Examination Warrant Number 12-00000-12356-R1

Report of Examination of

School Boards Insurance Company of Pennsylvania, Inc.
Mechanicsburg, Pennsylvania

As of December 31, 2012

School Boards Insurance Company of Pennsylvania, Inc.

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Harrisburg, Pennsylvania
March 25, 2015

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

Dear Sir:

In accordance with instructions contained in Examination Warrant Number 12-00000-12356-R1 dated February 29, 2012, an examination was made of

School Boards Insurance Company of Pennsylvania, Inc., NAIC Code: 12356

a Pennsylvania domiciled stock property and casualty insurance company, hereinafter referred to as "SBIC" or "Company." The examination was conducted at the Company's home office, located at 400 Bent Creek Boulevard, Mechanicsburg, Pennsylvania 17050.

A report of this examination is hereby respectfully submitted.

SCOPE OF EXAMINATION

The last full scope examination of the Company was conducted as of December 31, 2007.

A limited scope examination of the Company's loss and loss adjustment expense ("LAE") reserves was conducted as of December 31, 2010 due to adverse loss reserve development reported by the Company in the years 2008, 2009 and 2010. The results of the limited scope examination are incorporated in this report.

This current full scope examination covered the five-year period from January 1, 2008 through December 31, 2012, and consisted of a general survey of the Company's business practices, management, and operations, and an evaluation of the Company's financial condition as of the latter date. Material subsequent events were also reviewed.

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

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

For each year during the period under examination, the Certified Public Accounting ("CPA") firm of ParenteBeard LLC provided an unqualified audit opinion on the Company's year-end financial statements based on statutory accounting principles. Relevant work performed by the CPA firm, during its annual audit of the Company, was reviewed during the examination and incorporated into the examination workpapers.

HISTORY

The Company was incorporated on May 31, 1995 as a for-profit corporation in the Commonwealth of Pennsylvania and is a wholly-owned subsidiary of the Pennsylvania School Boards Association Insurance Trust (the "Trust"). The Company's ultimate parent is the Pennsylvania School Boards Association ("PSBA") which is the immediate parent company of the Trust. Subsequent to incorporation, the Company was inactive until January 1, 2006, when it was licensed by the Department to transact the business of a stock property and casualty insurance company in the Commonwealth of Pennsylvania, and on January 3, 2006 the Company commenced business. All of SBIC's issued and outstanding stock is owned by the Trust. The stock is not traded.

On April 1, 2006, the Company merged with School Boards Insurance Company Ltd. ("SBIC, Ltd."), a Bermuda reinsurer wholly-owned by the Trust, with the Company being the surviving entity. Prior to the merger, SBIC, Ltd. reinsured policies provided to member school districts through fronting arrangements with A-rated U.S. admitted insurers.

The Company offers insurance products only to member school boards of the PSBA.

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)(3) Glass, (c)(4) Other Liability, (c)(5) Boiler and Machinery, (c)(6) Burglary and Theft, (c)(8) Water Damage, (c)(9) Elevator, (c)(10) Livestock, (c)(11) Auto Liability and (c)(14) Workers' Compensation.

MANAGEMENT AND CONTROL

CAPITALIZATION

As of the examination date, December 31, 2012, the Company's total capital and surplus was $41,933,330, consisting of 5,000 shares of issued and outstanding common stock with no par value amounting to $2,150,000; $26,875,000 in paid in and contributed surplus; and $12,908,330 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 $2,150,000 in capital and $1,075,000 in surplus. The Company has met all governing requirements throughout the examination period.

On May 7, 2010 and September 23, 2010, the Company received $5,000,000 and $10,500,000 respectively, in additional paid in and contributed surplus from the Trust.

STOCKHOLDER

The Pennsylvania School Boards Association Insurance Trust owns and controls 100% of the Company's voting stock.

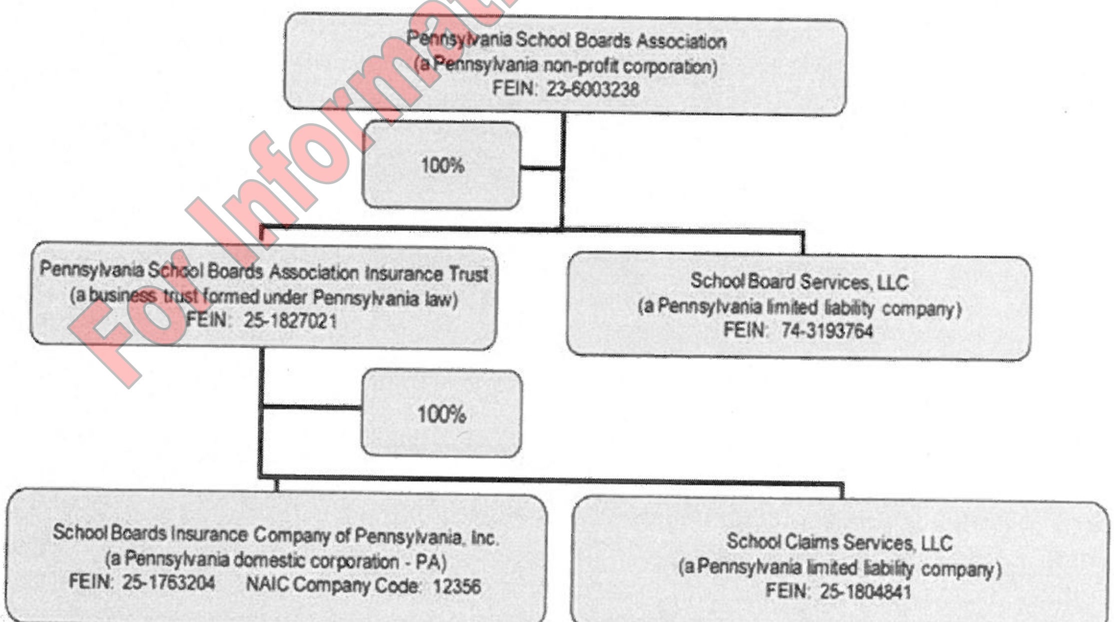
During the examination period the Company's Board of Directors authorized the payment of the following dividends to its stockholder:

April 15, 2008	$1,520,000
May 15, 2008	760,000
June 16, 2008	760,000
July 15, 2008	760,000
Total	$3,800,000

The dividend payments represented extraordinary dividends, pursuant to 40 P.S.§ 991.1405(b). Prior notification was provided to the Department, and the Department approved the extraordinary dividends on April 1, 2008.

