Examination Warrant Number 20-00313-33898-A1

Report of Examination of

Aegis Security Insurance Company
Harrisburg, Pennsylvania

As of December 31, 2020

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Harrisburg, Pennsylvania
May 27, 2022

Honorable Melissa L. Greiner
Deputy Insurance Commissioner
Commonwealth of Pennsylvania
Insurance Department
Harrisburg, Pennsylvania

Dear Madam:

In accordance with instructions contained in Examination Warrant Number 20-00313-33898-A1, dated December 16, 2020, an examination was made of

Aegis Security Insurance Company, NAIC Code: 33898

a Pennsylvania domiciled, multi-state property and casualty insurance company hereinafter referred to as the "Company." The examination was conducted at the Company's home office, located at 4507 North Front Street, Harrisburg, Pennsylvania.

A report of this examination is hereby respectfully submitted.

SCOPE OF EXAMINATION

The Pennsylvania Insurance Department ("Department") has performed an examination of the Company, which was last examined as of December 31, 2018. This examination covered the two-year period from January 1, 2019 through December 31, 2020.

Work programs employed in the performance of this examination were designed to comply with the standards promulgated by the 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 each year of the examination period, the certified public accounting firm of Johnson Lambert LLP ("CPA") provided an unmodified audit opinion on the Company's year-end financial statements based on statutory accounting principles. Relevant work performed by the CPA, 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	State of Domicile	NAIC Code
Seaview Insurance Company	California	10004

HISTORY

The Company was incorporated on May 25, 1977, licensed by the Department on August 4, 1977 and commenced business on the same date.

On May 15, 2019, the Company filed with the Department a Form A Exemption Request related to the restructuring of the holding company following the sale of K2 Insurance Services, LLC ("K2") and its distribution entities to an independent third party. As a result of the sale, Aegis Security, Inc. ("ASI") sent a dividend of 100% of the issued and outstanding stock of the Company to K2, which contributed this stock to ECFPK Insurance Holdings, LLC ("ECFPK"), a newly formed Delaware Limited Liability Company wholly owned by K2. To complete the transaction, K2 distributed 100% of the voting securities of ECFPK in the exact same proportion to the exact same unit holders of K2 that existed prior to the sale of K2. Upon completion of the transaction, ECFPK effectively took the place of K2 within the organizational structure following the sale of K2.

In November 2020, LD Investments LLC ("LD") filed a Form A Exemption Request to acquire additional ownership in the Company. LD Investments is owned by Patrick J. Kilkenny. At the time of filing, Patrick J. Kilkenny was an Ultimate Controlling Person ("UCP") of the Company through his 13.5% ownership. The filed request noted LD would acquire additional ownership consisting of all of Endeavor Capital V, LLC's ("Endeavor") current ownership as well as most of the minority members' interest; totaling 83.2%. Upon closing, Patrick J. Kilkenny would own 96.7% of the Company. The Department approved this Form A Exemption Request on January 9, 2021. See the "Subsequent Events" section of this examination report for more details on this transaction.

The Company is currently authorized to transact those classes of insurance described in 40 P.S. § 382, (b)(1) Property and Allied Lines, (b)(2) Inland Marine and 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, and (c)(13) Personal Property Floater.

MANAGEMENT AND CONTROL

CAPITALIZATION

As of December 31, 2020, the Company's total capital was $71,213,461, consisting of 3,000,000 capital shares of issued and outstanding common stock with a par value of $1.40 per share amounting to $4,200,000; $20,266,827 in paid in and contributed surplus; and $46,746,634 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 $1,500,000 in capital and $750,000 in surplus. The Company has met all governing requirements throughout the examination period.

STOCKHOLDER

All shares of the Company's stock are owned by its parent, ECFPK; which is wholly owned, as of December 31, 2020, by Endeavor Capital Fund V LP, Endeavour Associates Fund V LP, Patrick J. Kilkenny, and other individuals with less than 10% ownership. Subsequent to the examination date, the Company's direct parent changed through a holding company restructure; see the "History" and "Subsequent Events" sections of this examination report.

The Company paid no dividends over the course of this examination period.

