter and Vista Re in accordance with 40 P.S. § 321.3.

Excess of Loss Agreements

Property Catastrophe Excess of Loss Reinsurance – one-year and two year agreements

Agreement, effective July 1, 2014, covering property business written by ASIC, AMS, and Dan River or business written by the Republic Group that is underwritten and assumed by the previously named insurers. The Republic Group includes, but is not limited to, Southern County Mutual Insurance Company, Republic Lloyds, Republic Vanguard Insurance Company and Southern Insurance Company all of Dallas, TX. The agreement covers losses under policies classified as property business in force at the inception of the contract or written or renewed during the contract term.

There are three layers to the agreement with the ASIC retention for each loss occurrence being $2.0 million, $6.0 million and $12.0 million, respectively, ultimate net losses. The reinsurers' ultimate net loss each occurrence per layer is $4.0 million, $6.0 million and $18.0 million. The reinsurer also has an ultimate net loss for all loss occurrences commencing during the contract term per layer of $8.0 million, $12.0 million and $36.0 million. The agreement includes a provision whereby ASIC may elect to purchase optional coverage once the initial $4.0 million limit is exhausted. If elected, the optional coverage would apply to this agreement and the first year of ASIC's property catastrophe excess of loss agreement.

Reinstatement Premium Protection Agreement

Agreement, effective July 1, 2014, covering property business written by ASIC, AMS, and Dan River or business written by the Republic Group that is underwritten and assumed by the previously named insurers. The agreement covers ASIC's liability under reinstatement provisions of the original agreement. The reinsurer is liable to pay the reinstatement premium subject to $480,000 limit and is tied to the property catastrophe agreement discussed above.

Difference in Conditions Excess of Loss

Agreement, effective November 15, 2013, covering property business, specifically DIC for earthquake shock, flood, and earthquake sprinkler leakage perils, written by ASIC, AMS, and all affiliated or subsidiary insurance companies under common control or management.

The four layers of this agreement became effective at staggered dates between November 15, 2013 and August 15, 2014, each applying to loss occurrences commencing on or after the respective dates.

Quota Share Agreement

Accident & Health Quota Share with Catlin Underwriting, Inc. for and on behalf of Lloyd's Syndicate 2003 (SJC) Summit, NJ

This is a 50.0% quota share agreement, effective July 1, 2014, covering liability arising out of claims under policies issued by ASIC, AMS and all affiliated companies.

The agreement excludes reinsurance assumed by ASIC except for intercompany reinsurance agreements.

Overall

All reinsurance contracts contain appropriate insolvency and arbitration clauses. Additionally included were offset, errors & omissions, and entire agreement clauses.

All reinsurance contracts noted above meet the required transfer of risk as noted in SSAP No. 62R.

Management has represented that all material ceded reinsurance agreements transfer both underwriting and timing risk as set forth in SSAP No. 62R. Representations were supported by appropriate risk transfer analyses and an attestation from the Company's Chief Executive Officer and Chief Financial Officer pursuant to the NAIC *Property and Casualty Annual Statement Instructions*. Additionally, examination review indicated that the Company was not a party to any finite reinsurance agreements. All ceded reinsurance agreements were accounted for utilizing reinsurance accounting as set forth in SSAP No. 62R.

ASSUMED

Pooling Agreement with Aegis Security Insurance Company

The Company and ASIC are parties to an intercompany reinsurance pooling agreement whereby the Company cedes 100.0% of the net business to ASIC and assumes 25.0% of the net business back from ASIC.

TERRITORY AND PLAN OF OPERATION

The Company is licensed to write business in 49 states and the District of Columbia. As of December 31, 2014, AMS was writing business in 38 states and the District of Columbia. As of December 31, 2014, approximately 94.0% of the Company's written premium is attributable to California, Texas, Georgia and Pennsylvania. No other state attributed to greater than 5.0% of the written premium.

The Company's major lines of business are homeowners' multiple peril, group accident & health, private passenger auto in California written through a single agent, and surety. Its major product line is mobile homeowners' and manufactured homeowners' coverage with most policies underwritten on an actual cash basis rather than a replacement cost basis.

