Examination Warrant Number 15-03407-12199-A1

Report of Examination of

Keystone National Insurance Company
Wyalusing, PA

As of December 31, 2015

TABLE OF CONTENTS

Subject **Page**

Harrisburg, Pennsylvania
December 22, 2016

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

Dear Sir:

In accordance with instructions contained in Examination Warrant Number 15-03407-12199-A1, dated, March 6, 2015, an examination was made of

Keystone National Insurance Company, NAIC Code: 12199

a Pennsylvania domiciled multi-state, property and casualty company, hereinafter referred to as "Company." The examination was conducted at the Company's home office, located at 41908 Route 6, Wyalusing, Pennsylvania 18853.

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, 2011. This examination covered the four-year period from January 1, 2012, through December 31, 2015.

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 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 during the period under examination, the certified public accounting firm of Brown Shultz Sheridan & Fritz ("CPA") provided an unmodified audit opinion on the Company's year-end financial statements based on statutory accounting principles. Relevant work performed by CPA, during its annual audit of the Company, was reviewed during the examination and incorporated into the examination workpapers.

The following companies were examined at the same time during the above examination:

Company	NAIC Code
Tuscarora Wayne Insurance Company	17825
Lebanon Valley Insurance Company	14370

HISTORY

Th Company was incorporated on August 13, 2003 and was licensed by the Department on January 1, 2005.

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)(7) Credit, (c)(8) Water Damage, (c)(9) Elevator, (c)(10) Livestock, (c)(11) Auto Liability, (c)(12) Mine and Machinery, and (c)(13) Personal Property Floater.

MANAGEMENT AND CONTROL

CAPITALIZATION

As of the examination date, December 31, 2015, the Company's total capital was $8,760,757 consisting of 1,800,000 capital shares of issued and outstanding common stock with a par value of $1.00 per share amounting to $1,800,000; $5,934,694 in paid in and contributed surplus; and $1,026,063 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 $1,700,000 in capital and $850,000 in surplus. The Company has met the minimum capital and minimum surplus requirements throughout the examination period.