INSURANCE HOLDING COMPANY SYSTEM

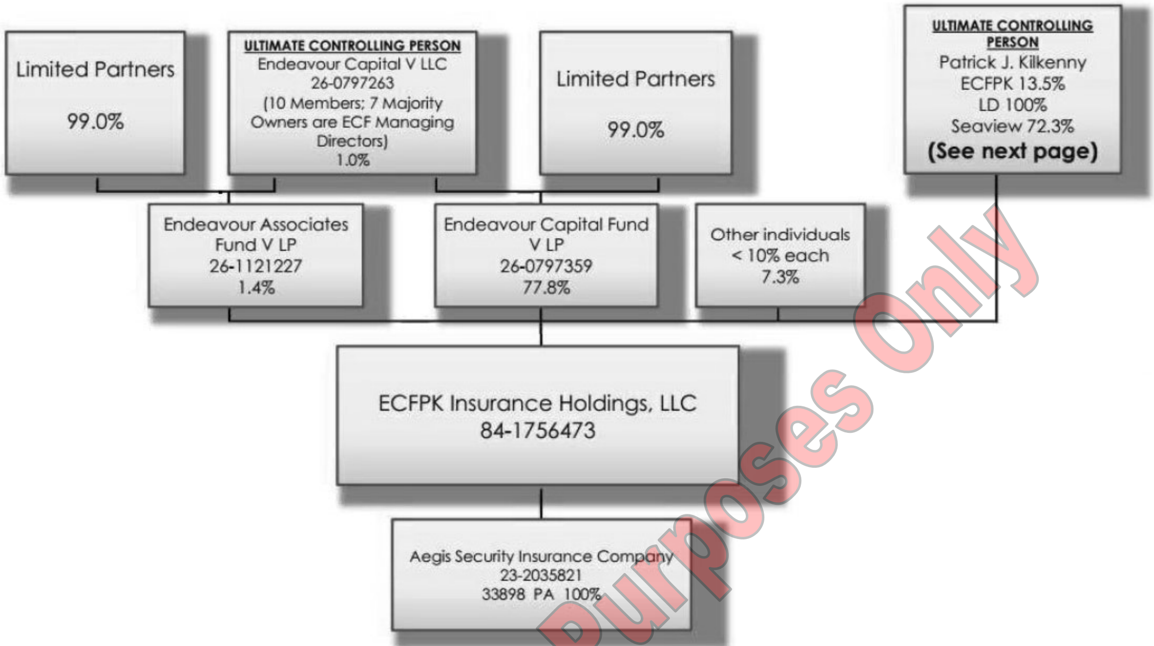
The Company meets the requirements for filing an Insurance Holding Company System Registration Statement, in compliance with 40 P.S. §§ 991.1401 – 991.1413. The Company has filed the required insurance holding company system registration statements for all years under examination.

Endeavor is one of two named as the ultimate controlling entity/person of its holding company system. Endeavor owns 1.0% of both Endeavour Capital Fund V, LP and Endeavour Associates Fund V, LP and is determined to be the entity that directly controls ECFPK through the voting membership which directs Endeavour Capital Fund V, LP and Endeavour Associates Fund V, LP. The other ultimate controlling person is Patrick J. Kilkenny who owns 13.5% of ECFPK in addition to 100% of LD.

During our review, it was noted that Patrick J. Kilkenny and the seven voting members of ECFPK should also be listed as the UCPs of the Company.

It is recommended that the Company accurately report its UCP in all filings in which its required to identify the UCP(s).

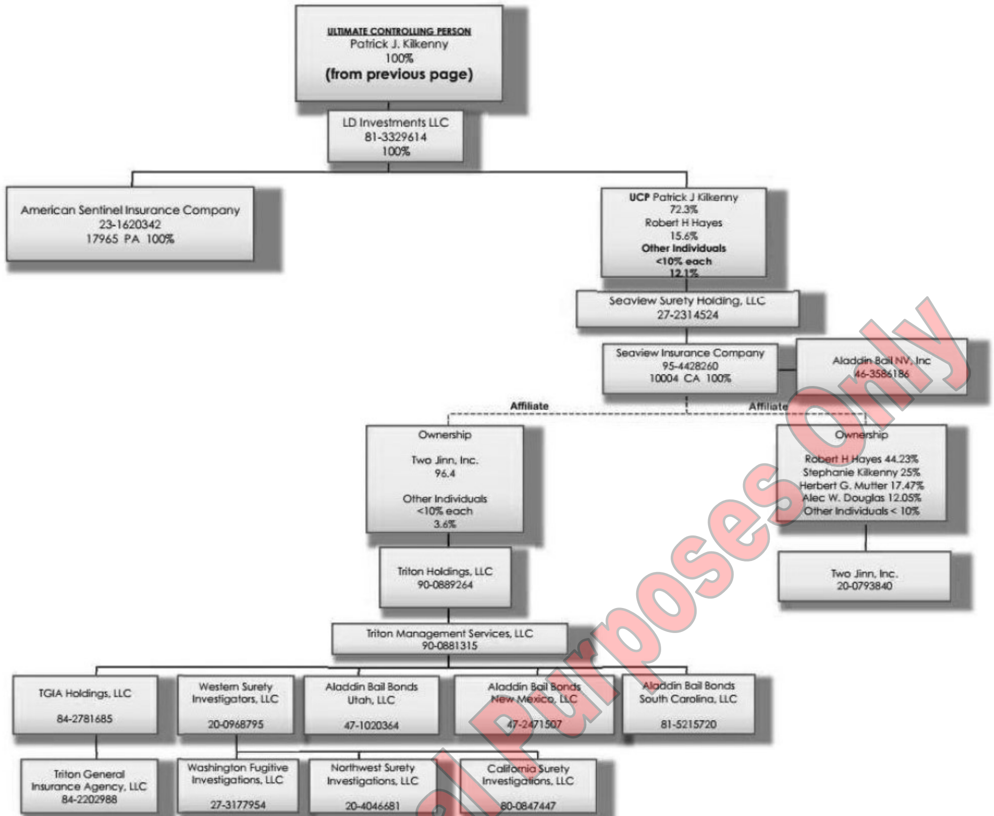
At December 31, 2020, members of the holding company system include the following entities depicted and breifly described below:



ECFPK Insurance Holdings, LLC

As of the examination date, ECFPK is owned by Endeavour Associates Fund V, LP, 1.4%; Endeavour Capital Fund V LP, 77.8%; Patrick J, Kilkenny, 13.5%; and other individuals with less than 10% ownership interest, 7.3%.