The Company markets its products through an agency system of approximately 325 contracted producers as of December 31, 2014.

The Company reported the following net written premiums, by line of business, for the year ended December 31, 2014:

Line of Business	Direct and Assumed Premium	Ceded Premium	Net Written Premium	Percentage of Total
December 31, 2014				
Fire	$ 688,100	$ 0	$ 688,100	3.3%
Homeowners multiple peril	6,224,600	0	6,224,600	30.0%
Inland marine	(8,600)	0	(8,600)	0.0%
Earthquake	1,673,700	0	1,673,700	8.1%
Group accident and health	6,698,069	3,674,070	3,023,999	14.6%
Other accident and health	403,470	322,770	80,700	0.4%
Other liability - occurrence	267,900	0	267,900	1.3%
Private passenger auto liability	8,514,509	5,381,309	3,133,200	15.1%
Commercial auto liability	741,900	0	741,900	3.6%
Auto physical damage	1,674,386	502,186	1,172,200	5.6%
Surety	3,766,900	0	3,766,900	18.1%
Totals	$ 30,644,934	$ 9,880,335	$ 20,764,599	100.0%

SIGNIFICANT OPERATING RATIOS AND TRENDS

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

	Amount	Percentage
Premiums earned	$ 99,961,699	100.0 %
Losses incurred	$ 43,009,536	43.0 %
Loss expenses incurred	7,382,731	7.4 %
Other underwriting expenses incurred	42,992,532	43.0 %
Net underwriting gain or (loss)	6,576,900	6.6 %
Totals	$ 99,961,699	100.0 %

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

	2014	2013	2012	2011	2010
Admitted assets	$ 30,164,540	$ 30,626,588	$ 27,845,829	$ 25,722,450	$ 23,876,746
Liabilities	$ 14,507,736	$ 15,702,343	$ 13,784,093	$ 12,254,993	$ 11,208,898
Surplus as regards policyholders	$ 15,656,804	$ 14,924,245	$ 14,061,736	$ 13,467,457	$ 12,667,848
Gross premium written	$ 30,644,934	$ 43,860,077	$ 36,493,480	$ 31,084,695	$ 27,334,940
Net premium written	$ 20,764,599	$ 23,120,100	$ 20,892,800	$ 19,415,700	$ 17,640,900
Underwriting gain/(loss)	$ 398,679	$ 2,456,226	$ 1,495,324	$ 1,337,809	$ 888,862
Investment gain/(loss)	$ 630,717	$ 309,343	$ 77,970	$ 523,568	$ 661,423
Other gain/(loss)	$ 7,733	$ 731	$ 4,163	$ (820)	$ 523
Net income	$ 846,745	$ 1,858,826	$ 1,013,271	$ 1,367,878	$ 1,194,486

ACCOUNTS AND RECORDS

ASIC maintains accounting, investment and claims records at its home office in Harrisburg, Pennsylvania and the K2 office in Solana Beach, California for the Company.

PENDING LITIGATION

As of December 31, 2014, the Company is subject to litigation and arbitration arising in the normal course of business. As of the date of this examination report, January 22, 2016, the Company is not a party to any material litigation or arbitration, other than as routinely encountered in claims activity, which will, in the opinion of management, have a material adverse effect on the Company's capital and surplus.

FINANCIAL STATEMENTS

The financial condition of the Company, as of December 31, 2014, 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

