

Examination Warrant Number 14-00000-14077-A1

Report of Examination of
Penn Reserve Insurance Company, Ltd.
Swarthmore, PA

As of December 31, 2014

For Informational Purposes Only

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Harrisburg, Pennsylvania
May 2, 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 14-00000-14077-A1 dated March 25, 2014, an examination was made of

Penn Reserve Insurance Company, Ltd., NAIC Code: 14077

a Pennsylvania domiciled single-state, auto liability insurance company, hereinafter referred to as "Penn Reserve" or "Company." The examination was conducted at the Company's home office, located at 630 Fairview Road, Suite 205, Swarthmore, PA 19081.

A report of this examination is hereby respectfully submitted.

SCOPE OF EXAMINATION

The Pennsylvania Insurance Department ("Department") has performed an examination of Penn Reserve, which was last examined as of September 29, 2011. This examination covered the three-year, three-month period from September 30, 2011 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

Penn Reserve Insurance Company, Ltd.

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conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Company.

For each year during the period under examination, the Company was exempt from having an independent audit conducted by a certified public accountant firm.

HISTORY

The Company was incorporated on February 1, 2006, licensed by the Department on November 18, 2011, and commenced business on December 1, 2011.

The Company is currently authorized to transact those classes of insurance described in 40 P.S. § 382(c)(11) Auto Liability.

MANAGEMENT AND CONTROL

CAPITALIZATION

As of the examination date, December 31, 2014, the Company's total capital was \$1,645,351, consisting of 750,000 capital shares of issued and outstanding common stock with a par value of \$1 per share amounting to \$750,000; \$380,000 in paid-in and contributed surplus; and \$65,351 in unassigned funds (surplus) and two surplus notes for \$225,000 each.

The Company's minimum capital and surplus requirements for the types of business for which it is licensed, pursuant to 40 P.S. § 386, is \$750,000 in capital and \$375,000 in surplus. The Company satisfied the minimum capital and surplus requirements throughout the examination period.

STOCKHOLDERS

The Company is owned 50% by Walter Strine and 50% by William Strine. No dividends were paid during the exam period.