Through common ownership by Patrick J. Kilkenny, the Company is affiliated with a number of other entities as shown below:



LD Investments LLC

LD is a California limited liability company with a sole member; Patrick J. Kilkenny. LD owns 100% of American Sentinel Insurance Company and Seaview Surety Holding, LLC; which in turn owns 100% of Seaview Insurance Company.

Subsequent the examination date and through a Form A Exemption Request filed by the Company with the Department in November 2020, LD became the direct parent of ECFPK. See the "History" section of this examination report for additional details.

Seaview Surety Holding, LLC ("Seaview LLC")

Seaview LLC is the direct parent of Seaview Insurance Company. On December 26, 2019, LD, acquired 63.5% of Seaview LLC membership units owned by an investor group led by Endeavour Capital VI, LLC. Upon approval of this Form A transaction by the California Department of Insurance, and when combined with the 8.8% ownership of Seaview LLC previously held by Patrick J. Kilkenny, LD now owns 72.3% of Seaview LLC. In addition to LD, Seaview LLC is owned by Robert H. Hayes, 15.6%, and other individuals with less than 10% ownership, 12.1%. Robert H. Hayes has been issued a disclaimer of control for this ownership, resulting in LD and Patrick J. Kilkenny as the UCP.

Seaview Insurance Company ("Seaview")

Seaview is a wholly owned subsidiary of Seaview LLC domiciled in California and currently conducting business in California, Nevada, Utah, South Carolina, Ohio, Texas, Washington and Idaho. Seaview is a property and casualty insurer that issues state court bail bonds, and writes Difference in Conditions ("DIC") policies that are designed to work alongside California FAIR Plan policies. Seaview issues its bail bond business through affiliated agency, Aladdin Bail NV, Inc.

On October 1, 2019, Seaview entered into a quota share reinsurance agreement with the company whereby Seaview agrees to assume 100% quota share reinsurance for DIC endorsement of HO-3 and DP-3 policies written by the Company with an effective date on or after October 1, 2019. The Company and Seaview were not affiliated at the time this agreement was executed. The quota share agreement has been terminated and is in run-off.

American Sentinel Insurance Company ("AMS")

AMS is a domestic stock casualty insurance company 100% owned by LD. AMS is broadly licensed to write various product lines in 49 states and the District of Columbia. AMS primarily writes commercial auto liability, physical damage, cargo liability and general liability to small trucking owner-operators. AMS is currently active in California, Texas, and Arizona.

BOARD OF DIRECTORS

Management of the Company is vested in its Board of Directors ("Board"), which was comprised of the following members as December 31, 2020:

Name and Address	Principal Occupation
John B. Collins, Jr. Whitefish, Montana	Retired Guy Carpenter & Company
William R. de Jonge New York, New York	President De Jonge, LLC
John R. Hoye San Diego, California	Chief Information Officer Arrowhead General Insurance Agency
Leland M. Jones S. Pasadena, California	Managing Director Endeavor Capital
Patrick J. Kilkenny Del Mar, California	Chairman K2 Insurance Services
Russell R. Kilkenny Portland, Oregon	Attorney Scarborough, McNeese, Oelke & Kilkenny, PC
Martin G. Lane, Jr. Naples, Florida	Director Aegis Security Insurance Company
Francis E. Lauricella Jr. San Francisco, California	Managing Director Seaview Insurance Company

John E. von Schlegell Portland, Oregon	Managing Director Endeavor Capital

Directors are elected to serve one year terms at the Annual Meeting of the Shareholders. Directors serve until their successors have been elected and qualified. The Company has a conflict of interest policy that requires annual disclosure by officers, directors, and key employees of the Company and as determined by the Board of Directors.

Our examination's review of the composition of the Board of Directors notes that the Company's President and Chief Executive Officer, William J. Wollyung III, is not a member of the Board of Directors; though does regularly attend meetings. This observations is considered an issue of non-compliance with 15 PA C.S.A. § 3132 which states, "The president shall be a director of the corporation".

It is recommended that the Company appoint/elect the president as a director in compliance with 15 PA C.S.A. § 3132.

COMMITTEES

As of December 31, 2020, the following committees were appointed by the Board and serving in accordance with the Company's by-laws:

Audit Committee	**Investment Committee**	**Nominating Committee**
John Hoye	John Hoye	John Hoye
John Collins, Jr.	John Collins, Jr.	John Collins, Jr.
William de Jonge	William de Jonge	William de Jonge

OFFICERS

As of December 31, 2020, the following officers were appointed and serving in accordance with the Company's by-laws:

Name	**Title**
William J. Wollyung III	President & CEO
Brett G. Crise	Treasurer & CFO
Rebecca J. Liddick	Secretary
Joshua A. Magden	COO

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.
- Not all directors attend Board meetings regularly.
- The Company's Board minutes show approval of its reinsurance contracts.

As a result of the above review, the following recommendation is being made:

It is recommended that all board members regularly participate in board meetings.

ARTICLES OF AGREEMENT

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

BY-LAWS

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

SERVICE AND OPERATING AGREEMENTS

The Company is party to various service and operating agreements. The following significant agreements were in place during the examination period:

Management & Shared Services Agreements

Through a Shared Services Agreement, effective July 1, 2019, between the Company and K2 Insurance Services, LLC ("K2 Insurance") the Company agrees to provide the following services: Telecommunications, Gap Deductible Plans, Real Estate, Licensing, and Accounting Support & Financial Reporting services for K2 Insurance and its named affiliates; K2 Parent Corp., Viking Merger Sub LLC, and Endeavor Capital Fund V, L.P..

