Examination Warrant Number 18-00313-17965-A1

Report of Examination of

American Sentinel Insurance Company
Harrisburg, Pennsylvania

As of December 31, 2018

TABLE OF CONTENTS

Harrisburg, Pennsylvania
May 29, 2020

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

Dear Sir:

In accordance with instructions contained in Examination Warrant Number 18-00313-17965-A1, dated August 21, 2018, an examination was made of

American Sentinel Insurance Company, NAIC Code: 17965

a Pennsylvania domiciled, multi-state property and casualty insurance company hereinafter referred to as the "Company." The examination was conducted at the Company's home office, located at 4507 North Front Street, Harrisburg, Pennsylvania 17110.

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, 2014. This examination covered the four-year period from January 1, 2015 through December 31, 2018.

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. Statements were prepared by management and are therefore the responsibility of management. 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 with40 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 ("JL") provided an unmodified audit opinion on the Company's year-end financial statements based on statutory accounting principles. Relevant work performed by JL, during its annual audit of the Company, was reviewed during the examination and incorporated into the examination workpapers.

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

Company	**NAIC Code**
Aegis Security Insurance Company	33898

HISTORY

The Company was incorporated on May 16, 1956, licensed by the Department on October 17, 1956, and commenced business on the same date. Since the prior examination, the Company has changed its statutory home office address to that listed above with the Salutation.

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, (c)(13) Personal Property Floater, and (c)(14) Workers' Compensation.

MANAGEMENT AND CONTROL

CAPITALIZATION

As of the examination date, December 31, 2018, the Company's total capital was $12,432,315, consisting of 400,000 capital shares of issued and outstanding common stock with a par value of $10.00 per share amounting to $4,000,000; $8,509,000 in gross paid in and contributed surplus; and ($76,685) in unassigned funds (surplus).

The Company's minimum capital and minimum surplus requirements for the types of business for which it is licensed, pursuant to 40 P.S. § 386, is $2,250,000 in capital and $1,125,000 in surplus. The Company has met all governing requirements throughout the examination period.

STOCKHOLDER

All shares of the Company's stock are owned by its parent, LD Investments LLC ("LD"), a holding company organized and wholly owned by Patrick Kilkenny, the ultimate controlling person of the Company.

Prior to December 31, 2018, and during the examination period, the Company's parent and holding company changed. Per the Form A filed on March 1, 2018 and approved by the Department, LD acquired 100% of the Company's issued and outstanding stock for $15,000,000 at $37.50 per share from the Company's former direct parent and current affiliate, Aegis Security Insurance Company ("ASIC").

As part of the proposed transaction, the Company paid an extraordinary dividend of $7,834,418 to ASIC as a return of equity. This extraordinary dividend was reported to the Department within the Form A filing for review and was approved.

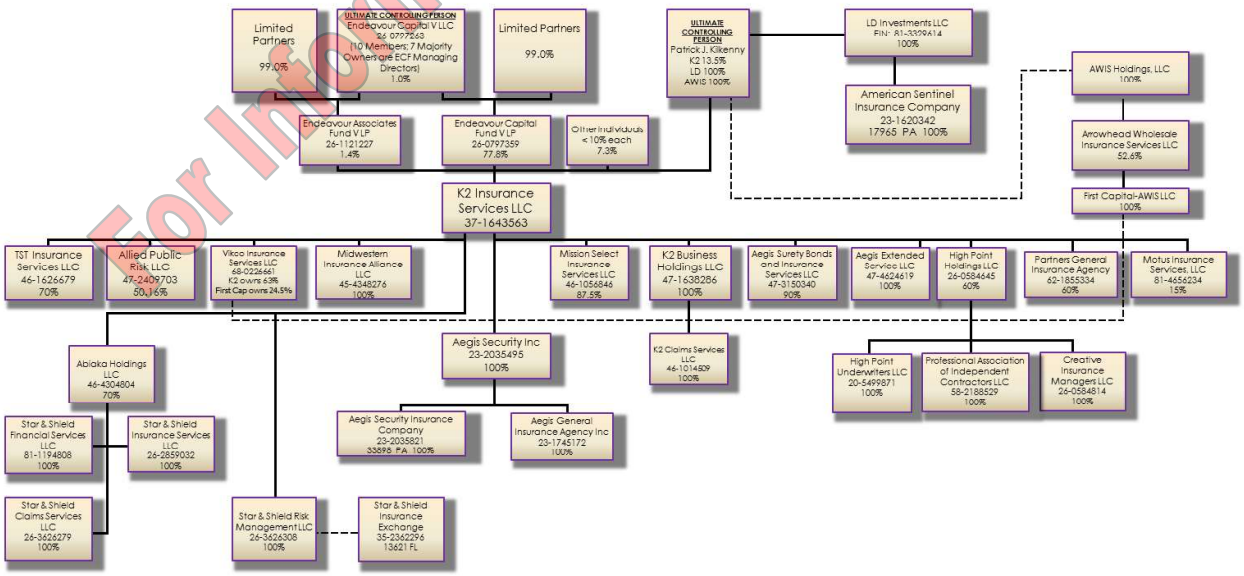
Further, the Company made ordinary dividends to its parent, ASIC, of $1,000,000 and $1,600,000 on December 31, 2015, and December 29, 2017, respectively.