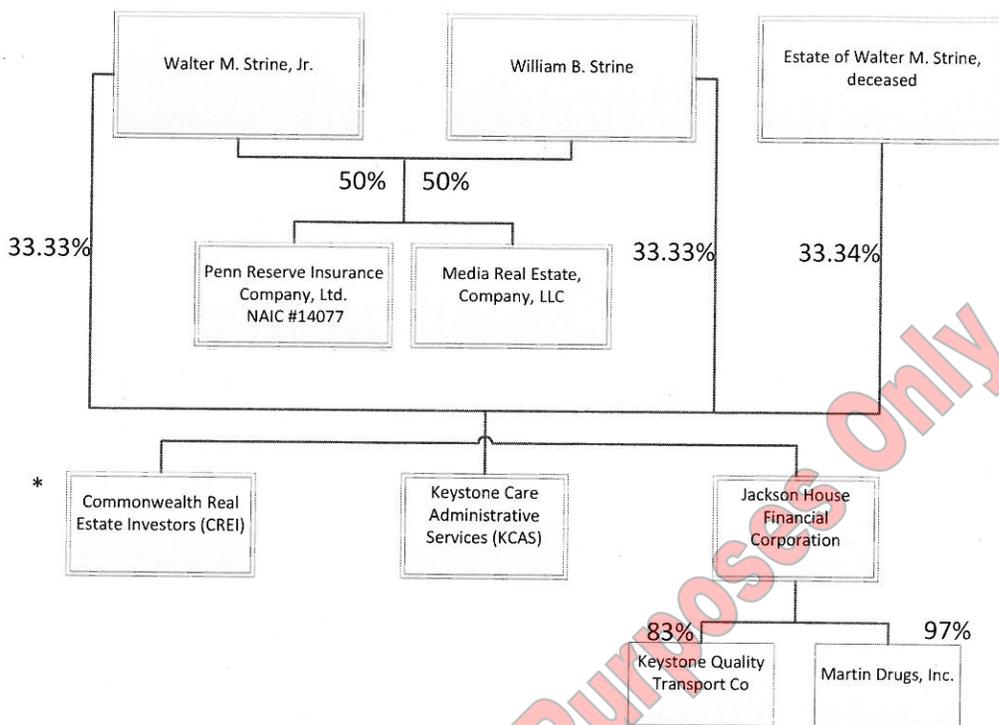
INSURANCE HOLDING COMPANY SYSTEM

During the period under examination, the Company met the requirements for filing an insurance company holding system annual registration statement, in compliance with 40 P.S. § 991.1404. For each of the years under examination, Penn Reserve filed the registration statement with the Department by March 31.

Walter and William Strine are named as the ultimate controlling persons in the system. Together, the Strines own a number of other non-insurance businesses in conjunction with the estate of Walter M. Strine in various ownership percentages. Members of the holding company system include the following entities shown below:

Penn Reserve Insurance Company, Ltd.

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*CREI is 1/3 owned by each of the Strine brothers and the irrevocable trust of their father.

Keystone Care Administrative Services (KCAS) is thirty-three and thirty-three hundredths percent (33.33%) owned by Walter M. Strine, Jr., thirty-three and thirty-three hundredths percent (33.33%) owned by William B. Strine and thirty-three and thirty-four hundredths percent (33.34%) owned by the Estate of Walter M. Strine, deceased. KCAS is a third party administrator who performs the claims processing function for the Company.

Commonwealth Real Estate Investors (CREI) is thirty-three and thirty-three hundredths percent (33.33%) owned by Walter M. Strine, Jr., thirty-three and thirty-three hundredths percent (33.33%) owned by William B. Strine and thirty-three and thirty-four hundredths percent (33.34%) owned by the Walter M. Strine 2007 Irrevocable Trust. CREI is a real estate company who is the policyholder of the only insurance policy written by the Company. The following affiliates are named insureds on the policy: Keystone Quality Transport Company, Commonwealth Real Estate d/b/a Rockwell Center, Martin Drugs, Inc., and Media Real Estate Company.

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

William B. Strine
Media, Pennsylvania

Principal Occupation

Engineer and Real Estate Broker
Media Real Estate Company

Penn Reserve Insurance Company, Ltd.

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Walter M. Strine, Jr. Media, Pennsylvania	Attorney Self-employed
Blake A. Strine Media, Pennsylvania	Manager Media Real Estate Company
Jeffrey A. Packard Hainesport, New Jersey	Insurance Executive PMA Insurance Group
Alec W. Washco Media, Pennsylvania	Business Manager Keystone Care Administrative Services
James H. Lutz Bethlehem, Pennsylvania	Attorney Lutz and Associates
Stephen J. Barr Wallingford, Pennsylvania	Business Manager, President, and CEO Keystone Quality Transport Company
Timothy A. Berger Swarthmore, Pennsylvania	Attorney Paul, Flandreau & Berger, LLP
Robert J. McCafferty, Jr. Media, Pennsylvania	Project Manager Walter M. Strine, Jr.

All directors are elected to serve a one-year term. Every director is re-elected each year. The Company has a conflict of interest policy that covers the officers of the Company.

COMMITTEES

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

Nominating

Timothy A. Berger
James H. Lutz
Jeffrey A. Packard

Financial Review

Timothy A. Berger
James H. Lutz
Jeffrey A. Packard

Performance Review and Communication

Timothy A. Berger
James H. Lutz
Jeffrey A. Packard

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

Walter M. Strine, Jr.
William B. Strine
Robert J. McCafferty

Title

President, CEO, and Treasurer
Vice President and Chief Financial Officer
Vice President and Corporate Secretary

CORPORATE RECORDS

MINUTES

A compliance review of corporate minutes revealed the following:

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

All investments, losses, significant financial transactions, and material actions of the Company's officers were reviewed by the Board of Directors on a quarterly basis.