In addition, K2 Insurance and its named affiliates agree to provide services for the benefit of the Company including: IT Helpdesk Support, Data Reporting, Cybersecurity Compliance, Telecommunications, Domain Names, Office 365 support, Employee Benefits, Payroll, Claims, Corporate Insurance, Reinsurance Consulting, Legal, and certain Accounting Support & Financial Reporting services.

The term for these services is for three years following the closing of the agreement.

Effective August 26, 2018, the Company and AMS executed a Shared Services Agreement establishing the parties as cooperative service providers for certain administrative and special services. Under the terms of the agreement, services that may be performed by employees of the Company or AMS on behalf of the other include: Accounting Tax & Auditing, Underwriting, Claims, Investments, Functional Support Services, Actuarial, Telecommunications. Legal Services, Purchasing, Payroll, and Employee Relations services. Each party agrees to reimburse the other for services and facilities provided pursuant to the agreement and includes all direct and directly allocable expenses. The specific individuals and services provided on behalf of the other party are included in the agreement as Exhibit A. The agreement was terminated December 31, 2020.

Third Party Administrators – Claims

The Company has a number of service agreements with third party administrators for the purpose of adjudicating and administering claims.

Effective December 19, 2013, the Company and On Point Risk Solutions Inc. executed a Surety Claims Administrator agreement establishing On Point Risk Solutions Inc. as the service provider for examining certain claims, advising as to the value of claims, and providing expertise in reviewing the adequacy of reserves. The Company pays service fees to On Point Risk Solutions Inc. based on the hourly rates for individuals listed in Exhibit A of the agreement. This agreement remains in effect until either party terminates the agreements.

Effective June 1, 2016, the Company and Co-Ordinated Benefit Plans LLC executed a Claims Service Agreement that applies to specified programs underwritten by the Company for which the Company appoints Co-Ordinated Benefit Plans LLC as the Claims Manager. These programs are included as Schedules to Appendix A of the Agreement and include services elected, claims authority, and service fees to be paid by the Company. The term of the agreement is for one year and auto renews unless terminated by either party.

Effective November 1, 2017, the Company and Veritas Administrators LLC executed a Claims Management Agreement establishing Veritas Administrators LLC as the claims manager for policies issued under program management agreements and general agency agreements for Accident & Health insurance policies written. The agreement includes a schedule of service fees to be paid by the Company which includes per hour fees, mileage reimbursement, and individual costs for certain services, such as; file setup, photos, and other itemized services that may be provided in the process of administering the claims. The agreement is for a one year term that auto renews unless terminated or modified by either party.

Effective December 21, 2017, the Company and Actec Systems Inc. executed a Service Agreement establishing Actec Systems Inc. as the Claims Administrator for the Homeowners Notice of Loss Claims. Actec Systems Inc. will provide services such as; claim handling, toll-free telephone services, catastrophic claims notifications, and other services related to the claims. The term of the agreement is for one year and auto renews unless terminated by either party.

Effective March 1, 2019, the Company and Health Special Risks, Inc. executed a Claims Management Agreement establishing Health Special Risk, Inc. as the Claim Administrator for business written by American Specialty Insurance & Risk Services, Inc. As Claims Administrator, Health Special Risk, Inc. is responsible for administering and adjusting the claims arising from the business written. The term of the agreement is for one year and auto renews unless terminated or modified by either party.

Third Party Consultants – Investments

Effective December 10, 2013, the Company and Sage Advisory Services, Ltd. Co. executed an Investment Management Agreement in which the Company appoints Sage Advisory

Services, Ltd. Co. as its Investment Manager and Advisor with respect to certain assets of the investment portfolio.

Effective January 1, 2014, the Company and RBC Wealth Management executed an Institutional Consulting Program Agreement. Under the terms of the agreement RBC Wealth Management provides services, including; Investment Policy Statement development, Asset Allocation, Investment Review and Research, Investment Monitoring and Evaluation, and Provider Search and Evaluation. The agreement remains in effect until terminated by either party.

REINSURANCE

CEDED

The Company's ceded premium for 2020 was $119,821,000 which is approximately 168% of its surplus. The Company's net amount recoverable for 2020 was approximately $98,218,000. As of December 31, 2020, the Company had $18,722,924 outstanding recoverables due from its reinsurers.

Property Catastrophe Excess of Loss

The Company entered into an Excess of Loss reinsurance contract with an effective date of July 1, 2020. The term of the contract is for two years.

The Company's retention and the reinsurance limits are as follows for the six layers outlined in the agreement:

	Company's Retention	Reinsurance Limits (Per Occ. / Agg.)	Type of business Covered
First Excess	$ 7,500,000	$ 10,000,000 / $ 20,000,000	Property Business
Second Excess	$ 17,500,000	$ 12,500,000 / $ 25,000,000	Property Business
Third Excess	$ 30,000,000	$ 20,000,000 / $ 40,000,000	Property Business
Fourth Excess	$ 50,000,000	$ 50,000,000 / $100,000,000	Property Business
Fifth Excess	$100,000,000	$ 50,000,000 / $100,000,000	Property Business
Sixth Excess	$150.000.000	$ 25,000,000 / $ 50,000,000	Property Business