INSURANCE HOLDING COMPANY SYSTEM

The Company met 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 appropriate Holding Company System Annual Registration Statement Form for all years during the current examination period. The Pennsylvania School Boards Association is named as the ultimate controlling person in the system. An organizational chart of the holding company system at December 31, 2012 is included below.



Pennsylvania School Boards Association

The Pennsylvania School Boards Association is a nonprofit statewide association of public school boards, pledged to the highest ideals of leadership for the public schools of the Commonwealth of Pennsylvania. Founded in 1895, PSBA is the first school boards association that was established in the United States. Pennsylvania's 4,500 school directors become members by virtue of election to their local board through the school district's membership in PSBA. Membership in PSBA is by school district or other eligible local education agency such as intermediate unit, vocational school, or community college. Over the past several decades, voluntary membership by local school entities has been virtually 100%.

Pennsylvania School Boards Association Insurance Trust

In 1971, PSBA formed a common law trust known as the Pennsylvania School Boards Association Insurance Trust. The Trust provided risk management and other services to PSBA members and endorsed insurance products provided by various insurers and designed specifically for schools. In 2011, the Trust was converted to a business trust.

School Claims Services, LLC

School Claims Services, LLC, ("SCS") was chartered in February 1998 and began official business operations in May 1998. The company provides third-party claims administration services to the various programs operated through the Trust. In addition, SCS provides other insurance and risk management services to the school boards participating in the Trust, including loss control services and employee benefits consulting and marketing.

School Board Services, LLC

School Board Services, LLC ("SBS") is a limited liability company created to provide personnel services to other PSBA entities.

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, 2012:

Name and Address	Principal Occupation	Year Elected	Resignation Date
Ronald Chronister Mechanicsburg, PA	Insurance Industry Consultant	2011	N/A
Marcela Diaz-Myers Hummelstown, PA	Policy Specialist for PA Dept. of Health	2012	N/A
Robert Dolan Elizabethtown, PA	Consultant for Conrad Siegal Actuaries	2012	N/A
George Grode Camp Hill, PA	Consultant/Arbitrator	2011	N/A
Roy Jacobs III Mechanicsburg, PA	President of SBIC	2010	N/A

Name and Address	Principal Occupation	Year Elected	Resignation Date
Robert Lumley-Sapanski Bellefonte, PA	Facilities and Safety Coordinator	2011	N/A
Marianne Neel Pittsburgh, PA	Registered Nurse	2011	12/31/2012
Robert Peretti Wellesley Hills, MA	Retired	2006	12/31/2012
Richard Wampler Harrisburg, PA	Retired CPA	2011	N/A
Stephen Zarlinski Brockway, PA	Retired	2006	N/A

The following members were elected with terms effective in 2013:

Replacement in 2013	Principal Occupation	Date Elected
David DelBiondo Harrisburg, PA	Independent Consultant	1/1/2013
Richard Frerichs Millersville, PA	Retired University Professor	1/1/2013
Nathan Gregory Mains Mechanicsburg, PA	Executive Director of Pennsylvania School Boards Association	9/10/2013

In accordance with the Company's By-laws, the Executive Director of the Pennsylvania School Boards Association and the President of the Company are members of the Board by virtue of their positions. The remaining directors are elected to three-year terms; their initial appointments were to one, two or three-year terms in order to create staggered term expirations.

CONFLICT OF INTERESTS

During the examination period, the Company had a conflict of interest policy that applied to all employees, officers, and directors. At the time of hire, an acknowledgement was executed specifying that the conflict of interest policy was received and read. Directors and employees were expected to approach management with any conflict of interest that may arise. Employee reports of conflicts or potential conflicts were required to be made to the Company President or outside General Counsel. Directors reported any conflict of interest or potential conflicts to the Board of Directors. Waivers of conflicts or potential conflicts reported under the policy were made only by a majority of the members of the Executive Committee of the Board who were disinterested in the issue presented. During the examination period there were no significant conflict of interest noted.

On September 10, 2013, the Board approved an update to the conflict of interest policy. The updated policy requires each Board member to submit a conflict of interest disclosure form at the time of initial appointment and submit an updated form annually while serving on the Board of any of the related entities in the PSBA Insurance Company Holding System.

COMMITTEES

The Board of Directors appoints Committees composed of Board members in accordance with the By-laws of the Company. The Committees have written charters and act in accordance with their charters and the By-laws. Minutes of the Committee meetings are maintained as corporate records.

As of the examination date, December 31, 2012, the Directors and/or Officers were assigned to serve on the following Committees as listed below:

Audit Committee:
- Ronald Chronister
- Robert Dolan
- Robert L. Peretti
- Richard Wampler

Nominating and Compensation Committee:
- George Grode
- Robert L. Peretti
- Stephen Zarlinski

Investment Committee:
- Robert Dolan
- George F. Grode
- Robert Lumley-Sapanski
- Stephen Zarlinski

Executive Committee:
- George F. Grode
- Roy E. Jacobs, III
- Robert L. Peretti
- Richard D. Wampler

40 P.S.§ 991.1405(c)(3) Standards of management of an insurer within a holding company system, states: "not less than one-third of the directors of a domestic insurer and not less than one-third of the members of each committee of the board of directors of any domestic insurer shall be persons who are not officers or employees of such insurer or of any entity controlling, controlled by or under common control with such insurer and who are not beneficial owners of a controlling interest in the voting stock of such insurer of any such entity. At least one such person must be included in any quorum for the transaction of business at any meeting of the board of directors or any committee thereof."