ARTICLES OF INCORPORATION

There were no changes to the Articles of Incorporation during the exam period.

BY-LAWS

There were no changes to the by-laws during the exam period.

SERVICE AND OPERATING AGREEMENTS

Claims Processing Agreement

Penn Reserve and KCAS are parties to a third-party administrator agreement where KCAS provides claims processing and settlement services for the Company. KCAS is an affiliate and only provides these services for affiliates. KCAS has been the claims processor for its affiliates since 1994.

REINSURANCE

CEDED

The Company did not cede any reinsurance during the exam period.

ASSUMED

The Company did not assume any reinsurance during the exam period.

TERRITORY AND PLAN OF OPERATION

Penn Reserve is licensed in Pennsylvania, for a single line of authority, commercial auto liability:

Line of Business	Direct and Assumed Premium	Ceded Premium	Net Written Premium	Percentage of Total
December 31, 2014				
Commercial auto liability	\$ 140,000	\$ 0	\$ 140,000	100.0%
Totals	\$ 140,000	\$ 0	\$ 140,000	100.0%

The Company does not market its insurance to the public and has no plans to write for the public market. It has written a single insurance policy for the entities owned by the Strine family.

SIGNIFICANT OPERATING RATIOS AND TRENDS

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

	Amount	Percentage
Premiums earned	\$ 311,826	100.0 %
Losses incurred	\$ 96,326	30.9 %
Other underwriting expenses incurred	192,659	61.7 %
Aggregate write-ins for underwriting deductions	3,615	1.2 %
Net underwriting gain or (loss)	19,226	6.2 %
Totals	\$ 311,826	100.0 %

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

	2014	2013	2012	2011
Admitted assets	\$ 1,914,873	\$ 1,841,597	\$ 1,769,224	\$ 1,752,748
Liabilities	\$ 269,522	\$ 233,076	\$ 209,331	\$ 169,383
Surplus as regards policyholders	\$ 1,645,351	\$ 1,608,521	\$ 1,559,893	\$ 1,583,365
Gross premium written	\$ 140,000	\$ 100,000	\$ 100,000	\$ 100,000
Net premium written	\$ 140,000	\$ 100,000	\$ 100,000	\$ 100,000
Underwriting gain/(loss)	\$ 35,260	\$ 44,217	\$ (62,670)	\$ 2,419
Investment gain/(loss)	\$ 1,570	\$ 4,411	\$ 39,198	\$ 946
Other gain/(loss)	\$ 0	\$ 0	\$ 0	\$ 0
Net income	\$ 36,830	\$ 48,628	\$ (23,472)	\$ 3,365

The net loss experienced in 2012 was the result of start-up costs that were capitalized in 2011 (a violation of statutory accounting), and were expensed in 2012.

PENDING LITIGATION

The Company is party to various lawsuits and arbitration matters, which have arisen in the ordinary course of business. Management believes the outcome of these matters will not have a material adverse effect on the Company's results of operation, liquidity, or financial position. A legal representation letter was obtained from the Company's attorney. No material legal issues affecting the Company were presented in the letter.

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FINANCIAL STATEMENTS

The financial condition of the Company, as of December 31, 2014, and the results of its operations for the three-year, three-month 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

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**Comparative Statement of Assets, Liabilities, Surplus and Other Funds
As of December 31, 2014**