The coverage terms provide coverage for all perils for the first four layers of the treaty; while the fifth and sixth layers provide coverage for Difference in Conditions, Earthquake Shake, Earthquake Fire Following, and Hurricane perils as defined by the agreement

The coverage provided above is through a number of subscribing reinsures, including American Agricultural Insurance Company, American Standard Insurance Company of Wisconsin, ARGO RE Limited, Allianz Global Risks US Insurance Company, Employers Mutual Casualty Company, Endurance Specialty Insurance Limited, Everest Reinsurance Company, Fidelis Insurance Bermuda Limited, Fidelis Underwriting Limited, Hamilton Re, LTD., Hannover Re (Bermuda) Limited, Hiscox Insurance Company (Bermuda) Limited, Peak Reinsurance Company Limited, Lloyd's Underwriting Syndicate No. 2010 MMX, Markel Bermuda Limited, MS Amlin AG, Mermuda Branch, Navigators Insurance Company, Odyssey Reinsurance Company, Partner Reinsurance Company LTD., QBE Reinsurance Corporation, SCOR Reinsurance Company, and Lancashire Insurance Company Limited. These subscribing reinsurers having varying participation percentages over the six layers outlined above.

Prior to July 1, 2020, the Company entered into an Excess of Loss reinsurance contract with an effective date of July 1, 2018. The term of the contract is for two years, expiring on July 1, 2020.

The Company's retention and the reinsurance limits are as follows for the four layers outlined in the agreement:

	Company's Retention	Reinsurance Limits (Per Occ. / Agg.)	Type of business Covered
First Excess	$ 5,000,000	$ 15,000,000 / $ 30,000,000	Property Business
Second Excess	$ 20,000,000	$ 30,000,000 / $ 60,000,000	Property Business
Third Excess	$ 50,000,000	$ 25,000,000 / $ 50,000,000	Property Business
Fourth Excess	$ 75,000,000	$ 25,000,000 / $ 50,000,000	Property Business

The coverage provided above is through a number of subscribing reinsures with various percentages by layer outlined in each Interests and Liabilities agreement executed.

Multi Line Quota Share Reinsurance Contract

The Company entered into a Quota Share reinsurance contract with an effective date of January 15, 2020. The term of the contract is for one year, expiring February 1, 2021.

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

Company's Retention	Reinsurance Limits	Type of business Covered
80%	20%	Aegis Core
80%	20%	DIC Vikco
75%	25%	MSIS Tier II
75%	25%	Aegis Specialty Standard
75%	25%	Aegis Specialty Earthquake

Per the agreement, it is understood and agreed that business reinsured hereunder shall include but not be limited to Fire, Allied Lines, Extended Coverage, Dwelling Fire, Mobile Home, Homeowners Multiple Peril, including but not limited to peril of flood and earthquake; including Difference in Conditions earthquake where provided, and Personal Liability Business; when written in conjunction with any multiple peril policy.

The reinsurer's maximum limit of liability for any one loss occurrence shall not exceed $41,000,000 nor $61,000,000 in aggregate for the term of the contract for all perils. In addition, the reinsurer's maximum limit of liability for the peril of wildfire shall not exceed $5,000,000 for any one loss occurrence and in aggregate. It is further agreed that the maximum limit of liability for any loss in excess of policy limits and / or extra contractual obligation, combined, shall be $5,000,000.

The coverage is provided by Odyssey Reinsurance Company through the execution of an Interest and Liabilities Agreement in which Odyssey Reinsurance Company agrees to have a 100% share in the interests and liabilities of the reinsurer as set forth by the contract.

Homeowners Quota Share Reinsurance Contracts

The Company entered into a number of Quota Share reinsurance contracts providing coverage for the homeowners line of business; including the coverage provided under the Multi Line Quota Share Agreement with Odyssey Reinsurance Company described above. The specific contracts comprising this coverage is included below.

A 70% quota share reinsurance agreement with Homesite Insurance Company of the Midwest. The agreement is effective January 1, 2020 and provides coverage for the core homeowners products written; excluding those in Florida and Louisiana. This coverage is in effect for one year, expiring December 31, 2020

A 100% Quota Share reinsurance agreement, effective October 1, 2019, with Seaview for the specialty homeowners Difference of Conditions endorsements written. This agreement expires October 31, 2021.

A 20% Quota Share reinsurance agreement, effective July 1, 2020, with Munich American Re Inc. for the Texas Mission Select Tier II & Tier III business written. The agreement has a one year term, expiring June 30, 2021.

A Quota Share reinsurance agreement, effective February 1, 2020, for coverage of the core homeowners, Texas Mission Select Tier II, Texas Mission Select Tier III, Aegis Specialty Earthquake, and Difference of Conditions business written. The coverage is provided by Chubb Tempest Reinsurance Limited with quota share percentages of 30% for core homeowners, Texas Mission Select Tier II, Aegis Specialty Earthquake, and Difference of Conditions business written; exception being 20% quota share for core homeowners business written in California, and 10% quota share for Texas Mission Select Tier III.

Surety Quota Share Reinsurance Agreement

The Company entered into a Quota Share reinsurance contract with an effective date of January 1, 2020. The term of the contract is for one year, with a continuous renewal period.

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

Company's Retention	Reinsurance Limits	Type of business Covered
50% Quota Share	$1,000,000	Surety

The coverage provided above is through Great American Insurance Company.