40 P.S. § 991.1405(c)(4), Standards of management of an insurer within a holding company system states: "the board of directors of a domestic insurer shall establish one or more committees comprised solely of directors who are not officers or employees of the insurer or of any entity controlling, controlled by or under common control with the insurer and who are not beneficial owners of a controlling interest in the voting stock of the insurer or any such entity. The committee or committees shall have the responsibility for recommending the selection of

independent certified public accountants, reviewing the insurer's financial condition, the scope and results of the independent audit and any internal audit, nominating candidates for director for election by shareholders or policyholders, evaluating the performance of officers deemed to be principal officers of the insurer and recommending to the board of directors the selection and compensation of the principal officers."

40 P.S. § 991.1405 (c)(4.1) Standards and management of an insurer within a holding company system, states: "the board of directors of a domestic insurer shall establish one or more committees comprised solely of directors who are not officers or employees of the insurer or of any entity controlling, controlled by or under common control with the insurer. The committee or committees shall have responsibility for recommending candidates to be nominated by the board of directors, in addition to any other nominations by voting shareholders or policyholders, for election as directors by voting shareholders or policyholders, evaluating the performance of officers deemed to be principal officers of the insurer and recommending to the board of directors the selection and compensation of the principal officers."

The Company has board and committee membership that meets the necessary independence requirements and has established independent committees to perform the required functions as set forth in the preceding three paragraphs.

OFFICERS

As of the examination date, December 31, 2012, the following officers were appointed and serving in accordance with the Company's By-laws:

Name	Title
Roy Elmer Jacobs, III	President
Sheryl Marie Simmons	Treasurer
Roy Elmer Jacobs, III	Secretary

CORPORATE RECORDS

MINUTES

A 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 its By-laws.
- The stockholder ratified the prior year's actions of the officers and directors, by approving the minutes of the SBIC Board meetings at each Annual Meeting.
- Quorums were present at all directors' meetings.
- The Company's investment and reinsurance transactions are approved regularly by the Board.

- All directors attend Board meetings regularly.

ARTICLES OF INCORPORATION

No changes were made to the Company's Articles of Incorporation during the examination period.

BY-LAWS

At the Board of Directors meeting held September 19, 2011, the Board amended the By-laws of the Company to make minor revisions to conform to revisions made to the Board Committee Charters. At the November 11, 2011 meeting, the Board amended the Company's By-laws to make revisions to its indemnification provisions.

SERVICE AND OPERATING AGREEMENTS

Investment Advisor Agreements

During the current examination period, the Company has been using the following investment advisors to help manage its investment portfolio:

1. Conning Asset Management Company
2. Wilmington Trust Investment Advisors, Inc.

The advisors' fees are based upon a percentage (basis points) of the value of the portfolio under management, subject to a minimum annual fee. Each agreement remains in effect until terminated upon written notice by either party.

Intercompany Agreements with Affiliates

Administrative Services Agreement

Effective January 1, 2009, the Company and the Trust entered into an Administrative Services Agreement. Pursuant to this agreement, the Trust provides office space and various services to the Company, such as administrative and management services, premium billing and collection, policy management, underwriting and policyholder services. For provision of the services the Company pays the Trust an agreed upon annual fee in equal monthly installments. The agreement was amended January 1, 2010, 2011, 2012 and 2013 solely for the purpose of adjusting the compensation payable to the Trust for the subsequent calendar year.

Claims Administration Agreement

On July 1, 2008 the Company entered into a Claims Administration Agreement with SCS. Under this agreement SCS provides certain claims investigation, adjustment and other services for each claim submitted under any applicable insurance policy issued by SBIC. SCS is compensated on a per claim basis for its services. The agreement was amended effective July 1, 2009 and January 1, 2011, solely for the purpose of adjusting the per claim adjustment fees.

Loss Control Services Agreement

The Company also has a Loss Control Services Agreement with SCS, under which SCS provides certain loss control services to the Company's property and casualty and workers' compensation policyholders, and to policyholders of other coverages offered by SBIC, if requested by SBIC. This agreement was effective July 1, 2008. SCS is paid an annual fee for all such services provided related to property and casualty and workers' compensation policies, and a negotiated fee not to exceed 5% of the written premium for services provided on any other policy. The agreement was amended effective July 1, 2009 solely for the purpose of adjusting the annual fee.

Expense Allocation Agreement

Effective January 1, 2009, the Company and the Trust entered into an Expense Allocation Agreement. Pursuant to this agreement, any costs, charges, fees and expenses for professional, technical, advisory or other services that are incurred by, for or on behalf of one or more party to the Agreement are allocated between the Company and the Trust. Shared expenses are to be allocated to each party in a manner reasonably reflective of the benefit to or value received by each party relative to such shared expense.

License and Royalty Agreement

Effective January 3, 2006, the Company entered into a License and Royalty Agreement with PSBA and the Trust. Under this Agreement the Company pays an annual fee to PSBA in monthly installments, for identified marketing and other services, such as the use of PSBA's and the Trust's logo, and the endorsement of SBIC by the Trust.

The above intercompany agreements meet the fair and reasonable standards of 40 P.S.§ 991.1405(a)(1).

REINSURANCE

Summary of Reinsurance Programs in Place during Examination Period

Workers' Compensation Reinsurance

During July 1, 2007 to June 30, 2008, the workers' compensation line of business was written by SBIC through a fronting arrangement with Old Republic Insurance Company ("ORIC"). SBIC assumed the first $750,000 per occurrence from ORIC. ORIC is responsible for the losses on the limits not assumed by SBIC.

For the program years from July 1, 2008 through June 30, 2012, the workers' compensation line of business was written by SBIC on a direct basis. SBIC entered into an excess of loss reinsurance agreement with Safety National Casualty Corporation ("Safety National"). SBIC's basic retention per occurrence under this ceded reinsurance agreement was $750,000 and SBIC ceded $14,250,000 excess of $750,000 to Safety National.