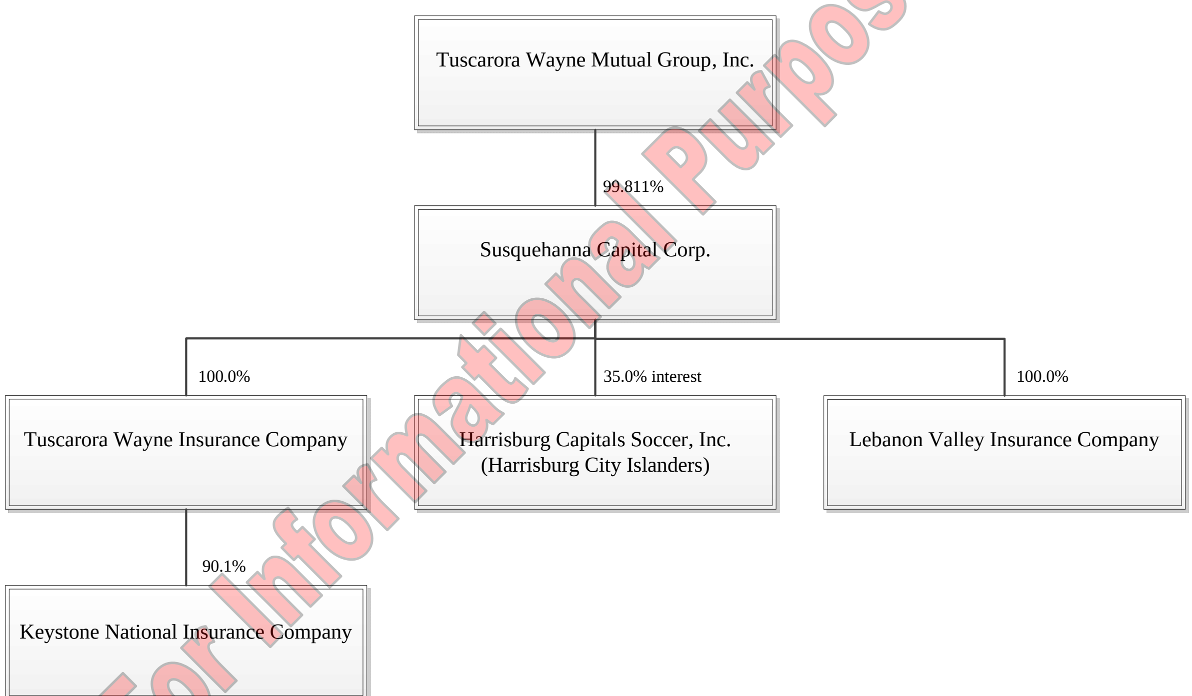
STOCKHOLDER

Tuscarora Wayne Insurance Company ("TWIC"), a stock property and casualty company organized pursuant to the laws of the Commonwealth of Pennsylvania ("Commonwealth"), directly owns 90.1% of the issued and outstanding capital stock of the Company.

INSURANCE HOLDING COMPANY SYSTEM

The Company meets the requirements for filing an insurance holding company system registration statement as required by 40 P.S. § 991.1404. For each year of examination, the Company filed the required registration statement by March 31.

The following organizational chart depicts the holding company system as of December 31, 2015:



Tuscarora Wayne Mutual Group, Inc. ("TWMG") is a mutual holding corporation organized pursuant to the laws of the Commonwealth. TWMG is the sole ultimate controlling person of the holding company system that includes the Company.

Susquehanna Capital Corp. ("SCC"), an intermediate stock holding company organized pursuant to the laws of the Commonwealth. TWMG directly owns 99.811% the issued and outstanding capital stock of SCC.

SCC directly owns 100.0% of the issued and outstanding capital stock of TWIC. As stated earlier, TWIC holds 90.1% of the issued and outstanding capital stock of the Company.

Lebanon Valley Insurance Company ("LVIC") is a stock property and casualty insurance company organized pursuant to the laws of the Commonwealth. SCC directly owns 100.0% of the issued and outstanding capital stock of LVIC. As of March 26, 2010, LVIC issued a surplus note to TWIC in the amount of $2,100,000.

Harrisburg Capitals Soccer, Inc. ("HCS") is a business corporation organized pursuant to the laws of the Commonwealth. HCS is doing business under the fictitious name of Harrisburg City Islanders. On December 16, 2015, SCC purchased a 35.0% interest in HCS.

BOARD OF DIRECTORS

Management of the Company is vested in its Board of Directors ("Board"), which was comprised of the following members as of December 31, 2015:

Name and Address	Principal Occupation
David E. Boedker, Sr. Danville, PA	President/Chief Executive Officer Keystone Insurers Group, Inc.
Scott T. Burgess Exton, PA	Senior Managing Director Griffin Financial Holdings
Jay W. Chadwick Wyalusing, PA	Chairman/President/Chief Executive Officer Tuscarora Wayne Group of Companies
Michael. R. Klinefelter Millersville, PA	President G.R. Klinefelter Underwriters, Inc.
Robert J. Landy III Sayre, PA	Attorney Landy & Rossettie, PLLC
Steven W. Moore Boise, ID	Retired Owner Moore's Auto Sales, Inc.
Andrew S. Ripic III Towanda, PA	Assistant Vice President/General Manager Cargill
Anthony J. Ventello Towanda, PA	Executive Director Central Bradford Progress Authority
Randy B. Williams Towanda, PA	Owner Williams Enterprises

On May 28, 2015, Donald E. Abrey retired from the Board as an active director and was appointed as a director emeritus for a period of two years, ending May 2017.

Subsequent to the date of examination and on February 26, 2016, Robert J. Griffin, Managing Director of CIBC World Markets, was appointed to the Board.

Directors are elected at the annual meeting of the shareholders to serve a three-year term. Directors are divided into three separate classes, as nearly equal in number as possible, and election of each class is staggered so that no more than approximately one third of the Board is elected annually.

The Company has a formal conflict of interest policy. The directors and officers must review and sign the policy annually.