	2014	2013	2012	2011
Cash, cash equivalents, and short term investments	\$ 1,786,407	\$ 1,758,130	\$ 1,690,462	\$ 1,600,719
Subtotals, cash and invested assets	1,786,407	1,758,130	1,690,462	1,600,719
Investment income due and accrued	133	133	(4,571)	0
Receivable from parent, subsidiaries and affiliates	128,333	83,334	83,333	91,667
Aggregate write-ins for other than invested assets	0	0	0	60,362
Total	\$ 1,914,873	\$ 1,841,597	\$ 1,769,224	\$ 1,752,748
Losses	\$ 96,325	\$ 58,992	\$ 30,992	\$ 2,413
Other expenses	0	417	6,792	0
Taxes, licenses and fees	2,800	2,000	0	417
Unearned premiums	128,333	91,667	91,507	91,553
Amounts withheld or retained by company for account of others	2,064	20,000	20,040	15,000
Payable to parent, subsidiaries and affiliates	40,000	60,000	60,000	60,000
Total liabilities	269,522	233,076	209,331	169,383
Common capital stock	750,000	750,000	750,000	750,000
Surplus notes	450,000	450,000	450,000	450,000
Gross paid in and contributed surplus	380,000	380,000	380,000	380,000
Unassigned funds (surplus)	65,351	28,521	(20,107)	3,365
Surplus as regards policyholders	1,645,351	1,608,521	1,559,893	1,583,365
Totals	\$ 1,914,873	\$ 1,841,597	\$ 1,769,224	\$ 1,752,748

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**Comparative Statement of Income
For the Year Ended December 31, 2014**

	2014	2013	2012	2011
Underwriting Income				
Premiums earned	\$ 103,333	\$ 100,000	\$ 100,046	\$ 8,447
Deductions:				
Losses incurred	37,333	28,000	28,580	2,413
Other underwriting expenses incurred	30,740	27,783	134,136	0
Aggregate write-ins for underwriting deductions	0	0	0	3,615
Total underwriting deductions	<u>68,073</u>	<u>55,783</u>	<u>162,716</u>	<u>6,028</u>
Net underwriting gain or (loss)	<u>35,260</u>	<u>44,217</u>	<u>(62,670)</u>	<u>2,419</u>
Investment Income				
Net investment income earned	<u>1,570</u>	<u>4,411</u>	<u>39,198</u>	<u>946</u>
Net investment gain or (loss)	<u>1,570</u>	<u>4,411</u>	<u>39,198</u>	<u>946</u>
Net income before dividends to policyholders and before federal and foreign income taxes	<u>36,830</u>	<u>48,628</u>	<u>(23,472)</u>	<u>3,365</u>
Net income	<u>\$ 36,830</u>	<u>\$ 48,628</u>	<u>\$ (23,472)</u>	<u>\$ 3,365</u>

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**Comparative Statement of Capital and Surplus
For the Year Ended December 31, 2014**

	2014	2013	2012	2011
Surplus as regards policyholders,				
December 31, previous year	\$ 1,608,521	\$ 1,559,893	\$ 1,583,365	\$ 0
Net income	36,830	48,628	(23,472)	3,365
Change in surplus notes	0	0	0	450,000
Capital changes:				
Paid in	0	0	0	750,000
Surplus adjustments:				
Paid in	0	0	0	380,000
Change in surplus as regards policyholder for the year	36,830	48,628	(23,472)	1,583,365
Surplus as regards policyholders,				
December 31, current year	\$ 1,645,351	\$ 1,608,521	\$ 1,559,893	\$ 1,583,365

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**Comparative Statement of Cash Flow
For the Year Ended December 31, 2014**