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

	2014	2013	2012	2011	2010
Bonds	$ 20,341,766	$ 10,998,354	$ 11,448,842	$ 15,123,379	$ 12,165,070
Preferred stocks	781,308	847,700	1,061,131	602,062	544,662
Common stocks	3,514,046	4,324,807	3,948,228	1,822,867	4,413,356
Mortgage loans on real estate	0	0	50,000	50,000	0
Real estate	0	0	644,200	980,160	935,731
Cash, cash equivalents, and short term investments	936,184	8,398,311	5,142,043	3,543,965	2,694,821
Receivable for securities	1,904	0	0	0	0
Subtotals, cash and invested assets	25,575,208	24,569,172	22,294,444	22,122,433	20,753,640
Investment income due and accrued	215,343	143,940	153,574	207,130	155,042
Premiums and agents' balances due	3,063,498	4,320,208	3,067,849	1,270,650	777,257
Amounts recoverable from reinsurers	787,701	935,564	600,250	550,219	555,398
Net deferred tax asset	522,790	507,404	486,312	452,718	494,109
Receivable from parent, subsidiaries and affiliates	0	150,300	1,243,400	1,119,300	1,141,300
Total	$ 30,164,540	$ 30,626,588	$ 27,845,829	$ 25,722,450	$ 23,876,746
Losses	$ 4,474,000	$ 4,622,000	$ 4,955,000	$ 4,233,493	$ 3,461,980
Reinsurance payable on paid loss and loss adjustment expenses	817,400	957,000	751,300	615,300	531,700
Loss adjustment expenses	1,233,000	985,000	521,000	523,345	532,601
Commissions payable, contingent commissions and other similar charges	2,695	2,817	4,107	4,128	4,666
Other expenses	1	19,426	14,696	4,739	78,301
Taxes, licenses and fees	48,121	128,000	63,330	158,908	91,402
Current federal and foreign income taxes	199,621	908,797	529,886	487,978	441,215
Unearned premiums	7,033,500	6,678,600	5,864,400	5,299,300	5,258,000
Advance premium	5,241	5,910	9,514	9,247	14,364
Ceded reinsurance premiums payable (net of ceding commissions)	387,389	1,393,001	1,069,048	917,353	794,392
Amounts withheld or retained by company for account of others	68	1,792	1,812	1,202	277
Payable to parent, subsidiaries and affiliates	306,700	0	0	0	0
Total liabilities	14,507,736	15,702,343	13,784,093	12,254,993	11,208,898
Aggregate write-ins for special surplus funds	0	0	0	35,614	32,300
Common capital stock	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000
Gross paid in and contributed surplus	1,509,000	1,509,000	1,509,000	1,509,000	1,509,000
Unassigned funds (surplus)	11,147,804	10,415,245	9,552,736	8,922,843	8,126,548
Surplus as regards policyholders	15,656,804	14,924,245	14,061,736	13,467,457	12,667,848
Totals	$ 30,164,540	$ 30,626,588	$ 27,845,829	$ 25,722,450	$ 23,876,746

Comparative Statement of Income
For the Year Ended December 31,

Underwriting Income	2014	2013	2012	2011	2010
Premiums earned	$ 20,409,699	$ 22,305,900	$ 20,327,700	$ 19,374,400	$ 17,544,000
Deductions:					
Losses incurred	8,367,400	8,878,100	9,225,907	8,561,749	7,976,380
Loss expenses incurred	1,860,398	1,933,702	1,277,708	1,168,043	1,142,880
Other underwriting expenses incurred	9,783,222	9,037,872	8,328,761	8,306,799	7,535,878
Total underwriting deductions	20,011,020	19,849,674	18,832,376	18,036,591	16,655,138
Net underwriting gain or (loss)	398,679	2,456,226	1,495,324	1,337,809	888,862
Investment Income					
Net investment income earned	535,907	481,799	413,852	521,107	583,822
Net realized capital gains or (losses)	94,810	(172,456)	(335,882)	2,461	77,601
Net investment gain or (loss)	630,717	309,343	77,970	523,568	661,423
Other Income					
Net gain or (loss) from agents' or premium balances charged off	(1,900)	(77)	(722)	(1,001)	(994)
Aggregate write-ins for miscellaneous income	9,633	808	4,885	181	1,517
Total other income	7,733	731	4,163	(820)	523
Net income before dividends to policyholders and before federal and foreign income taxes	1,037,129	2,766,300	1,577,457	1,860,557	1,550,808
Federal and foreign income taxes incurred	190,384	907,474	564,186	492,679	356,322
Net income	$ 846,745	$ 1,858,826	$ 1,013,271	$ 1,367,878	$ 1,194,486