Surety Excess of Loss Reinsurance Contract

The Company entered into an Excess of Loss reinsurance contract with an effective date of July 1, 2020. The term of the contract is for one year with an optional extended discovery period.

The Company's retention and the reinsurance limits are as follows for the two layers outlined in the agreement:

Company's Retention	Reinsurance Limits (Per Occ. / Agg.)	Type of business Covered
$ 1,000,000	$ 9,000,000 / $ 12,000,000	Surety

The coverage provided above is through the subscribing reinsurers: Everest Reinsurance Company and SCOR Reinsurance Company.

Prior to July 1, 2020, the Company had an Excess of Loss reinsurance contract with an effective date of July 1, 2018 for a two-year term. This agreement provided similar coverage limits and retentions related to the surety business as the treaty executed July 1, 2018 and described above; although with different subscribing reinsurers.

The Company's reinsurance intermediaries Guy Carpenter & Company, LLC, Willis Re Inc., JLT Re North American Insurance Services Inc., and Aon Benfield, Inc. are licensed by the Department as required by 40 P.S. § 321.2(a). The Company has a properly executed written agreement with its intermediaries as required by 40 P.S. § 321.3.

All reinsurance contracts contain the proper insolvency and arbitration clauses. Additionally, all contracts transfer risk as outlined in SSAP No. 62R.

ASSUMED

During the examination period, the Company had a minimal amount of assumed reinsurance from ceding reinsures under legacy contracts; including with affiliate AMS. The reinsurance assumed is immaterial and therefore not significant.

TERRITORY AND PLAN OF OPERATION

The Company is licensed and writing in all 50 states and the District of Columbia, as of December 31, 2020.

The Company's major lines of business are homeowners multiple peril, surety, earthquake, commercial auto liability, group accident & health, fire, auto physical damage, and private passenger auto liability.

The primary focus is on underwriting manufactured housing policies, which represent 63% of the Company's business written as of December 31, 2020. The majority of the business is written by Aegis General Insurance Agency, Inc. and Aegis Surety Bonds and Insurance

Services LLC. Other agency entities writing business on behalf of the Company include: TST Insurance Services LLC, Vikco Insurance Services LLC, Mission Select Insurance Services LLC, and First Capital – AWIS LLC.

As part of examination procedures, a review of appointed and terminated producers was performed. It was noted that the Company did not appropriately appoint and terminate its insurance producers in accordance with 40 P.S. § 310.71.

It is recommended the company consistently send notifications of appointments and terminations of producers to the Department in compliance with 40 P.S. § 310.71 and 40 P.S. § 310.71A, respectively.

The Company reported the following net written premiums, by line of business, for the year ended December 31, 2020:

Line of Business	Direct and Assumed Premium	Ceded Premium	Net Written Premium	Percentage of Total
December 31, 2020				
Fire	$ 13,679,677	$ 9,934,830	$ 3,744,847	3.8%
Homeowners multiple peril	123,840,297	76,522,803	47,317,494	48.5%
Inland marine	1,083,048	794,729	288,319	0.3%
Earthquake	18,428,823	12,293,731	6,135,092	6.3%
Group accident and health	9,750,678	0	9,750,678	10.0%
Other accident and health	89,069	0	89,069	0.1%
Other liability - occurrence	2,988,105	2,214,524	773,581	0.8%
Private passenger auto liability	991,672	0	991,672	1.0%
Commercial auto liability	10,173,374	8,147,235	2,026,139	2.1%
Auto physical damage	4,813,619	3,370,063	1,443,556	1.5%
Surety	31,573,656	6,542,867	25,030,789	25.6%
Totals	$ 217,412,018	$ 119,820,782	$ 97,591,236	100.0%

SIGNIFICANT OPERATING RATIOS AND TRENDS

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

	Amount	Percentage
Premiums earned	$ 262,104,222	100.0 %
Losses incurred	115,558,503	44.1 %
Loss expenses incurred	21,306,880	8.1 %
Other underwriting expenses incurred	125,154,465	47.7 %
Net underwriting gain or (loss)	84,374	0.0 %
Totals	$ 262,104,222	99.9 %

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

		2020		2019
Admitted assets	$	175,407,150	$	207,179,807
Liabilities	$	104,193,689	$	141,639,124
Surplus as regards policyholders	$	71,213,461	$	65,540,683
Gross premium written	$	217,412,018	$	230,206,431
Net premium written	$	97,591,236	$	139,904,996
Underwriting gain/(loss)	$	4,048,097	$	(3,963,723)
Investment gain/(loss)	$	4,322,227	$	3,986,968
Other gain/(loss)	$	(178,662)	$	640,505
Net income	$	7,666,430	$	80,257

PENDING LITIGATION

As of the date of this examination report, Company Management attested that the Company was not involved in any litigation and was not aware of any threatened litigation that could have a material adverse effect on its financial condition.

FINANCIAL STATEMENTS

The financial condition of the Company, as of December 31, 2020, and the results of its operations for the two-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

*Note: Some financials shown in this report may contain immaterial differences to those reported in the Company's filed Annual Statements due to rounding errors.