The Company provided notice to the Department for all dividends in accordance with 40 P.S. § 991.1404.

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.

Patrick Kilkenny is named as the ultimate controlling person of its holding company system.



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

LD Investments LLC

LD is a Delaware limited liability corporation wholly owned by Patrick Kilkenny, the ultimate controlling person of the Company. LD owns 100% of the issued and outstanding stock of the Company.

Aegis Security Insurance Company ("ASIC")

The Company was previously owned by ASIC, prior to the acquisition of the Company by LD. The Company and ASIC are considered affiliates through common ownership as follows: Patrick Kilkenny owns 13.5% of K2 Insurance Services, LLC ("K2"), for which ASIC is a subsidiary.

The Company and ASIC have executed a Shared Services Agreement as well as a 100% Quota Share Reinsurance Agreement.

First Capital – AWIS LLC ("First Capital")

First Capital is a general agency that underwrites and administers commercial auto policies on behalf of the Company and is the sole producer and policy issuance agency for the Company. First Capital is a direct subsidiary of Arrowhead Wholesale Insurance Services, LLC ("AWIS"), with an ownership percentage of 52.6%. AWIS is wholly owned by AWIS Holdings, LLC. The affiliation between the Company and First Capital is through common ownership by the ultimate controlling person, Patrick Kilkenny, who owns 100% of AWIS Holdings, LLC.

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, 2018:

Name and Address	Principal Occupation
John B. Collins, Jr. Whitefish, MT	Retired Guy Carpenter & Company
Patrick J. Kilkenny Del Mar, CA	Chairman American Sentinel Insurance Company
Kevin S. Kilkenny San Diego, CA	Agent Arrowhead General Insurance Agency
Francis E. Lauricella, Jr. San Francisco, CA	Managing Director Seaview Insurance Company
Joshua A. Magden Portland, OR	Chief Operating Officer American Sentinel Insurance Company
Peter W. Stott Portland, OR	President Columbia Investments, Ltd.
William J. Wollyung, III Naples, FL	Chief Executive Officer American Sentinel Insurance Company

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.

COMMITTEES

As of the examination date, December 31, 2018, the following committees were appointed by the Board and serving in accordance with the Company's by-laws:

Audit Committee	Investment Committee	Nominating Committee
Francis Lauricella, Jr.	Francis Lauricella, Jr.	Francis Lauricella, Jr.
John Collins, Jr.	John Collins, Jr.	John Collins, Jr.
Peter Stott	Peter Stott	Peter Stott

The Committees nominated by the Board meet the independence requirements of 40 P.S. § 991.1405(c) as of December 31, 2018. These Committees and their members are acting in accordance with the Company's by-laws.

OFFICERS

As of the examination date, December 31, 2018, the following officers were appointed and serving in accordance with the Company's by-laws:

Name	Title
William J. Wollyung, III	Chief Executive Officer
Brett G. Crise	Chief Financial Officer
Rebecca J. Liddick	Secretary
Joshua A. Magden	Chief Operating Officer

CORPORATE RECORDS

MINUTES

A compliance review of corporate minutes revealed the following:

- The Annual Meetings of the Company's stockholder were held in compliance with its by-laws.
- 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 Investment Committee of the Board.
- All directors attend Board meetings regularly.