	2014	2013	2012	2011
Cash from Operations				
Premiums collected net of reinsurance	\$ 103,333	\$ 100,000	\$ 100,046	\$ 8,447
Net investment income	1,570	4,411	39,198	946
Total income	<u>104,903</u>	<u>104,411</u>	<u>139,244</u>	<u>9,393</u>
Commissions, expenses paid and aggregate write-ins for deductions	27,940	25,783	67,445	2,288
Total deductions	<u>27,940</u>	<u>25,783</u>	<u>67,445</u>	<u>2,288</u>
Net cash from operations	<u>76,963</u>	<u>78,628</u>	<u>71,799</u>	<u>7,105</u>
Cash from Investments				
Proceeds from investments sold, matured or repaid:				
Bonds	0	0	600,000	0
Mortgage loans	0	0	575,000	0
Total investment proceeds	<u>0</u>	<u>0</u>	<u>1,175,000</u>	<u>0</u>
Cost of investments acquired (long-term only):				
Other invested assets	0	0	1,175,000	61,386
Total investments acquired	<u>0</u>	<u>0</u>	<u>1,175,000</u>	<u>61,386</u>
Net cash from investments	<u>0</u>	<u>0</u>	<u>0</u>	<u>(61,386)</u>
Cash from Financing and Miscellaneous Services				
Other cash provided (applied):				
Surplus notes, capital notes	0	0	0	450,000
Capital and paid in surplus, less treasury stock	0	0	0	1,130,000
Borrowed funds received or (repaid)	(20,000)	0	0	60,000
Net deposits on deposit-type contracts and other insurance liabilities	(28,686)	(10,960)	17,944	15,000
Net cash from financing and miscellaneous sources	<u>(48,686)</u>	<u>(10,960)</u>	<u>17,944</u>	<u>1,655,000</u>
Reconciliation of cash and short-term investments:				
Net change in cash and short-term investments	28,277	67,668	89,743	1,600,719
Cash and short-term investments:				
Beginning of the year	1,758,130	1,690,462	1,600,719	0
End of the year	<u>\$ 1,786,407</u>	<u>\$ 1,758,130</u>	<u>\$ 1,690,462</u>	<u>\$ 1,600,719</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, 2014, the Company's invested assets were distributed as follows:

	Amount	Percentage
Cash	1,786,407	100.0 %
Totals	<u>\$ 1,786,407</u>	<u>100.0 %</u>

The Company maintains 100.0% of its investments in cash. The examiner reviewed the custodial agreement with U.S. Bank for compliance with the provisions of 31 Pa. Code § 148a.3 and found the custodial agreement complies with the regulation.

The Company has a written investment policy as required by 40 P.S. § 653b(b). The investment policy is reviewed and approved on an annual basis by the Board of Directors. The Company was following its investment policy at December 31, 2014.

LIABILITIES

LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES

The Company reported \$96,325 in loss reserves and \$0 in loss adjusting expense reserves ("LAE") on its December 31, 2014 Annual Statement. Penn Reserve is exempt from having an independent actuarial opinion.

The examiner reviewed the methodologies used by the Company in determining its reserves. In addition, the examiner performed walkthroughs of the claims process and reviewed claims details. Based upon the procedures performed, the examiner determined that the Company's loss and LAE reserves fall within a reasonable range and that the carried reserves are acceptable for the purposes of this examination.

SUBSEQUENT EVENTS

There were no material subsequent events occurring after the examination period.

RECOMMENDATIONS

PRIOR EXAMINATION

There were no recommendations made as a result of the prior examination.

CURRENT EXAMINATION

There are no recommendations made as a result of this examination.

CONCLUSION

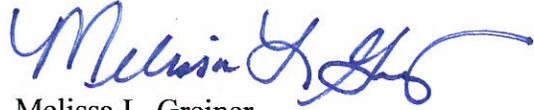
As a result of this examination, the financial condition of Penn Reserve Insurance Company, Ltd., as of December 31, 2014, was determined to be as follows:

	Amount	Percentage
Admitted assets	\$ 1,914,873	100.0 %
Liabilities	\$ 269,522	14.1 %
Surplus as regards policyholders	1,645,351	85.9 %
Total liabilities and surplus	\$ 1,914,873	100.0 %

Since the previous examination, made as of September 29, 2011, the Company's assets increased by \$335,302, its liabilities increased by \$269,522, and its surplus increased by \$65,780.

This examination was conducted by Matthew Council, CFE.

Respectfully,



Melissa L. Greiner
Director
Bureau of Financial Examinations



Kelly Monaghan, CPA, CFE, CGFM, CFE
Examination Manager



Matthew Council, 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.

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