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

	2020	2019
Bonds	$ 106,973,808	$ 110,817,082
Preferred stocks	1,419,982	462,673
Common stocks	0	20,107,699
Cash, cash equivalents, and short term investments	15,709,984	21,104,155
Receivable for securities	2,325	0
Subtotals, cash and invested assets	124,106,099	152,491,609
Investment income due and accrued	818,667	916,057
Premiums and agents' balances due	29,086,810	41,490,596
Amounts recoverable from reinsurers	18,632,767	8,754,202
Funds held by or deposited with reinsured companies	90,157	90,157
Net deferred tax asset	2,557,942	3,338,942
Aggregate write-ins for other than invested assets	114,708	98,244
Total	$ 175,407,150	$ 207,179,807
Losses	$ 22,997,717	$ 36,604,924
Reinsurance payable on paid loss and loss adjustment expenses	83,000	303,146
Loss adjustment expenses	7,617,660	8,517,210
Commissions payable, contingent commissions and other similar charges	4,072,973	6,562,490
Other expenses	2,067,944	2,830,169
Taxes, licenses and fees	973,961	1,759,146
Current federal and foreign income taxes	25,374	278,995
Unearned premiums	39,241,120	57,480,958
Ceded reinsurance premiums payable (net of ceding commissions)	20,907,500	22,387,817
Funds held by company under reinsurance treaties	3,800,000	2,390,000
Amounts withheld or retained by company for account of others	2,228,440	2,514,341
Provision for reinsurance	178,000	0
Payable for securities	0	9,928
Total liabilities	104,193,689	141,639,124
Common capital stock	4,200,000	4,200,000
Gross paid in and contributed surplus	20,266,827	20,266,827
Unassigned funds (surplus)	46,746,634	41,073,856
Surplus as regards policyholders	71,213,461	65,540,683
Totals	$ 175,407,150	$ 207,179,807

Comparative Statement of Income
For the Year Ended December 31,

Underwriting Income	**2020**	**2019**
Premiums earned	$ 115,831,074	$ 146,273,148
Deductions:		
Losses incurred	51,609,555	63,948,948
Loss expenses incurred	9,777,144	11,529,736
Other underwriting expenses incurred	50,396,278	74,758,187
Total underwriting deductions	111,782,977	150,236,871
Net underwriting gain or (loss)	4,048,097	(3,963,723)
Investment Income		
Net investment income earned	3,208,149	3,580,958
Net realized capital gains or (losses)	1,114,078	406,010
Net investment gain or (loss)	4,322,227	3,986,968
Other Income		
Net gain or (loss) from agents' or premium balances charged off	(924)	(7,950)
Finance and service charges not included in premiums	1,128,106	954,829
Aggregate write-ins for miscellaneous income	(1,305,844)	(306,374)
Total other income	(178,662)	640,505
Net income before dividends to policyholders and before federal and foreign income taxes	8,191,662	663,750
Federal and foreign income taxes incurred	525,232	583,493
Net income	$ 7,666,430	$ 80,257

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

	2020	2019
Surplus as regards policyholders,		
December 31, previous year	$ 65,540,683	$ 62,668,421
Net income	7,666,430	80,257
Net unrealized capital gains or (losses)	(1,294,428)	2,598,077
Change in net deferred income tax	(983,848)	272,257
Change in nonadmitted assets	462,624	(78,329)
Change in provision for reinsurance	(178,000)	0
Change in surplus as regards policyholder for the year	5,672,778	2,872,262
Surplus as regards policyholders,		
December 31, current year	$ 71,213,461	$ 65,540,683

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

	2020	2019
Cash from Operations		
Premiums collected net of reinsurance	$ 109,046,397	$ 137,647,876
Net investment income	4,024,598	3,866,479
Miscellaneous income	(178,662)	640,506
Total income	112,892,333	142,154,861
Benefit and loss related payments	75,315,855	53,681,924
Commissions, expenses paid and aggregate write-ins for deductions	65,109,896	77,349,641
Federal and foreign income taxes paid (recovered)	1,075,000	(1,370,920)
Total deductions	141,500,751	129,660,645
Net cash from operations	(28,608,418)	12,494,216
Cash from Investments		
Proceeds from investments sold, matured or repaid:		
Bonds	38,614,718	27,744,947
Stocks	39,891,923	22,469,389
Net gain or (loss) on cash and short-term investments	(2,307)	0
Total investment proceeds	78,504,334	50,214,336
Cost of investments acquired (long-term only):		
Bonds	35,389,873	51,665,765
Stocks	21,068,147	25,123,071
Miscellaneous applications	12,253	170
Total investments acquired	56,470,273	76,789,006
Net cash from investments	22,034,061	(26,574,670)
Cash from Financing and Miscellaneous Services		
Other cash provided (applied):		
Other cash provided or (applied)	1,180,186	2,489,985
Net cash from financing and miscellaneous sources	1,180,186	2,489,985
Reconciliation of cash and short-term investments:		
Net change in cash and short-term investments	(5,394,171)	(11,590,469)
Cash and short-term investments:		
Beginning of the year	21,104,155	32,694,624
End of the year	$ 15,709,984	$ 21,104,155

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, 2020, the Company's invested assets were distributed as follows:

	Amount	Percentage
Bonds	$ 106,973,808	86.2 %
Preferred stocks	1,419,982	1.1 %
Cash	11,787,133	9.5 %
Cash equivalents	3,922,852	3.2 %
Receivable for securities	2,325	0.0 %
Totals	$ 124,106,100	100.0 %

The Company's bond portfolio had the following quality and maturity profiles:

NAIC Designation	Amount	Percentage
1 - highest quality	$ 69,912,558	65.4 %
2 - high quality	37,061,250	34.6 %
Totals	$ 106,973,808	100.0 %