- The Company's Board minutes approve the reinsurance program.

ARTICLES OF AGREEMENT

On June 20, 2018, the Company filed with the Commonwealth of Pennsylvania an amendment to its Articles of Agreement. Effective as of the date of the filing, the Company changed its statutory office to 4507 North Front Street, Harrisburg, Pennsylvania 17110.

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, which includes intercompany and related-party agreements. The following significant agreements were in place during the examination period:

Management Services Agreement

Effective May 1, 2013, the Company, ASIC, Mobile-Rec Inc. ("M/R"), and K2 executed the Management Advisory Services Agreement in conjunction with K2's acquisition of 100% of the outstanding stock of ASI and was considered critical to the strategic oversight and expansion of the Company, ASIC and M/R. Management services included the oversight of business operations including investment advice, property and casualty product rate and form development, business development through the leveraging of K2's professional contacts and overall operational guidance and management. K2 shall be paid a monthly management fee by the Company, ASIC and M/R. The fee shall be commensurate with what otherwise would be the actual costs incurred by K2 in providing these services. However, in no circumstances shall the monthly management fee be greater than 2.5% of the combined earned premium of the Company and ASIC for that month.

Effective September 1, 2018, and in conjunction with LD's acquisition of the Company, the agreement was amended to remove the Company as a party to the agreement.

Shared Services Agreement

This agreement by and between the Company and ASIC, effective August 26, 2018, establishes the Company and ASIC as cooperative service providers for certain administrative and special services. Performance of services occurs through request of one party of the other as long as determined reasonably necessary to conduct operations and provided that the requested party may decline performing such service if it would interfere with performing its own obligations to policyholders.

Under the terms of the agreement, services that may be performed by employees of the Company or ASIC 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 basis for determining charges shall be those used by the performing entities member for internal cost distribution, including, where appropriate, time records prepared at least annually for this purpose. Indirect costs are agreed to be allocated in accordance with a method that conforms with SSAP No. 70. No profit factor is applied to the cost and compensation paid for services.

The specific individuals and services provided on behalf of the other party are included in the agreement as Exhibit A. This exhibit includes estimated costs for a specific year and is estimated to be between $200,000 and $250,000.

Agency Agreement – First Capital

Effective September 1, 2018, the Company and First Capital executed the Agency Agreement establishing First Capital as the agency partner of the Company for the distribution of the commercial auto products offered and written. This agreement gives First Capital authority to receive and accept proposals for insurance within territories of the United States for classes of risks agreed upon by the Company. Commission rates for this agency service to be paid to First Capital are defined within Exhibit A of the agreement. Further, the agreement outlines appropriate Underwriting Guidelines, including premium levels, rates filed with the various states, types of coverage, appropriate exclusions, territorial limitations, and policy cancellation provisions.

Federal Tax Allocation Agreement

This agreement was executed in writing by Aegis Security, Inc. ("ASI") and its subsidiaries, which include the Company and ASIC. Under the terms of the agreement, the parties agreed to file a consolidated federal tax return. An intercompany allocation method was established for the parties to reimburse ASI for their respective share of the federal tax liability.

Effective August 30, 2018, and in conjunction with the acquisition of the Company by LD Investments LLC, the Company was removed as a party to this agreement.

The above referenced inter-company agreements meet the fair and reasonable standards in compliance with 40 P.S. § 991.1405(a)(1)(i).

REINSURANCE

The Company operated under a pooling reinsurance agreement for the year ended December 31, 2017 and prior, whereby the Company is the recipient of 25% and ASIC is the recipient of 75% of the pooled net business. This agreement was terminated through the execution of the Commutation and Termination Agreement effective December 31, 2017, to facilitate the sale of the Company by ASIC to LD. Per the Commutation and Termination Agreement, the Company and ASIC agree to commute those ceded reserves and liabilities accepted from the other party under the pooling agreement.