Effective July 1, 2012, due to the A.M. Best downgrades discussed further under "Territory and Plan of Operation" section of this report, SBIC began again to write workers' compensation coverage through a fronting arrangement with ORIC. During the period July 1, 2012 to June 30, 2014, SBIC assumed from ORIC the first $5 million in limits. During July 1, 2012 to June 30, 2013, SBIC retroceded $4 million excess of $1 million limit to Safety National. During the period July 1, 2013 to June 30, 2014, SBIC retroceded $1 million excess of $1 million to Maiden Reinsurance Company and $3 million excess of $2 million to Safety National.

School Leaders Liability Reinsurance

Prior to the July 1, 2012 program year, the School Leaders Liability ("SLL") product was written by SBIC on a direct basis. SBIC had reinsurance agreements in place with General Reinsurance ("GR") through June 30, 2012 for excess of loss coverage. SBIC's basic retention per occurrence under this ceded reinsurance agreement was $250,000 plus 10% of the next $750,000 excess of $250,000. SBIC ceded 90% of $750,000 excess of $250,000 and 100% of $4,000,000 excess of $1,000,000 to GR.

Beginning with policies effective on or after July 1, 2012, SBIC writes SLL coverage through a fronting arrangement with ORIC. SBIC assumes from ORIC the first $250,000 plus 10% of the next $750,000 in excess of $250,000. ORIC is responsible for the losses on the limits not assumed by SBIC.

Property & Casualty Reinsurance

During the 2008 to 2012 program years, the property and casualty products were written by SBIC through fronting arrangements with Insurance Company of North America, Indemnity Insurance Company of North America, or other affiliates in the ACE Insurance Group (collectively "ACE"). From July 1, 2007 through June 30, 2009, SBIC assumed $475,000 excess of $25,000 each occurrence per location on the Property portion, $500,000 each occurrence on the General Liability portion, $500,000 each occurrence on the Auto Liability portion, 100% loss on the Automobile Physical Damage portion, and the amount equal to the Company's Liability divided by the Ultimate Net Loss on Allocated Claims Expenses. From the program years of July 1, 2009 to June 30, 2013, SBIC assumed $975,000 excess of $25,000 each occurrence per location on the Property portion and assumed the same level as in the prior program years on General Liability, Auto Liability and Auto Physical Damage. During July 1, 2013 to June 30, 2014, SBIC assumed $475,000 excess over $25,000 each occurrence per location on the Property portion and assumed the same level on the other coverages as in prior years.

Also, during the 2007 to 2014 program years, an ORIC policy was issued to cover $25,000 deductible on property portion of the ACE policy. However, during July 1, 2012 to June 30, 2014, SBIC assumes 100% of policy deductibles up to $25,000 from ORIC.

During July 1, 2012 to June 30, 2013, SBIC retroceded to Maxum Indemnity Company ("Maxum") $500,000 excess of $500,000 of the combination assumed Property Deductible Buy Down and assumed Property limits, plus a pro-rata share of expenses. SBIC's aggregate stop loss retention of $2,000,000 applies to certain catastrophic perils, after which Maxum will pay the $975,000 excess of $25,000 per insured/per occurrence. There is an annual aggregate of $5,000,000 for all losses under the policy.

During July 1, 2013 to June 30, 2014, SBIC retains $500,000 of the combination assumed Property Deductible Buy Down and assumed Property limits, plus a pro-rata share of expenses, per insured/per occurrence. SBIC has a $2,000,000 aggregate retention for catastrophic Specified Named Perils, after which Maxum will pay $475,000 excess of $25,000 per insured/per occurrence, with an annual aggregate of $5,000,000 for all losses.

Ceded Reinsurance Contracts in Place as of December 31, 2012

Safety National Casualty Corporation

The Company entered into an excess of loss reinsurance contract with Safety National with an effective date of July 1, 2012. The term of the contract was for one year and the Company renewed for one year after the initial period, under slightly different terms. The agreement meets transfer of risk test and contains appropriate insolvency clause and arbitration clause.

The Company's retention and the reinsurance limits are as follows:

Company's Retention	Reinsurance Limits	Type of Business Covered
$1,000,000 per accident	$4,000,000 excess of SBIC's retention of $1,000,000 (per accident).	Workers' Compensation Insurance

Maxum Indemnity Company

The Company entered into an excess of loss reinsurance contract with Maxum Indemnity Company ("Maxum") with an effective date of July 1, 2012. The term of the contract was for one year and the Company renewed for one year after the initial term. The agreement meets transfer of risk test but does not contain appropriate insolvency clause or arbitration clause.

Statement on Statutory Accounting Principle No. 62 ("SSAP 62") states that no credit or reduction for liability will be allowed by the ceding entity for reinsurance recoverable unless the agreement contains an acceptable insolvency clause. An insolvency clause states that the reinsurance due under the applicable agreement is payable by the Reinsurer directly to the Reinsured, or its liquidator, receiver, conservator or statutory successor on the basis of the liability of the Reinsured without diminution because of the insolvency of the Reinsured. As a result, the Company should not have taken credit or reduction from its liabilities totaling $1.5 million as of December 31, 2012.

After bringing this to the Company's attention, the reinsurance agreement with Maxum was amended effective July 1, 2014 to add the appropriate insolvency and arbitration clauses. As a result, no adjustment was made to the Company's financial statements as part of this examination.

The Company's retention and the reinsurance limits are as follows:

Company's Retention	Reinsurance Limits	Type of Business Covered
$500,000	a). $500,000 excess of SBIC's retention of $500,000 per occurrence all perils except b). $975,000 excess of $25,000 per school district CAT Peril drop down after exhaustion of the SBIC CAT aggregate retention of $2 million from CAT Perils. c). $5 million annual aggregate all perils.	Property Deductible Buy Back

The Company's reinsurance intermediary, Willis Re, Inc., is licensed by the Department as required by 40 P.S. § 321.2(a). Willis has properly executed written authorizations between the Company and Willis in accordance with 40 P.S. § 321.3. As of the date of this examination report, all reinsurance contracts were determined to have proper insolvency and entire agreement clauses as required by SSAP No. 62R, paragraph 8a and 8c and 40 P.S. 443(a)(2).