COMMITTEES

As of the examination date, December 31, 2015, the following committees were appointed by the Board and serving in accordance with the Company's by-laws:

Audit Committee
Andrew S. Ripic III - Chairman
Donald E. Abrey
Michael. R. Klinefelter
Robert J. Landy III

Executive Committee
Jay W. Chadwick - Chairman
David E. Boedker, Sr.
Steven W. Moore
Andrew S. Ripic III

Nominating/Governance Committee
Scott T. Burgess - Chairman
Michael. R. Klinefelter
Steven W. Moore
Anthony J. Ventello

OFFICERS

As of the examination date, December 31, 2015, the following officers were appointed and serving in accordance with the Company's by-laws:

Name	Title
Jay W. Chadwick	Chief Executive Officer, President, and Chairman of the Board
Brian K. Bolinger	Chief Financial Officer
Shelby J. Napoli	Corporate Secretary

CORPORATE RECORDS

MINUTES

A compliance review of corporate minutes revealed the following:

- Annual meetings of the Company's shareholders were held in compliance with its by-laws.
- The shareholders elect directors at such meetings in compliance with the by-laws.
- The shareholders ratified the prior year's actions of the directors and officers.

- Quorums were present at all Board meetings.
- A majority of the directors attend Board meetings regularly.
- The Company's investment transactions are approved quarterly by the Board.
- The Company's reinsurance program is reviewed and approved by the Board.

ARTICLES OF INCORPORATION

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

BY-LAWS

On February 29, 2014, the Company's by-laws were amended and restated by resolution of the Board. Section II, Board of Directors, was restated to reflect that nomination for membership to the Board shall be made by a Nominating/Governance Committee. Section V, Nominating Committee, was restated to change the committee's name to Nominating/Governance Committee.

Subsequent to the date of examination, the Company's by-laws were amended and restated on April 5, 2016, and on November 17, 2016. See the "Subsequent Events" section on page 17 of this report for further details.

SERVICE AND OPERATING AGREEMENTS

The Company is party to the following significant service and operating agreements as of the examination date, December 31, 2015:

1. An Investment Management Agreement: Convertibles between TWIC, the Company, and LVIC and Asset Allocation & Management Company, LLC ("AAM") is effective as of May 13, 2011. The agreement provides for the appointment of AAM as investment manager for the management of convertible securities.
2. An Investment Management Agreement: Fixed Income between TWIC, the Company, and LVIC and AAM is effective as of May 13, 2011. The agreement provides for the appointment of AAM as an investment manager for the management of assets pursuant to the agreement.
3. An Investment Consulting Agreement between TWMG (including the Company and all subsidiaries) and Wellspring Capital Advisors, LLC, is effective as of June 1, 2014. The agreement provides for the investment consultant to advise the Company regarding cash and securities under the management of TWMG's investment managers.
4. A Tax Allocation Agreement between TWMG, SCC, TWIC, the Company, and LVIC is effective as of March 14, 2014, for taxable periods ending after January 1, 2014. The agreement provides for the submission of a consolidated income tax return by TWMG for

all parties and for the contribution by all parties of their fair and equitable share of the taxes. The agreement was approved by the Board on November 17, 2016.

5. A Management and Administrative Services Agreement between TWIC and the Company is effective as of January 1, 2010. The agreement provides for TWIC to provide management and support services as set forth in the agreement to the Company.
6. A Reinsurance Cost Sharing Agreement between TWIC and the Company is effective as of May 27, 2011. The agreement provides for the responsibility for the payment of costs and allocation of commissions and expense recoveries related to reinsurance agreements with third parties.

REINSURANCE

CEDED

The Company's reinsurance philosophy is to preserve policyholder's surplus while optimizing underwriting returns. All of the Company's reinsurers are licensed and domiciled in the United States with AM Best ratings of A+. The following is a summary of the Company's reinsurance program as of December 31, 2015:

Reinsurer:	Munich Reinsurance America, Inc.
Type of Contract:	Multi-Line Excess of Loss
Business Covered:	Property and Casualty
Effective Date:	January 1, 2015
Term:	Two years
Company Retention:	$425,000 per risk
Reinsurance Limits:	$575,000 on any one risk or $1,150,000 each occurrence (property)
	$575,000 on any one occurrence (casualty)

Reinsurer:	Munich Reinsurance America, Inc.
Type of Contract:	Property Catastrophe Excess of Loss
Business Covered:	Property
Effective Date:	January 1, 2015
Term:	One year
Company Retention:	$250,000 per occurrence
Reinsurance Limit:	Not to exceed 95% of $2,000,000 each loss occurrence