CEDED

The Company's reinsurance program includes quota share coverages for the commercial auto line of business as well as cessions to affiliate, ASIC, for legacy accident & health and non-standard auto legacy business written by Aegis General Insurance Agency, Inc.

The agreements described below comprise the Company's significant reinsurance ceded agreements within the reinsurance program as of December 31, 2018.

100% Quota Share Reinsurance Contract - ASIC

The Company entered into a Quota Share reinsurance contract with an effective date of January 1, 2018. The term of the contract is indefinite.

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

Company's Retention	Reinsurance Limits	Type of business Covered
0%	100%	Accident & Health Non-Standard Auto

The Company cedes this Accident & Health and Non-Standard Auto business to affiliate ASIC.

Commercial Auto Quota Share

The Company entered into a Quota Share reinsurance contract with an effective date of December 1, 2017. The term of the contract is for one year.

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

Company's Retention	Reinsurance Limits	Type of business Covered
0%	100%	Commercial Auto General Liability

This coverage is provided through five participating reinsurers: Arch Reinsurance Company, Ltd., Qatar Reinsurance Company, Sirus Bermuda Insurance Company, Ltd., Endurance Assurance Corporation, and Watford Insurance Company, with subscribing percentages of 10%, 15%, 10%, 40%, and 5%, respectively.

The contract defines the policies covered by this reinsurance agreement as "the Company's Net Liability under policies, contracts and binders of insurance or reinsurance, new and renewal on or after the effective date hereof and classified by the Company as Commercial Automobile or General Liability business, produced by or through First Capital." The liability of the participating reinsurers as respects any one occurrence shall not exceed $10,000,000. Further, the unsubscribed portion of the 100% quota share, or 20% of each loss, is retained by the Company.

Accident and Health Quota Share Reinsurance Contract

The Company entered into a Quota Share reinsurance contract with an effective date of January 1, 2017. The term of the contract is for one year, with a continuous renewal period. The agreement was terminated June 30, 2018.

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

Company's Retention	Reinsurance Limits	Type of business Covered
40%	60%	Accident & Health

The coverage provided above is through two participating insurers, Lloyd's Syndicate 2003 and Lloyd's Syndicate 4711, which assume 50% and 10% of the total 60% quota share, respectively.

In addition to the contracts described above, the Company was a party to reinsurance agreements, along with its affiliate ASIC, with third party reinsurers providing coverage related to the risks reinsured above. These agreements were in effect for a portion of the examination period, though the Company's participation was terminated in conjunction with the sale of the Company to LD.

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 operates the reinsurance program pursuant to properly executed written authorizations between the Company and its intermediaries as required by 40 P.S. § 321.3.

ASSUMED

The Company entered into a Quota Share reinsurance contract with an effective date of January 1, 2018. The term of the contract is indefinite. The details of this contract are as follows:

Reinsured's Retention	Reinsurance Limits	Type of business Covered
0%	100%	Commercial Auto

The Commercial Auto business covered by this agreement is defined as that written by First Capital.

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

TERRITORY AND PLAN OF OPERATION

The Company is licensed in 49 states, excluding New Hampshire, and the District of Columbia. As of December 31, 2018, the Company was writing business in Arizona, California,

Colorado, Idaho, Illinois, Indiana, Maryland, New York, Ohio, Oklahoma, Pennsylvania, Texas, Utah, and Vermont.

The Company's major line of business is commercial auto liability. As of December 31, 2018, the majority of the Company's direct written premium was produced by affiliated agency, First Capital.

The Company reported the following net written premiums, by line of business, for the year ended December 31, 2018:

Line of Business	Direct and Assumed Premium	Ceded Premium	Net Written Premium	Percentage of Total
December 31, 2018				
Inland marine	$ 753,058	$ 571,348	$ 181,710	1.8%
Group accident and health	63,196	69,046	(5,850)	-0.1%
Other accident and health	115,581	128,248	(12,667)	-0.1%
Other liability - occurrence	117,407	94,906	22,501	0.2%
Private passenger auto liability	166,563	286,102	(119,539)	-1.2%
Commercial auto liability	38,653,627	29,251,757	9,401,870	93.2%
Auto physical damage	2,825,401	2,205,347	620,054	6.1%
Totals	$ 42,694,833	$ 32,606,754	$ 10,088,079	100.0%