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

	2014	2013	2012	2011	2010
Surplus as regards policyholders,					
December 31, previous year	$ 14,924,245	$ 14,061,736	$ 13,467,457	$ 12,667,848	$ 11,972,869
Net income	846,745	1,858,826	1,013,271	1,367,878	1,194,486
Net unrealized capital gains or (losses)	244,482	(216,136)	83,051	32,468	20,348
Change in net deferred income tax	(30,822)	76,930	152,072	(14,681)	65,189
Change in nonadmitted assets	172,154	(157,111)	(54,115)	10,631	(54,323)
Cumulative effect of changes in accounting principles	0	0	0	0	63,022
Dividends to stockholders	(500,000)	(700,000)	(600,000)	(600,000)	(500,000)
Aggregate write-ins for gains and losses in surplus	0	0	0	3,313	(93,743)
Change in surplus as regards policyholder for the year	732,559	862,509	594,279	799,609	694,979
Surplus as regards policyholders,					
December 31, current year	$ 15,656,804	$ 14,924,245	$ 14,061,736	$ 13,467,457	$ 12,667,848

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

	2014	2013	2012	2011	2010
Cash from Operations					
Premiums collected net of reinsurance	$ 21,015,028	$ 22,188,090	$ 19,247,563	$ 19,040,151	$ 17,744,737
Net investment income	627,622	531,272	536,158	545,566	652,053
Miscellaneous income	7,733	731	4,163	(820)	523
Total income	21,650,383	22,720,093	19,787,884	19,584,897	18,397,313
Benefit and loss related payments	8,507,137	9,340,714	8,432,731	7,702,057	8,014,605
Commissions, expenses paid and aggregate write-ins for deductions	11,495,046	10,439,464	9,680,156	9,490,092	8,543,478
Federal and foreign income taxes paid (recovered)	896,640	528,563	522,318	447,184	223,254
Total deductions	20,898,823	20,308,741	18,635,205	17,639,333	16,781,337
Net cash from operations	751,560	2,411,352	1,152,679	1,945,564	1,615,976
Cash from Investments					
Proceeds from investments sold, matured or repaid:					
Bonds	4,566,734	1,206,000	5,161,237	1,823,580	10,069,412
Stocks	31,371,771	431,245	702,688	3,117,734	2,025,939
Mortgage loans	0	50,000	0	100,000	0
Real estate	0	524,717	0	0	0
Net gain or (loss) on cash and short-term investments	13	0	0	0	0
Total investment proceeds	35,938,518	2,211,962	5,863,925	5,041,314	12,095,351
Cost of investments acquired (long-term only):					
Bonds	13,994,033	795,603	1,565,510	4,863,420	8,145,912
Stocks	30,111,544	974,596	3,151,112	526,735	3,346,946
Mortgage loans	0	0	0	150,000	0
Real estate	0	0	0	44,429	26,614
Miscellaneous applications	1,903	0	0	0	0
Total investments acquired	44,107,480	1,770,199	4,716,622	5,584,584	11,519,472
Net cash from investments	(8,168,962)	441,763	1,147,303	(543,270)	575,879
Cash from Financing and Miscellaneous Services					
Other cash provided (applied):					
Dividends to stockholders (paid)	500,000	700,000	600,000	600,000	500,000
Other cash provided or (applied)	455,275	1,103,153	(101,904)	46,850	(5,374)
Net cash from financing and miscellaneous sources	(44,725)	403,153	(701,904)	(553,150)	(505,374)
Reconciliation of cash and short-term investments:					
Net change in cash and short-term investments	(7,462,127)	3,256,268	1,598,078	849,144	1,686,481
Cash and short-term investments:					
Beginning of the year	8,398,311	5,142,043	3,543,965	2,694,821	1,008,340
End of the year	$ 936,184	$ 8,398,311	$ 5,142,043	$ 3,543,965	$ 2,694,821

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, 2014, the Company's invested assets were distributed as follows:

		Amount	Percentage
Bonds	$	20,341,766	79.5 %
Preferred stocks		781,308	3.1 %
Common stocks		3,514,046	13.8 %
Cash		491,543	1.9 %
Cash equivalents		100,309	0.4 %
Short-term investments		344,332	1.3 %
Receivable for securities		1,904	0.0 %
Totals	$	25,575,208	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	$	17,128,281	82.4 %
2 - high quality		3,658,126	17.6 %
Totals	$	20,786,407	100.0 %

Years to Maturity		Amount	Percentage
1 year or less	$	2,987,443	14.5 %
2 to 5 years		10,029,299	48.2 %
6 to 10 years		7,451,758	35.8 %
11 to 20 years		275,314	1.3 %
over 20 years		42,593	0.2 %
Totals	$	20,786,407	100.0 %

As of December 31, 2014, the Company had approximately 83.0% of its invested assets in cash, short-term investments and bonds. The Company invests in high quality securities and has its bond portfolio laddered to support reasonable asset-liability matching. Approximately 98.0% of the bonds and short-term investments have maturity dates of ten years or less.