Reinsurer:	Munich Reinsurance America, Inc.
Type of Contract:	Accident Year Stop Loss Excess of Loss
Business Covered:	Property and Casualty
Effective Date:	January 1, 2015

Term:	One year
Company Retention:	69.5% accident year loss ratio
Reinsurance Limit:	Not to exceed $2,000,000 in any one accident year

Reinsurer:	Munich Reinsurance America, Inc.
Type of Contract:	Umbrella Liability Quota Share
Business Covered:	Commercial and Personal Umbrella Policies
Effective Date:	April 1, 2015
Term:	Effective until terminated
Company Retention:	5% quota share per occurrence
Reinsurance Limit:	95% quota share, not to exceed $3,000,000 per occurrence

Reinsurer:	Munich Reinsurance America, Inc.
Type of Contract:	Property Facultative Excess of Loss
Business Covered:	Commercial, Homeowners, Farmowners, and Fire Dwelling
Effective Date:	January 1, 2013
Term:	Effective until terminated
Company Retention:	$2,000,000 each risk, each occurrence
Reinsurance Limit:	$2,000,000 each risk, each occurrence

Reinsurer:	Factory Mutual Insurance Company
Type of Contract:	100% Quota Share
Business Covered:	Commercial policies endorsed with Equipment Breakdown
Effective Date:	January 1, 2008
Term:	Effective until terminated
Company Retention:	None
Reinsurance Limit:	$25,000,000 any one risk

Reinsurer:	The Hartford Steam Boiler Inspection & Insurance Company
Type of Contract:	100% Quota Share
Business Covered:	Farm Fire, Dwelling Fire and Homeowners policies - liability for losses under an identity recovery coverage form
Effective Date:	January 1, 2013
Term:	Effective until terminated
Company Retention:	None
Reinsurance Limit:	$25,000 annual aggregate limit each insured

Reinsurer:	Ohio Mine Subsidence Insurance Underwriting Association
Type of Contract:	Mine Subsidence 100% ceded
Business Covered:	Homeowners endorsement in certain Ohio counties
Effective Date:	July 1, 2009

Term:	Continuous
Reinsurer Limit:	$300,000 per occurrence

AFFILIATED INTERCOMPANY QUOTA SHARE

The Company is party to the Intercompany Quota Share Assumed Reinsurance Agreement with TWIC, effective January 1, 2012 ("QS Agreement"). Pursuant to the QS Agreement, Company shall cede to TWIC and TWIC shall accept from the Company an 80.0% share of the net retained insurance liability, as defined by the agreement, of the Company effective on or after January 1, 2010. The Company shall retain 20.0% of the net retained insurance liability for each risk reinsured under the agreement.

All of the above contracts appear to transfer risk and contain the appropriate arbitration clause. In addition, all contracts contain the appropriate insolvency clause with the exception of the agreement with the Ohio Mine Subsidence Insurance Underwriting Association. The Company is required by Ohio law to be a party to this contract.

ASSUMED

The Company did not assume any business during the examination period.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2015, the Company is licensed in the following jurisdictions: Georgia, Illinois, Indiana, Kentucky, North Carolina, Ohio, Pennsylvania, Tennessee, and Virginia. Since the Company's prior examination, it obtained licensure in Georgia, Illinois, Tennessee and Virginia. The Company has written premiums in Indiana, Pennsylvania, and Ohio, as of December 31, 2015.

The Company specializes in underwriting coverages on personal, commercial, and agricultural lines of business. The commercial book is comprised of accounts such as forest products, food services, specialty coverages, and small habitational risks. The personal lines book includes older residential homes, mobile homes, hobby farms, and vacant, seasonal, and unoccupied dwellings.

The Company's insurance products are exclusively promoted, marketed, and sold to the public through Keystone Insurers Group, Inc., a professionally managed agency group, located in Danville, Pennsylvania.