SIGNIFICANT OPERATING RATIOS AND TRENDS

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

	Amount	Percentage
Premiums earned	85,001,637	100.0 %
Losses incurred	35,065,015	41.3 %
Loss expenses incurred	6,988,953	8.2 %
Other underwriting expenses incurred	39,500,324	46.5 %
Net underwriting gain or (loss)	3,447,345	4.1 %
Totals	85,001,637	100.0 %

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

	2018	2017	2016	2015
Admitted assets	$ 28,650,073	$ 43,270,238	$ 36,280,215	$ 32,297,639
Liabilities	$ 16,217,758	$ 25,435,820	$ 19,330,748	$ 16,479,387
Surplus as regards policyholders	$ 12,432,315	$ 17,834,418	$ 16,949,467	$ 15,818,252
Gross premium written	$ 42,694,833	$ 33,990,735	$ 25,910,235	$ 24,924,562
Net premium written	$ 10,088,079	$ 25,199,000	$ 25,242,500	$ 21,341,800
Underwriting gain/(loss)	$ 455,772	$ 2,708,362	$ (702,476)	$ 985,687
Investment gain/(loss)	$ 791,105	$ 852,863	$ 681,784	$ 611,970
Other gain/(loss)	$ 2,956	$ (97,021)	$ 1,208	$ (3,468)
Net income	$ 1,149,164	$ 2,656,910	$ (45,479)	$ 1,187,870

The Company reported material growth in commercial auto liability business during the examination period, through its affiliated agency, First Capital. This growth is evidence of the Company's strategic objectives under the new ownership of LD. The Company is focused on continuing to write commercial auto coverage through First Capital to include "package offerings" for commercial truckers that includes commercial trucking physical damage, commercial trucking cargo liability, and commercial trucking other liability in addition to the commercial trucking liability coverage previously written. The Company offering this "package" coverage is described as a response to an identified need of the policyholder, and the Company believes these additional coverages identify total exposure more efficiently.

The fluctuation in net premium written for the year ended December 31, 2018, is attributed to the termination of the intercompany pooling agreement with ASIC.

PENDING LITIGATION

As of December 31, 2018, the Company is subject to litigation and arbitration arising in the normal course of business. As of the date of this examination report the Company is not a party to any material litigation or arbitration, other than as routinely encountered in claims activity.

FINANCIAL STATEMENTS

The financial condition of the Company, as of December 31, 2018, and the results of its operations for the four-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, 2018

	2018	2017	2016	2015
Bonds	$ 15,854,226	$ 23,654,972	$ 21,989,178	$ 20,938,083
Preferred stocks	317,375	433,837	560,736	702,760
Common stocks	2,327,106	3,716,613	3,084,714	4,023,128
Cash, cash equivalents, and short term investments	3,666,158	11,120,018	7,231,353	2,763,531
Receivable for securities	3,926	3,825	3,473	0
Subtotals, cash and invested assets	22,168,791	38,929,265	32,869,454	28,427,502
Investment income due and accrued	124,607	220,038	191,598	195,455
Premiums and agents' balances due	3,322,732	3,660,950	2,214,193	2,669,203
Amounts recoverable from reinsurers	717,080	177,231	123,699	370,735
Current federal and foreign income tax recoverable and interest thereon	24,371	0	0	0
Net deferred tax asset	292,492	282,754	807,671	634,744
Guaranty funds receivable or on deposit	0	0	73,600	0
Receivable from parent, subsidiaries and affiliates	2,000,000	0	0	0
Total	$ 28,650,073	$ 43,270,238	$ 36,280,215	$ 32,297,639
Losses	$ 6,535,093	$ 6,342,000	$ 5,747,000	$ 4,625,999
Reinsurance payable on paid loss and loss adjustment expenses	2,649	970,800	666,300	713,200
Loss adjustment expenses	1,096,321	2,228,000	2,021,000	1,691,000
Commissions payable, contingent commissions and other similar charges	520,652	186,424	2,243	2,465
Other expenses	46,251	0	0	0
Taxes, licenses and fees	578,823	340,156	74,126	337
Current federal and foreign income taxes	32,060	888,076	54,713	543,639
Unearned premiums	3,903,242	7,344,100	10,738,300	8,638,800
Advance premium	3,218	4,205	4,270	5,455
Ceded reinsurance premiums payable (net of ceding commissions)	3,499,404	3,708,070	16,096	34,109
Amounts withheld or retained by company for account of others	45	680	0	0
Payable to parent, subsidiaries and affiliates	0	3,423,309	6,700	158,500
Payable for securities	0	0	0	65,883
Total liabilities	16,217,758	25,435,820	19,330,748	16,479,387
Common capital stock	4,000,000	4,000,000	4,000,000	3,000,000
Gross paid in and contributed surplus	8,509,000	1,509,000	1,509,000	1,509,000
Unassigned funds (surplus)	(76,685)	12,325,418	11,440,467	11,309,252
Surplus as regards policyholders	12,432,315	17,834,418	16,949,467	15,818,252
Totals	$ 28,650,073	$ 43,270,238	$ 36,280,215	$ 32,297,639