Assumed Reinsurance Contracts in Place as of December 31, 2012

Insurance Company of North America, Indemnity Insurance Company of North America, or their affiliates (collectively "ACE")

School Boards Insurance Company, Ltd. entered into a reinsurance contract with ACE effective July 1, 1982, which was amended and restated effective July 1, 2001. It renews annually unless terminated by both parties with 90 days written notice. This contract, as subsequently amended, was assigned to the Company effective April 1, 2006 concurrently with the merger of SBIC Ltd. into the Company. There are total of seven amendments and the most recent one was effective March 28, 2011. The agreement meets transfer of risk test and contains appropriate insolvency clause and arbitration clause.

The business assumed by the Company is as follows:

For any program year (July 1 through June 30), Aggregate Limit of the following types of business covered, except Automobile Physical Damage Insurance and Allocated Claims Expenses, equal to the Reinsurance Premium multiplied by 110% plus $550,000.

Company Assumes	Reinsurance Limit	Type of Business Covered
First $975,000 in excess of $25,000, each occurrence per location.	Up to and include the first $975,000 in excess of $25,000, each occurrence per location.	Property and/or Inland Marine
First $500,000, each occurrence.	Up to and include the first $500,000, each occurrence.	Legal Liability Insurance Products Liability and/or Completed Operations Liability Automobile Liability Statutory No Fault Liability Insurance Comprehensive Crime and/or Money and Securities
100%	Up to and include 100% of all incurred losses.	Automobile Physical Damage
Proportionate share equal to Company's Liability divided by the Ultimate Net Loss.	None.	Allocated Claims Expenses

Old Republic Insurance Company ("ORIC")

The Company entered into a reinsurance contract with ORIC effective July 1, 2012, and in effect until all claims arising under the Reinsured Policies and their renewals have been fully paid. The agreement meets transfer of risk test and contains appropriate insolvency clause and arbitration clause.

The reinsurance assumed by the Company is as follows:

Company Assumes	Reinsurance Limit	Type of Business Covered
Coverage A: SBIC assumes from ORIC the first $5 million per occurrence; however SBIC retrocedes the $4 million X $1 million limits to Safety National.	$5,000,000 loss per occurrence	Workers' Compensation
Coverage B: Up to $2,000,000 body injury by accident: $2,000,000 body injury by disease each employee: $2,000,000 body injury by Disease Policy Limit	100% of Coverage B limit.	Employer's Liability
SBIC assumes from ORIC the first $250,000 plus 10% of the next $750,000 excesses of $250,000 each occurrence. ORIC is responsible for the reinsurance on the limits not assumed by SBIC.	First $250,000 plus 10% of the next $750,000 excesses of $250,000 each occurrence.	School Leaders Liability
SBIC assumes 100% of policy deductibles ranging from $2,500 to $20,000. A small number of insureds opt for no "property Deductible" policy and are exposed to the full $25,000 property deductible.	Up to $25,000 per occurrence.	Property Deductible Buy Down
SBIC assumes 10% of first $15,000,000 each occurrence.	10% of first $15,000,000 each occurrence.	Education Excess Liability Umbrella

TERRITORY AND PLAN OF OPERATION

The Company is licensed only in Pennsylvania.

The Company offers property, liability, and workers' compensation insurance to Pennsylvania school districts. Prior to July 1, 2006, all coverages were written through fronting arrangements with highly-rated domestic insurers. Beginning on July 1, 2006, the Company wrote legal liability insurance for school boards and management under its School Leaders Legal Liability program on a direct basis. Beginning July 1, 2008 the Company began to write the Workers' Compensation and Property Deductible Buy-Down coverage on a direct basis as well. Other coverages continued to be written through fronting arrangements.

Due to a downgrade in its A.M. Best rating at the beginning of 2012 to below "A", and the Company's desire to continue to offer its insureds "A-" rated paper, SBIC returned to writing all coverages it offers through fronting arrangements effective July 1, 2012.

Beginning on January 1, 2007, the Company issued an unemployment compensation insurance policy to the Trust to cover unemployment compensation claims for eligible employees from school districts participating in the Better Unemployment Compensation System Program ("BUCS"). This policy was cancelled by the Company in 2011.

All policies are written through independent insurance agents and brokers.

For the year ended December 31, 2012 the Company's written premium was distributed by product as follows:

Line of Business	Direct and Assumed Premium	Ceded Premium	Net Written Premium	Percentage of Total
December 31, 2012				
Commercial multiple peril	$ 18,286,713	$ 621,763	$ 17,664,950	30.7%
Workers' compensation	27,464,514	807,708	26,656,806	46.4%
Other liability - occurrence	591,280	0	591,280	1.0%
Other liability - claims-made	7,194,593	35,379	7,159,214	12.5%
Commercial auto liability	4,319,870	0	4,319,870	7.5%
Auto physical damage	1,089,084	0	1,089,084	1.9%
Totals	$ 58,946,054	$ 1,464,850	$ 57,481,204	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	$ 337,234,522	100.0 %
Losses incurred	$ 222,006,578	65.8 %
Loss expenses incurred	69,447,768	20.6 %
Other underwriting expenses incurred	107,162,053	31.8 %
Aggregate write-ins for underwriting deductions	630,000	0.2 %
Net underwriting gain or (loss)	(62,011,877)	(18.4)%
Totals	$ 337,234,522	100.0 %

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

	2012	2011	2010	2009	2008
Admitted assets	$ 200,471,686	$ 200,053,039	$ 211,566,124	$ 211,350,189	$ 212,281,373
Liabilities	$ 158,538,356	$ 160,695,805	$ 153,594,788	$ 159,907,351	$ 155,704,732
Surplus as regards policyholders	$ 41,933,330	$ 39,357,234	$ 57,971,336	$ 51,442,838	$ 56,576,641
Gross premium written	$ 58,946,054	$ 60,195,247	$ 61,442,133	$ 72,269,801	$ 81,943,483
Net premium written	$ 57,481,204	$ 56,676,802	$ 59,446,010	$ 69,742,185	$ 79,213,640
Underwriting gain/(loss)	$ (8,905,958)	$ (24,995,382)	$ (15,229,051)	$ (11,698,194)	$ (1,183,292)
Investment gain/(loss)	$ 9,545,809	$ 6,149,398	$ 7,023,393	$ 6,413,909	$ 6,612,565
Other gain/(loss)	$ 664,986	$ 199,753	$ 0	$ 2	$ 1,422,924
Net income/(loss)	$ 1,304,837	$ (18,646,231)	$ (8,205,658)	$ (5,284,283)	$ 6,852,197