The Company has approximately 17.0% of its invested assets in preferred and common stocks. The Company invests in highly rated preferred and common stocks and does not invest in hedge funds or derivatives.

The Company's invested assets are covered by a custodial agreement with Bank of America that was not in compliance with 31 Pa. Code § 148a.3 as of the examination date. The Company did execute a custodial agreement with Bank of America that was in compliance with 31 Pa. Code § 148a.3 prior to this examination report date.

The Company has a written investment policy as required by 40 P.S. § 653 b(b). The investment policy was not being reviewed and approved on an annual basis by the Board of Directors as of December 31, 2014, as required by 40 P.S. § 653 b(b) that states "Any domestic company subject to the provisions of this act is required to have a formal investment plan which shall be updated on an annual basis as authorized by the board of directors. The investment plan shall include, at a minimum, a description of the investment strategy of the company designed to provide for liquidity and diversity of the investment portfolio." The Company, at December 31, 2014, was following its investment policy.

It is recommended the Company review and approve its written investment policy on an annual basis as required by 40 P.S. § 653 b(b).

Additionally, the Company did not include Other Than Temporary Impairment ("OTTI") review as part of its investment policy as of the examination date. The Company did have the OTTI review incorporated in its investment policy as of the examination report date and was performing quarterly OTTI reviews.

LIABILITIES

LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES

The Company reported reserves in the amount of $4,474,000 for losses and $1,233,000 for loss adjustment expenses ("LAE") on its December 31, 2014 Annual Statement. These amounts represent the Company's share of the intercompany pooling reinsurance arrangement.

David L. Miller, FCAS, MAAA, an independent actuarial consultant associated with the firm of David L. Miller, Ltd, has been the Company's appointed actuary for the entire exam period. At December 31, 2014, the appointed actuary issued a Statement of Actuarial Opinion concluding that the Company's reserves "make a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements".

In order for the examination team to gain an adequate comfort level with the Company's loss and LAE reserve estimates, the Department's internal property and casualty actuarial staff assisted the examination team in performing a risk-focused review of the Company's reserving and pricing processes. The Department also retained the actuarial expertise of The Actuarial Advantage, Inc. to evaluate certain risks that required Phase 5 substantive test work.

Based upon the procedures performed and results obtained, the actuarial and examination staff obtained sufficient documentation to support the conclusion that the Company's net loss and LAE reserves are reasonably stated as of December 31, 2014.

SUBSEQUENT EVENTS

The examiner performed a high level review of the Company's 2015 third quarter statement filings, meeting minutes for K2 and the Company, the 2014 Audited Financial Statement for K2 issued December 17, 2015, and Board meeting packets as part of the examination wrap-up procedures. Information relevant to subsequent events was followed up on and, in many cases, is included in the information below.

The holding company structure changed subsequent to December 31, 2014, with the formation of Allied Public Risk on January 1, 2015, and Aegis Surety Bonds and Insurance Services, LLC on March 1, 2015. Aegis Powersports, formerly a division of AGIA, was spun-off as a limited liability company in July 2015. See additional information on these entities in the Insurance Holding Company section on page 3 of this examination report.