Comparative Statement of Income
As of December 31, 2018

Underwriting Income	2018	2017	2016	2015
Premiums earned	$ 13,528,937	$ 28,593,200	$ 23,143,000	$ 19,736,500
Deductions:				
Losses incurred	7,348,815	11,615,200	9,601,700	6,499,300
Loss expenses incurred	1,398,800	1,956,729	1,759,361	1,874,063
Other underwriting expenses incurred	4,325,550	12,312,909	12,484,415	10,377,450
Total underwriting deductions	13,073,165	25,884,838	23,845,476	18,750,813
Net underwriting gain or (loss)	455,772	2,708,362	(702,476)	985,687
Investment Income				
Net investment income earned	670,497	700,468	623,076	588,868
Net realized capital gains or (losses)	120,608	152,395	58,708	23,102
Net investment gain or (loss)	791,105	852,863	681,784	611,970
Other Income				
Aggregate write-ins for miscellaneous income	2,957	3,107	2,208	0
Total other income	2,956	(97,021)	1,208	(3,468)
Net income before dividends to policyholders and before federal and foreign income taxes	1,249,833	3,464,204	(19,484)	1,594,189
Federal and foreign income taxes incurred	100,669	807,294	25,995	406,319
Net income	$ 1,149,164	$ 2,656,910	$ (45,479)	$ 1,187,870

Comparative Statement of Capital and Surplus
For the Year Ended December 31, 2018

	2018	2017	2016	2015
Surplus as regards policyholders, December 31, previous year	$ 17,834,418	$ 16,949,467	$ 15,818,252	$ 15,656,804
Net income	1,149,164	2,656,910	(45,479)	1,187,870
Net unrealized capital gains or (losses)	(519,178)	274,750	2,486	(91,326)
Change in net deferred income tax	(128,271)	(457,397)	172,927	(12,693)
Change in nonadmitted assets	(5,069,400)	10,688	1,281	77,597
Surplus adjustments:				
Paid in	7,000,000	0	0	0
Dividends to stockholders	(7,834,418)	(1,600,000)	0	(1,000,000)
Change in surplus as regards policyholder for the year	(5,402,103)	884,951	1,131,215	161,448
Surplus as regards policyholders, December 31, current year	$ 12,432,315	$ 17,834,418	$ 16,949,467	$ 15,818,252