The following chart depicts the Company's premium distribution by line as of December 31, 2015:

Line of Business	Direct and Assumed Premium	Ceded Premium	Net Written Premium	Percentage of Total
December 31, 2015				
Fire	$ 1,815,988	$ 1,493,565	$ 322,423	16.8%
Allied lines	860,827	696,683	164,144	8.6%
Farmowners multiple peril	343,899	282,623	61,276	3.2%
Homeowners multiple peril	2,013,311	1,640,361	372,950	19.4%
Commercial multiple peril	4,718,542	3,832,584	885,958	46.2%
Inland marine	130,762	105,872	24,890	1.3%
Other liability - occurrence	464,503	377,380	87,123	4.5%
Totals	$ 10,347,832	$ 8,429,068	$ 1,918,764	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	$ 5,294,776	100.0 %
Losses incurred	2,187,030	41.3 %
Loss expenses incurred	449,540	8.5 %
Other underwriting expenses incurred	2,366,269	44.7 %
Net underwriting gain or (loss)	291,937	5.5 %
Totals	$ 5,294,776	100.0 %

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

	2015	2014	2013	2012
Admitted assets	$ 16,175,609	$ 14,761,399	$ 12,773,240	$ 11,302,023
Liabilities	$ 7,414,852	$ 6,061,626	$ 5,212,983	$ 4,205,882
Surplus as regards policyholders	$ 8,760,757	$ 8,699,773	$ 7,560,257	$ 7,096,141
Gross premium written	$ 10,347,832	$ 8,609,337	$ 7,109,426	$ 5,753,047
Net premium written	$ 1,918,764	$ 1,581,526	$ 1,313,872	$ 1,054,374
Underwriting gain/(loss)	$ 27,345	$ (18,608)	$ 287,365	$ (4,165)
Investment gain/(loss)	$ 219,015	$ 307,079	$ 219,021	$ 199,242
Other gain/(loss)	$ 99,633	$ 90,740	$ 78,657	$ 67,668
Net income	$ 234,762	$ 286,903	$ 394,198	$ 176,598

PENDING LITIGATION

The Company is involved in litigation arising in and out of the normal course of business. The Company is not a party to any current or pending litigation that might have a material, adverse impact on its financial position through the date of this examination report, December 22, 2016.

FINANCIAL STATEMENTS

The financial condition of Company, as of December 31, 2015, 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,

	2015	2014	2013	2012
Bonds	$ 9,032,211	$ 8,651,777	$ 8,146,945	$ 6,509,153
Common stocks	1,765,849	544,983	538,910	423,708
Cash, cash equivalents, and short term investments	3,309,836	3,766,000	2,426,674	2,958,551
Subtotals, cash and invested assets	14,107,896	12,962,760	11,112,529	9,891,412
Investment income due and accrued	51,926	49,356	52,694	42,250
Premiums and agents' balances due	1,667,671	1,359,539	1,073,994	954,767
Amounts recoverable from reinsurers	243,714	301,675	89,591	104,102
Other amounts receivable under reinsurance contracts	1,175	848	407,432	194,367
Current federal and foreign income tax recoverable and interest thereon	0	0	0	18,277
Net deferred tax asset	103,227	87,221	37,000	58,384
Receivable from parent, subsidiaries and affiliates	0	0	0	38,464
Total	$ 16,175,609	$ 14,761,399	$ 12,773,240	$ 11,302,023
Losses	$ 479,745	$ 332,916	$ 185,239	$ 186,990
Loss adjustment expenses	90,000	69,000	34,000	62,000
Commissions payable, contingent commissions and other similar charges	397,314	340,162	782,026	503,664
Other expenses	166,367	64,859	60,610	30,659
Taxes, licenses and fees	99,893	65,601	48,284	49,461
Current federal and foreign income taxes	98,511	106,876	39,554	0
Unearned premiums	1,067,439	886,668	732,856	593,226
Advance premium	174,734	163,778	101,380	98,056
Ceded reinsurance premiums payable (net of ceding commissions)	4,684,040	3,845,438	3,110,109	2,675,268
Drafts outstanding	26,294	23,299	6,536	6,558
Payable to parent, subsidiaries and affiliates	130,515	163,029	112,389	0
Total liabilities	7,414,852	6,061,626	5,212,983	4,205,882
Common capital stock	1,800,000	1,800,000	1,800,000	1,800,000
Gross paid in and contributed surplus	5,934,694	5,934,694	4,934,694	4,934,694
Unassigned funds (surplus)	1,026,063	965,079	825,563	361,447
Surplus as regards policyholders	8,760,757	8,699,773	7,560,257	7,096,141
Totals	$ 16,175,609	$ 14,761,399	$ 12,773,240	$ 11,302,023