Years to Maturity	Amount	Percentage
1 year or less	$ 20,295,596	19.0 %
2 to 5 years	58,379,810	54.5 %
6 to 10 years	26,533,241	24.8 %
11 to 20 years	1,458,995	1.4 %
over 20 years	306,166	0.3 %
Totals	$ 106,973,808	100.0 %

The Company's invested assets are comprised primarily of Bonds and Cash, representing 86.2% and 9.5% of total invested assets, respectively, at December 31, 2020. The Company's investment policy establishes responsibilities for those involved in the investment process; giving appropriate consideration to the capital and surplus and the business conducted by the Company, establishing investment goals and objectives of the Company, offering guidance and limitations to investment managers, establishing a basis for evaluating investment results, and ensuring the Company's invested assets are in accordance with prudent standards and required laws.

The Company has a custodial agreement with Bank of America, N.A. that is in compliance with 31 Pa. Code § 148a.3 and 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, 2020.

LIABILITIES

LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES

The Company reported reserves in the amount of $22,997,717 for losses and $7,617,660 for loss adjustment expenses ("LAE") on the December 31, 2020 Annual Statement.

For each year of the examination period, the Company's appointed actuary ("AA") is David L. Miller, FCAS, MAAA. Each year, the AA issued a Statement of Actuarial Opinion ("Opinion") concluding that the loss and LAE reserve amounts made a reasonable (or otherwise) provision on the adequacy of its loss and LAE reserves as provided in the NAIC Annual Statement Instructions – Property and Casualty.

In order for the examination team to gain an adequate comfort level with the Company's loss and LAE reserve estimates, actuarial specialists from the firm Risk and Regulatory Consultants, LLC ("RRC Actuaries") assisted the examination team in performing a risk-focus review of the Company's reserving and pricing practices. The RRC Actuaries performed their review along with assistance from the Department's internal property and casualty actuarial staff. Due to examination timing, RRC Actuaries also considered the financial results as reported on the Company's 2021 Annual Statement filings.

Based on the examination procedures performed by RRC Actuaries and the results obtained, the Company's net loss and LAE reserves are determined to be reasonably stated as of December 31, 2020.

SUBSEQUENT EVENTS

On January 9, 2021, the Department approved the holding company restructure in which Patrick J. Kilkenny, the current UCP, acquired additional ownership in the Company from Endeavor; through LD. As a result of this transaction, Patrick J. Kilkenny increased his ownership stake in the Company from 13.5% to 96.7%. A $25,000,000 Loan Agreement was provided by California Bank & Trust to LD for the purpose of making this acquisition.

On August 3, 2021, the Department approved a filing for a Loss Portfolio Transfer and Quota Share Reinsurance Agreement between the Company and AMS. The Company assumes the net loss and loss adjustment expense through the loss portfolio transfer and the net unearned premium reserve through a 100% quota share.

The Department is monitoring the impact of the COVID-19 global pandemic. The Department recognizes that COVID-19 could have a significant financial and operational impact on all of its domestic insurers, including the Company. As such, the Department will continue to monitor and share information with the Company as appropriate related to COVID-19 developments.

RECOMMENDATIONS

PRIOR EXAMINATION

The prior examination report contained the following recommendations:

1. ***It is recommend that the Company's Board of Directors approve changes to its corporate documents and report these updated corporate documents to the Department as prescribed.***

   The Company has complied with this recommendation.

CURRENT EXAMINATION

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

1. ***It is recommended that the Company accurately report its UCP in all filings in which its required to identify the UCP(s).*** (see "Insurance Holding Company System", Page 3)
2. ***It is recommended that the Company appoint/elect the president as a director in compliance with 15 PA C.S.A. § 3132.*** (see "Board of Directors", Page 6)
3. ***It is recommended that all board members regularly participate in board meetings.*** (see "Minutes", Page 7)
4. ***It is recommended the company consistently send notifications of appointments and terminations of producers to the Department in compliance with 40 P.S. § 310.71 and 40 P.S. § 310.71A, respectively.*** (see "Territory and Plan of Operations", Page 13)

CONCLUSION

As a result of this examination, the financial condition of Aegis Security Insurance Company, as of December 31, 2020, was determined to be as follows:

	Amount	Percentage
Admitted assets	$ 175,407,150	100.0 %
Liabilities	$ 104,193,689	59.4 %
Surplus as regards policyholders	71,213,461	40.6 %
Total liabilities and surplus	$ 175,407,150	100.0 %

Since the previous examination, made as of December 31, 2018, the Company's assets decreased by $155,276, its liabilities decreased by $8,700,316, and its surplus increased by $8,545,040.

This examination was conducted by Cornelius Mcconville and James DiSanto of the Department; David Heppen, FCAS, MAAA, Stephan Donk, AIE, CPCU, MCM, and Lisa Chanzit, FCAS, MAAA, ARM of Risk and Regulatory Consulting, LLC, John Romano, CPA, CITP, CIA, CFE, CSM, Michelle January, MCM, Carmen Milam, Victoria Chau, CPA, Damion Rhudd, CISA, Nick Marella, Michael Skowronek and Philip Talerico, CPA, CFE, ARM, MCM of Baker Tilly US, LLP, with the latter in charge.

Respectfully submitted,

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Director
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April Spevak

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Examination Manager

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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.