Comparative Statement of Cash Flow
For the Year Ended December 31, 2018

	2018	2017	2016	2015
Cash from Operations				
Premiums collected net of reinsurance	$ 10,216,644	$ 27,444,153	$ 25,678,312	$ 21,383,033
Net investment income	884,176	851,515	784,063	781,139
Miscellaneous income	2,956	(97,021)	1,208	(3,468)
Total income	11,103,776	28,198,647	26,463,583	22,160,704
Benefit and loss related payments	8,565,522	10,769,232	8,280,563	6,034,535
Commissions, expenses paid and aggregate write-ins for deductions	6,335,083	13,538,827	13,913,809	11,841,528
Federal and foreign income taxes paid (recovered)	1,013,116	52,437	545,165	74,202
Total deductions	15,913,721	24,360,496	22,739,537	17,950,265
Net cash from operations	(4,809,945)	3,838,151	3,724,046	4,210,439
Cash from Investments				
Proceeds from investments sold, matured or repaid:				
Bonds	9,613,398	5,655,317	4,638,370	4,053,113
Stocks	5,686,159	4,953,208	7,880,734	9,552,610
Net gain or (loss) on cash and short-term investments	(3,551)	0	(215)	0
Miscellaneous proceeds	0	0	0	67,786
Total investment proceeds	15,296,006	10,608,525	12,518,889	13,673,509
Cost of investments acquired (long-term only):				
Bonds	2,036,888	7,503,177	5,830,407	4,821,206
Stocks	4,575,170	4,871,771	6,723,550	10,087,127
Miscellaneous applications	101	352	69,356	0
Total investments acquired	6,612,159	12,375,300	12,623,313	14,908,333
Net cash from investments	8,683,847	(1,766,775)	(104,424)	(1,234,824)
Cash from Financing and Miscellaneous Services				
Other cash provided (applied):				
Capital and paid in surplus, less treasury stock	7,000,000	0	1,000,000	0
Dividends to stockholders (paid)	7,834,418	1,600,000	0	1,000,000
Other cash provided or (applied)	(10,493,344)	3,417,289	(151,800)	(148,268)
Net cash from financing and miscellaneous sources	(11,327,762)	1,817,289	848,200	(1,148,268)
Reconciliation of cash and short-term investments:				
Net change in cash and short-term investments	(7,453,860)	3,888,665	4,467,822	1,827,347
Cash and short-term investments:				
Beginning of the year	11,120,018	7,231,353	2,763,531	936,184
End of the year	$ 3,666,158	$ 11,120,018	$ 7,231,353	$ 2,763,531

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, 2018, the Company's invested assets were distributed as follows:

	Amount	Percentage
Bonds	15,854,226	71.5 %
Preferred stocks	317,375	1.4 %
Common stocks	2,327,106	10.5 %
Cash	3,546,223	16.0 %
Short-term investments	119,935	0.5 %
Receivable for securities	3,926	0.1 %
Totals	22,168,791	100.0 %

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

NAIC Designation	Amount	Percentage
1 - highest quality	12,630,294	79.1 %
2 - high quality	3,343,867	20.9 %
3 - medium quality	0	0.0 %
4 - low quality	0	0.0 %
5 - lower quality	0	0.0 %
6 - in or near default	0	0.0 %
Totals	15,974,161	100.0 %

Years to Maturity	Amount	Percentage
1 year or less	2,441,465	15.3 %
2 to 5 years	9,695,423	60.7 %
6 to 10 years	3,425,674	21.4 %
11 to 20 years	281,673	1.8 %
over 20 years	129,926	0.8 %
Totals	15,974,161	100.0 %

The Company has a custodial agreement 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. The Company was following its investment policy at December 31, 2018.

The Company's invested assets are comprised primarily of Bonds and Cash, representing 71.5% and 16.0% of total invested assets, respectively, at December 31, 2018. 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.

LIABILITIES

LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES

The Company reported net reserves in the amount of $6,535,093 for losses and $1,096,321 for loss adjustment expenses ("LAE") on the December 31, 2018 Annual Statement.

For each year in the examination period, the appointed actuary ("AA") was David L. Miller, FCAS, MAAA, an independent actuarial consultant associated with the firm of David L. Miller, Ltd. The AA has provided a Statement of Actuarial Opinion ("Opinion") stating 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 ("Annual Statement Instructions").*

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 Baker Tilly Virchow Krause, LLP ("Baker Tilly Actuaries") assisted the examination team in performing a risk-focus review of the Company's reserving and pricing practices. The Baker Tilly Actuaries performed their review along with assistance from the Department's internal property and casualty actuarial staff. Due to examination timing, Baker Tilly Actuaries also considered the financial results as reported on the Company's 2019 Annual Statement filings.