Comparative Statement of Income
For the Year Ended December 31,

Underwriting Income	2015	2014	2013	2012
Premiums earned	$ 1,737,993	$ 1,427,713	$ 1,174,241	$ 954,829
Deductions:				
Losses incurred	835,709	710,275	224,973	416,073
Loss expenses incurred	149,554	142,010	65,577	92,399
Other underwriting expenses incurred	725,385	594,036	596,326	450,522
Total underwriting deductions	1,710,648	1,446,321	886,876	958,994
Net underwriting gain or (loss)	27,345	(18,608)	287,365	(4,165)
Investment Income				
Net investment income earned	200,920	177,443	199,960	193,930
Net realized capital gains or (losses)	18,095	129,636	19,061	5,312
Net investment gain or (loss)	219,015	307,079	219,021	199,242
Other Income				
Net gain or (loss) from agents' or premium balances charged off	(3,243)	(2,100)	(1,535)	(1,277)
Finance and service charges not included in premiums	102,876	92,634	79,681	68,945
Aggregate write-ins for miscellaneous income	0	206	511	0
Total other income	99,633	90,740	78,657	67,668
Net income before dividends to policyholders and before federal and foreign income taxes	345,993	379,211	585,043	262,745
Federal and foreign income taxes incurred	111,231	92,308	190,845	86,147
Net income	$ 234,762	$ 286,903	$ 394,198	$ 176,598

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

	2015	2014	2013	2012
Surplus as regards policyholders,				
December 31, previous year	$ 8,699,773	$ 7,560,257	$ 7,096,141	$ 5,856,005
Net income	234,762	286,903	394,198	176,598
Net unrealized capital gains or (losses)	(113,847)	(127,774)	64,019	37,104
Change in net deferred income tax	1,263	16,434	6,564	1,450
Change in nonadmitted assets	(61,194)	(36,047)	(665)	6,584
Cumulative effect of changes in accounting principles	0	0	0	18,400
Surplus adjustments:				
Paid in	0	1,000,000	0	1,000,000
Change in surplus as regards policyholder for the year	60,984	1,139,516	464,116	1,240,136
Surplus as regards policyholders,				
December 31, current year	$ 8,760,757	$ 8,699,773	$ 7,560,257	$ 7,096,141

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

	2015	2014	2013	2012
Cash from Operations				
Premiums collected net of reinsurance	$ 2,460,190	$ 2,093,707	$ 1,632,806	$ 1,373,853
Net investment income	247,315	228,763	232,470	205,720
Miscellaneous income	99,633	90,740	78,657	67,669
Total income	2,807,138	2,413,210	1,943,933	1,647,242
Benefit and loss related payments	630,071	368,098	212,213	454,496
Commissions, expenses paid and aggregate write-ins for deductions	662,162	1,120,991	594,552	234,215
Federal and foreign income taxes paid (recovered)	106,580	91,768	139,032	259,753
Total deductions	1,398,813	1,580,857	945,797	948,464
Net cash from operations	1,408,325	832,353	998,136	698,778
Cash from Investments				
Proceeds from investments sold, matured or repaid:				
Bonds	1,401,556	1,819,296	1,146,569	922,618
Stocks	0	570,613	69,560	75,983
Total investment proceeds	1,401,556	2,389,909	1,216,129	998,601
Cost of investments acquired (long-term only):				
Bonds	1,847,771	2,378,502	2,825,889	3,163,624
Stocks	1,371,466	567,822	65,388	51,275
Total investments acquired	3,219,237	2,946,324	2,891,277	3,214,899
Net cash from investments	(1,817,681)	(556,415)	(1,675,148)	(2,216,298)
Cash from Financing and Miscellaneous Services				
Other cash provided (applied):				
Capital and paid in surplus, less treasury stock	0	1,000,000	0	1,000,000
Other cash provided or (applied)	(46,808)	63,388	145,135	(36,989)
Net cash from financing and miscellaneous sources	(46,808)	1,063,388	145,135	963,011
Reconciliation of cash and short-term investments:				
Net change in cash and short-term investments	(456,164)	1,339,326	(531,877)	(554,509)
Cash and short-term investments:				
Beginning of the year	3,766,000	2,426,674	2,958,551	3,513,060
End of the year	$ 3,309,836	$ 3,766,000	$ 2,426,674	$ 2,958,551