As illustrated above, during 2009, 2010 and 2011, the Company incurred net losses aggregating in excess of $32 million. These losses were a result of adverse reserve development and related reserve increases primarily in the workers' compensation and school leaders liability lines of business. In reaction to the losses the Company took the following actions:

- Increased rates and tightened underwriting standards. This, coupled with the soft market, resulted in a loss of business and a related decrease in net premium written from 2008 to 2010. However, much of the lost business was poorer performing accounts.
- Directed its claims processing affiliate to conduct a review of all open workers' compensation and school leaders liability claims. These reviews disclosed a pattern of under-reserving on certain of these claims. Reserves were strengthened accordingly.
- Hired an independent consultant to review its workers' compensation claims handling practices and procedures to identify and assist in implementing best practices. The consultant also trained the claims staff in the new procedures that were implemented.

Additionally, in 2010 the Company's parent contributed additional capital totaling $15.5 million.

ACCOUNTS AND RECORDS

The Company's accounting, investment, and policy records are kept and were made available at the Company's home office. Claim records are maintained at the offices of its affiliate, SCS.

The Company utilizes a combination of systems to process its business. Policy management is processed with the CAPS application that runs on an IBM AS400 and the Phoenix application that is on a Windows 2003 Server. General Ledger and accounting transactions are recorded using SunGard's EAS Accounting application.

PENDING LITIGATION

The Company's management has represented that it had no pending litigation as of March 25, 2015 that would have a material effect on its financial condition.

FINANCIAL STATEMENTS

The financial condition of the Company, as of December 31, 2012, and the results of its operations for the 5-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,

	2012	2011	2010	2009	2008
Bonds	$ 168,545,203	$ 174,652,564	$ 177,228,067	$ 166,466,211	$ 146,551,136
Cash, cash equivalents, and short term investments	18,602,788	13,949,725	22,783,794	31,731,724	48,819,666
Receivable for securities	0	0	100,000	0	0
Subtotals, cash and invested assets	187,147,991	188,602,289	200,111,861	198,197,935	195,370,802
Investment income due and accrued	1,015,919	1,658,808	1,905,281	1,915,146	1,565,220
Premiums and agents' balances due	8,707,207	9,702,964	9,385,009	11,161,386	15,046,381
Amounts recoverable from reinsurers	216,055	54,778	0	(1)	176,989
Funds held by or deposited with reinsured companies	2,414,384	0	0	0	0
Aggregate write-ins for other than invested assets	970,130	34,200	163,973	75,723	121,981
Total	$ 200,471,686	$ 200,053,039	$ 211,566,124	$ 211,350,189	$ 212,281,373
Losses	$ 92,485,502	$ 94,830,952	$ 86,751,600	$ 86,481,607	$ 80,241,782
Reinsurance payable on paid loss and loss adjustment expenses	2,392,348	2,193,770	2,289,691	3,090,047	3,063,105
Loss adjustment expenses	32,208,100	32,651,497	31,752,582	31,594,795	29,166,281
Commissions payable, contingent commissions and other similar charges	0	0	121,514	0	0
Other expenses	834,466	570,024	498,193	684,954	427,033
Taxes, licenses and fees	248,637	204,459	150,000	437,895	1,429,641
Unearned premiums	28,746,243	27,587,537	28,880,881	34,236,478	38,921,991
Ceded reinsurance premiums payable (net of ceding commissions)	202,750	243,236	262,891	342,550	348,694
Amounts withheld or retained by company for account of others	866,045	847,153	1,994,175	1,774,285	986,683
Payable to parent, subsidiaries and affiliates	554,265	1,567,177	893,261	586,501	1,119,522
Aggregate write-ins for liabilities	0	0	0	678,239	0
Total liabilities	158,538,356	160,695,805	153,594,788	159,907,351	155,704,732
Common capital stock	2,150,000	2,150,000	2,150,000	2,150,000	2,150,000
Gross paid in and contributed surplus	26,875,000	26,875,000	26,875,000	11,375,000	11,375,000
Unassigned funds (surplus)	12,908,330	10,332,234	28,946,336	37,917,838	43,051,641
Surplus as regards policyholders	41,933,330	39,357,234	57,971,336	51,442,838	56,576,641
Totals	$ 200,471,686	$ 200,053,039	$ 211,566,124	$ 211,350,189	$ 212,281,373

Comparative Statement of Income
For the Year Ended December 31,

Underwriting Income	2012	2011	2010	2009	2008
Premiums earned	$ 56,322,498	$ 57,970,147	$ 64,112,229	$ 74,427,697	$ 84,401,951
Deductions:					
Losses incurred	34,205,722	50,224,313	46,580,627	47,739,709	43,256,207
Loss expenses incurred	9,035,105	12,843,038	12,967,513	15,553,663	19,048,449
Other underwriting expenses incurred	21,987,629	19,898,178	19,841,379	22,154,280	23,280,587
Aggregate write-ins for underwriting deductions	0	0	(48,239)	678,239	0
Total underwriting deductions	65,228,456	82,965,529	79,341,280	86,125,891	85,585,243
Net income of protected cells	0	0	0	0	0
Net underwriting gain or (loss)	(8,905,958)	(24,995,382)	(15,229,051)	(11,698,194)	(1,183,292)
Investment Income					
Net investment income earned	5,227,448	5,777,200	6,404,368	6,565,341	7,108,969
Net realized capital gains or (losses)	4,318,361	372,198	619,025	(151,432)	(496,404)
Net investment gain or (loss)	9,545,809	6,149,398	7,023,393	6,413,909	6,612,565
Other Income					
Net gain or (loss) from agents' or premium balances charged off	0	199,753	0	2	0
Finance and service charges not included in premiums	0	0	0	0	0
Aggregate write-ins for miscellaneous income	664,986	0	0	0	1,422,924
Total other income	664,986	199,753	0	2	1,422,924
Net income before dividends to policyholders and before federal and foreign income taxes	1,304,837	(18,646,231)	(8,205,658)	(5,284,283)	6,852,197
Dividends to policyholders	0	0	0	0	0
Federal and foreign income taxes incurred	0	0	0	0	0
Net income	$ 1,304,837	$ (18,646,231)	$ (8,205,658)	$ (5,284,283)	$ 6,852,197