ASIC did not file the Form B for the change in the holding company in accordance with 40 P.S. § 991.1404 (a)(1) that states "Every insurer which is authorized to do business in this Commonwealth and which is a member of an insurance holding company system shall register with the department, except a foreign insurer subject to registration requirements and standards adopted by statute or regulation in the jurisdiction of its domicile which are substantially similar to those contained in this section and 1405(a)(1) and (2), (b) and (d). Each registered insurer shall keep current the information required to be disclosed in its registration statement by reporting all material changes or additions within fifteen (15) days after the end of the month in which it learns of each such change or addition," and in accordance with 31 Pa. Code § 25.17 Annual registration of insurers—statement filing that states " (c) An amendment to Form B shall be filed within 15 days after the end of a month in which there is a material change to the information provided in the annual registration statement, including changes in officers or directors listed in Item 4 of Form B," and "(d) Amendments shall be filed in the Form B format with only items which are being amended reported. Each amendment shall include at the top of the first page ''Amendment No. (insert number) to Form B for (insert year of most recent filing)'' and shall indicate the date of the amendment and not the date of the original filing."

The Company provided a notice of ordinary dividend to the Department on December 14, 2015, with an effective date of December 31, 2015, for the payment of $1.0 million to ASIC. Concurrently, ASIC filed a similar notice for payment of $1.0 million to ASI.

RECOMMENDATIONS

PRIOR EXAMINATION

The prior examination report contained no recommendations.

CURRENT EXAMINATION

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

1. The Company did not have board and committee membership that met the necessary requirements of 40 P.S. § 991.1405 (c)(4.1) *Standards and management of an insurer within a holding company system*, that states: "the board of directors of a domestic insurer shall establish one or more committees comprised solely of directors who are not officers or employes 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." (See "Committees," page 10)

   It is recommended the Company appoint a committee in accordance with 40 P.S. § 991.1405(c)(4.1) and ensure the committee is active and performing the required responsibilities outlined with regards to nominations, principal officer performance evaluations and compensation recommendations.

2. The Company and affiliates are parties to a Tax Allocation Agreement executed December 31, 1998, amended December 31, 2002, and again April 15, 2013. The agreement has not been amended to reflect the name change from Mobile-Rec, Inc. to Aegis General Insurance Agency. Furthermore, the tax balances are not being settled in accordance with the tax allocation agreement. (See "Service and Operating Agreements," page 12)

   It is recommended the tax allocation agreement, as well as other intercompany agreements naming Mobile-Rec, Inc., be amended to reflect the current name of Aegis General Insurance Agency from Mobile-Rec, Inc.

   It is further recommended the tax allocation agreement settlement terms be amended to reflect the Company's operational strategy of tax settlement after the consolidated tax return has been filed.

   The amended tax allocation agreement, and any other agreement requiring the name change, is to be filed with the Department in accordance with 40 P.S. § 991.1405(a)(2) - Standards for Transactions between Insurer and Affiliate.

3. The Company has a written investment policy as required by 40 P.S. § 653 b(b). The investment policy was not being reviewed and approved on an annual basis by the Board of Directors as of December 31, 2014, as required by 40 P.S. § 653 b(b). (See "Investments," page 24)

   It is recommended the Company review and approve its written investment policy on an annual basis as required by 40 P.S. § 653 b(b).

CONCLUSION

As a result of this examination, the financial condition of American Sentinel Insurance Company, as of December 31, 2014, was determined to be as follows:

		Amount	Percentage
Admitted assets	$	30,164,540	100.0 %
Liabilities	$	14,507,736	48.1 %
Surplus as regards policyholders		15,656,804	51.9 %
Total liabilities and surplus	$	30,164,540	100.0 %

Since the previous examination, made as of December 31, 2009, the Company's assets increased by $8,243,502, its liabilities increased by $4,559,567 and its surplus increased by $3,683,935.

This examination was conducted by Jenny Jeffers, CISA and Joe Detrick, CPA, CISA, CFE, AES of Jennan Enterprises; Laura Martin, FCAS, MAAA, Dennis Henry, FCAS, MAAA, and Kyle Mrotek, FCAS, MAAA, of The Actuarial Advantage, Inc.; Kevin Prescott, CFE, AES, CISA, David Hughes, and Robin Roberts, CFE, of the Department with the latter in charge.

Respectfully,

Melissa L. Greiner

Melissa Greiner
Acting Director, Bureau of Financial Examinations

David R. Evans -cdd

David R. Evans, CFE
Examination Manager

Robin Roberts -cdd

Robin Roberts, 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.