Based on the procedures performed and the results obtained, the examination team obtained sufficient documentation to support the conclusion that the Company's carried loss and LAE reserve amounts are not reasonably stated as of December 31, 2018. The Baker Tilly Actuaries, along with the Department noted deterioration of $1,600,000 in reserves through the year subsequent the examination date, 2019, which was roughly 21% of the Company's carried loss and LAE reserve at December 31, 2018.

The Department does not recommend an adjustment to the December 31, 2018 reserves, due to the adverse development recognized in the 2019 Annual Statements filed by the Company. The Department will continue to monitor loss trends and reported reserves of the Company.

SUBSEQUENT EVENTS

On September 16, 2019, the Board appointed a new actuary to opine on the December 31, 2019 reserves. Mr. Joseph Gravelle, FCAS, MAAA, of Martin & Company was appointed by the Board to replace David Miller. The Department received the appropriate change in actuary and no disagreement letters as required by the *Annual Statement Instructions*.

On October 3, 2019, LD submitted an application with the California Department of Insurance to acquire control of Seaview Insurance Company ("Seaview"), a California domestic insurer. Seaview is a direct wholly-owned subsidiary of Seaview Surety Holding, LLC ("Seaview Holding"), a California limited liability corporation. Per the application, LD will acquire all of the Class B Preferred Units of Seaview Holding from Endeavor Capital Fund VI, LP, and Endeavor Associates Fund, VI, LP, for a purchase price of $7,600,000. In a letter dated November 26, 2019, the Insurance Commissioner of the State of California approved the acquisition of Seaview Holding by LD. The acquisition of Seaview Holding by LD makes Seaview and Seaview Holding affiliates of the Company.

On February 4, 2020, the Company filed a Form D with the Department requesting approval to amend the Agency Agreement between the Company and First Capital. This amendment was for a one-time retroactive amendment to the previously approved commission rate, in which First Capital will return to the Company 10% of 2019 commission payments, totaling $3,733,302. The effective date of this transaction is December 31, 2019. The Department communicated approval of this Form D in a letter to the Company dated February 10, 2020.

On February 7, 2020, the Company filed a Form D with the Department requesting approval of a capital contribution to be made by LD to the Company. The contribution was to be made in cash and at the time of filing was estimated to be in the range of $1,000,000 to $3,000,000. In a letter dated February 19, 2020, the Department approved the capital contribution in the amount of $1,000,000.

The Company reported on its December 31, 2019 Annual Statement, one-year adverse loss development of $1,603,769, which equates to 12.9% of prior year surplus.

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 recommended the Company appoint a committee in accordance with 40 P.S. § 991.1405(c)(4.1) and ensure the committee is active in performing the required***

responsibilities outlined with regards to nominations, principal officer performance evaluations and compensation recommendations.

The Company has complied with this recommendation.

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

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

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

   The Company has complied with this recommendation.

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

   The Company has complied with this recommendation.

CURRENT EXAMINATION

As a result of the current examination, we have not identified any recommendations to be made of the Company.

CONCLUSION

As a result of this examination, the financial condition of American Sentinel Insurance Company, as of December 31, 2018, was determined to be as follows:

	Amount	Percentage
Admitted assets	28,650,073	100.0 %
Liabilities	16,217,758	56.6 %
Surplus as regards policyholders	12,432,315	43.4 %
Total liabilities and surplus	28,650,073	100.0 %

Since the previous examination made as of December 31, 2014, the Company's assets decreased by $1,514,416, its liabilities increased by $1,710,022, and its surplus decreased by $3,224,489.

This examination was conducted by Gary Greenaway Jr., CFE, and Cornelius Mcconville of the Department; Phil Schmoyer, CFE, CISA, AES, Jimmy Edmundson, CISA, Grant Fitzsimmons, Michael Dubin, FCAS, FSA, MAAA, DCA, Dave Wolfe, ACAS, MAAA, Jake Powell, Michelle January, MCM, and Philip G. Talerico, CPA, CFE, MCM of Baker Tilly Virchow Krause, LLP, with the latter in charge.

Respectfully,

Melissa L. Greiner
Director
Bureau of Financial Examinations

Matthew C. Milford, CFE
Examination Manager

Philip G. Talerico
Philip G. Talerico (May 29, 2020 14:42 EDT)
Philip G. Talerico, CPA, CFE, MCM
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.