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

	2012	2011	2010	2009	2008
Surplus as regards policyholders,					
December 31, previous year	$ 39,357,233	$ 57,971,333	$ 51,442,838	$ 56,576,641	$ 53,771,162
Net income	1,304,837	(18,646,231)	(8,205,658)	(5,284,283)	6,852,197
Net unrealized capital gains or (losses)	0	0	(1)	0	0
Change in nonadmitted assets	1,271,252	32,131	(76,465)	150,480	(246,718)
Surplus adjustments:					
Paid in	0	0	15,500,000	0	0
Dividends to stockholders	0	0	0	0	(3,800,000)
Aggregate write-ins for gains and losses in surplus	0	0	(689,381)	0	0
Change in surplus as regards policyholder for the year	2,576,089	(18,614,100)	6,528,495	(5,133,803)	2,805,479
Surplus as regards policyholders,					
December 31, current year	$ 41,933,322	$ 39,357,233	$ 57,971,333	$ 51,442,838	$ 56,576,641

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

	2012	2011	2010	2009	2008
Cash from Operations					
Premiums collected net of reinsurance	$ 58,472,922	$ 56,297,930	$ 59,829,590	$ 73,733,897	$ 94,211,874
Net investment income	6,175,598	6,697,821	6,802,910	6,405,687	7,411,047
Miscellaneous income	664,986	199,753	0	2	1,422,924
Total income	65,313,506	63,195,504	66,632,500	80,139,586	103,045,845
Benefit and loss related payments	36,513,872	42,295,660	47,110,991	41,295,952	52,530,424
Commissions, expenses paid and aggregate write-ins for deductions	31,156,900	31,833,889	32,962,928	36,598,363	34,743,170
Total deductions	67,670,772	74,129,549	80,073,919	77,894,315	87,273,594
Net cash from operations	(2,357,266)	(10,934,045)	(13,441,419)	2,245,271	15,772,251
Cash from Investments					
Proceeds from investments sold, matured or repaid:					
Bonds	79,643,109	52,369,163	53,128,373	42,626,317	44,160,506
Net gain or (loss) on cash and short-term investments	1,225	2,942	1,988	1,300	0
Miscellaneous proceeds	0	100,000	0	0	0
Total investment proceeds	79,644,334	52,472,105	53,130,361	42,627,617	44,160,506
Cost of investments acquired (long-term only):					
Bonds	69,524,474	50,102,193	63,654,954	62,977,485	50,301,987
Miscellaneous applications	0	0	100,000	0	0
Total investments acquired	69,524,474	50,102,193	63,754,954	62,977,485	50,301,987
Net cash from investments	10,119,860	2,369,912	(10,624,593)	(20,349,868)	(6,141,481)
Cash from Financing and Miscellaneous Services					
Other cash provided (applied):					
Capital and paid in surplus, less treasury stock	0	0	15,500,000	0	0
Dividends to stockholders (paid)	0	0	0	0	5,320,000
Other cash provided or (applied)	(3,109,531)	(269,939)	(381,918)	1,016,655	944,117
Net cash from financing and miscellaneous sources	(3,109,531)	(269,939)	15,118,082	1,016,655	(4,375,883)
Reconciliation of cash and short-term investments:					
Net change in cash and short-term investments	4,653,063	(8,834,072)	(8,947,930)	(17,087,942)	5,254,887
Cash and short-term investments:					
Beginning of the year	13,949,723	22,783,795	31,731,725	48,819,667	43,564,780
End of the year	$ 18,602,786	$ 13,949,723	$ 22,783,795	$ 31,731,725	$ 48,819,667

SUMMARY OF EXAMINATION CHANGES

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

NOTES TO FINANCIAL STATEMENTS

INVESTMENTS

As of December 31, 2012, the Company's invested assets were distributed as follows:

	Amount	Percentage
Bonds	$ 168,545,203	90.0 %
Cash	(582,065)	(0.3)%
Cash equivalents	3,855,581	2.1 %
Short-term investments	15,329,272	8.2 %
Totals	$ 187,147,991	100.0 %

The Company's bonds, short-term investments, and cash equivalents had the following quality and maturity profiles:

NAIC Designation	Amount	Percentage
1 - highest quality	$ 187,147,991	100.0 %
Totals	$ 187,147,991	100.0 %

Years to Maturity	Amount	Percentage
1 year or less	$ 52,604,812	28.1 %
2 to 5 years	110,640,537	59.1 %
6 to 10 years	22,331,049	12.0 %
11 to 20 years	1,506,922	0.8 %
over 20 years	64,671	0.0 %
Totals	$ 187,147,991	100.0 %

As shown above, as of December 31, 2012, all of the Company's investments were fixed income securities carrying the highest quality rating. Conning Asset Management Company and Wilmington Trust Investment Advisors, Inc. manage the investment accounts and advise the Company regarding investments. The Company has also engaged The Consulting Group ("Smith Barney") to conduct research and evaluate investment objectives and policies and to evaluate investment performance.

The Company's investments are held pursuant to custodial agreements executed with Comerica Bank and Trust effective April 3, 2006 and M&T Bank effective October 24, 2008. The agreements were found to be in compliance with 31 Pa. Code § 148a.3.

The Company has a written investment policy as required by 40 P.S. § 653b (b), and is following this policy relative to the maintenance of its investment portfolio and asset allocations. The policy is reviewed and approved on an annual basis by the Board of Directors.

LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES

The Company reported reserves in the amount of $92,485,502 for losses and $32,208,100 for loss adjustment expenses on the December 31, 2012 Annual Statement.

Ronald T. Kuehn, FCAS, MAAA of Huggins Actuarial Services, Inc. was appointed by the Company's Board of Directors to provide the Statement of Actuarial Opinion ("Opinion") on October 15, 2007, and has remained the Company's appointed actuary for all years during the examination period. For each year in the examination period, Mr. Kuehn issued an Opinion concluding that the Company's reserves make a reasonable provision for all unpaid loss and loss adjustment expense obligations of the Company.

In order for the examination team to gain an adequate comfort level with the Company's loss and loss adjustment expense reserves, the Department retained the actuarial services of Merlinos & Associates, Inc. ("Merlinos") through Invotex, Inc. Merlinos' scope of work included a risk-focused review of the Company's reserve processes and estimates as well as pricing activities. Certain risks within the pricing and reserving processes required Phase 5 substantive test work.

Based upon the procedures performed and results obtained, Merlinos obtained sufficient documentation to support that the Company's reported loss and loss adjustment reserve amounts are reasonably stated. The Department accepts Merlinos' conclusions and the Company's appointed actuary's opinion that the reserve amounts carried by the Company "make a reasonable provision in the aggregate for all unpaid loss and loss adjustment expense obligations of the Company under the terms of its contracts and agreements" as of December 31, 2012.

SUBSEQUENT EVENTS

In July 2014, the Company became aware of a reporting compliance issue that was brought to its attention by the Pennsylvania Compensation Rating Bureau (the "Bureau"). The issue related to the Company's failure to properly identify certain supersedeas fund recoveries, which resulted in incorrect reporting and untimely filing of loss correction reports with the Bureau, both by the Company and its fronting carrier. The Bureau is statutorily responsible for, among other things, the establishment of loss cost values and rating plans for workers' compensation for insurers writing workers' compensation insurance in Pennsylvania. When workers' compensation insurers first become aware of recoveries of amounts previously paid on behalf of their policyholder's injured employees (e.g., as a result of the claim subsequently being determined to be non-compensable, or the insurer recovers monies from a third party), they are required to file loss correction reports with the Bureau, to revise the claim amounts previously paid. The Bureau utilizes this information to revise the policyholders experience modifier, which is then provided to the insurer, in order for the insurer to calculate premium adjustments that may result in premium refunds or additional premium to policyholders.

Appropriate changes have been made by the Company to ensure proper reporting of all future supersedeas fund recoveries, as well as policies and procedures established by the Company to ensure the timely reporting of all correction reports to the Bureau and to its fronting carriers.

During the third and fourth quarters of 2014, the Company worked with the Bureau to bring the loss correction report filings up to date, and to calculate premium adjustments based upon the revised experience modifiers and, in January 2015, the Company processed premium refunds to the affected policyholders. In this regard, 262 corrections were processed which resulted in premium refunds on 131 policies to 62 individual policyholders totaling $442,889. The premium refunds resulted in a net reduction to the Company's statutory surplus totaling $401,878. The decrease to surplus and the related decrease to premiums written were recorded by the Company in its 2014 Annual Statement.

For the year ending December 31, 2013, the Company's gross premiums written decreased by 7.5% from 2012 levels, primarily due to continued aggressive rate competition in the Pennsylvania workers' compensation insurance market and the Company's continued pricing discipline. Premium written by the Company in the workers' compensation line alone decreased by 24%. Other lines written by the Company showed modest increases. Net income reported by the Company for the year ended December 31, 2013 was $222,000, compared to $1,304,837 for year-end 2012. For these same reasons, management expected premium volume and policy counts to continue to decrease into 2014, which were projected to result in a modest net loss for year-end 2014.

For the year ending December 31, 2014, the Company's gross premiums written decreased by 12.5% from 2012 levels, primarily due to continued aggressive rate competition in the Pennsylvania workers' compensation insurance market and the Company's continued pricing discipline. In this regard, premiums written by the Company in the workers' compensation line alone decreased by 35% from 2012 levels. The majority of other lines written by the Company showed modest increases over 2012 levels. Also, losses incurred decreased by 29.5% from 2012 levels, as reduced premium writings resulted in fewer exposures and reductions in incurred but not reported losses. Net income reported by the Company for the year ended December 31, 2014 was $3,977,150, compared to $1,304,837 in 2012. The Company reported surplus of $46,210,017 in its 2014 Annual Statement, which is an increase of $4,216,687 in surplus as compared to surplus reported in its 2012 Annual Statement.

RECOMMENDATIONS

PRIOR EXAMINATION

The prior examination report contained the following recommendation:

1. It is recommended that the Company's stockholder, as a good business practice, annually ratify the prior year's actions of the Company's officers and directors.

   The current examination disclosed that the Company took appropriate action to comply with this recommendation.

CURRENT EXAMINATION

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

CONCLUSION

As a result of this examination, the financial condition of School Boards Insurance Company of Pennsylvania, Inc., as of December 31, 2012, was determined to be as follows:

	Amount	Percentage
Admitted assets	$ 200,471,686	100.0 %
Liabilities	$ 158,538,356	79.1 %
Surplus as regards policyholders	41,933,330	20.9 %
Total liabilities and surplus	$ 200,471,686	100.0 %

Since the previous examination, made as of December 31, 2007, the Company's assets decreased by $15,364,540, its liabilities decreased by $3,526,708 and its surplus decreased by $11,837,832.

This examination was conducted by Emily Cheng, CPA, CFE, Jon Kelly, Junjie Pan, CPA, CFE and Lester C. Schott, CPA, CFE from Invotex, Inc., with the latter in charge.

Respectfully,

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

David R. Evans, CFE
Examination Manager

Lester C. Schott -cdd

Lester C. Schott, CPA, 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.