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, 2015, the Company's invested assets were distributed as follows:

	Amount	Percentage
Bonds	$ 9,032,211	64.0 %
Common stocks	1,765,849	12.5 %
Cash	733,058	5.2 %
Short-term investments	2,576,778	18.3 %
Totals	$ 14,107,896	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	$ 10,198,752	87.9 %
2 - high quality	1,336,937	11.5 %
3 - medium quality	73,300	0.6 %
Totals	$ 11,608,989	100.0 %

Years to Maturity	Amount	Percentage
1 year or less	$ 3,599,855	31.0 %
2 to 5 years	4,433,171	38.2 %
6 to 10 years	2,878,895	24.8 %
11 to 20 years	310,806	2.7 %
over 20 years	386,262	3.3 %
Totals	$ 11,608,989	100.0 %

The Company's investment portfolio consists mainly of investment grade bonds and the remainder in cash, short-term investments, and equities. The Company's fixed-income portfolio is comprised of corporate bonds, taxable municipal bonds, and commercial mortgage-backed, and asset-backed securities.

The Company entered into a custodial agreement with Manufacturers and Traders Trust Company, a New York banking corporation, effective June 30, 2011. The custodial agreement complies with the standards for custodial agreements pursuant to 31 PA Code § 148a.3.

The Company has a written investment policy as required by 40 P.S. § 653b(b). The investment policy is reviewed and approved by the Board on an annual basis. At December 31, 2015, the Company was following its investment policy.

LIABILITIES

LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES

The Company reported net reserves of $479,745 and $90,000 for loss and loss adjustment expenses ("LAE") respectively, on the December 31, 2015 Annual Statement.

Steven J. Regnier, ACAS, MAAA, FCA, of Regnier Consulting Group, Inc. has been the Company's appointed actuary for the entire examination period. At December 31, 2015, the appointed actuary issued a Statement of Actuarial Opinion concluding that the Company's reserves "make a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its contracts and agreements".

In order for the examination team to gain an adequate comfort level with the Company's loss and LAE reserve estimates, the examination team performed a risk-focused review of the Company's reserving and pricing processes. Based upon the procedures performed and results obtained, the examination team obtained sufficient evidence to support the conclusion that the Company's net loss and LAE reserves are reasonably stated as of December 31, 2015.

SUBSEQUENT EVENTS

The following events transpired subsequent to December 31, 2015.

On April 5, 2016, the Company's by-laws were amended and restated. The amended and restated by-laws were approved by the Board and were provided to the Department. Amendments were made to various provisions within the by-laws and significant changes included the following:

- separated titles and responsibilities for the chief executive officer and the president,
- with the exception of age restriction, eliminated all other restrictions for Board nomination/election,
- reduced the maximum number of directors from twenty-five to fifteen,
- included the requirement that members of the audit committee and the nominating/governance committee be independent, and
- revised Article VI, Liability and Indemnification for Officers and Directors.

On February 26, 2016, Robert J. Griffin was appointed to the Board.

On November 17, 2016, the Company's by-laws were amended and restated. The amended and restated by-laws were approved by the Board and were provided to the

Department. Various provisions within the by-laws were amended to ensure compliance with insurance holding company requirements and to clarify the following:

- at least two thirds of the members of the Board must be citizens of the United States,
- the president shall be a member of the Board,
- the treasurer may also be either the president or the secretary, and
- membership on committees by the chief executive officer and the chairman.

RECOMMENDATIONS

PRIOR EXAMINATION

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

CURRENT EXAMINATION

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

CONCLUSION

As a result of this examination, the financial condition of Keystone National Insurance Company, as of December 31, 2015, was determined to be as follows:

	Amount	Percentage
Admitted assets	$ 16,175,609	100.0 %
Liabilities	$ 7,414,852	45.8 %
Surplus as regards policyholders	8,760,757	54.2 %
Total liabilities and surplus	$ 16,175,609	100.0 %

Since the previous examination, made as of December 31, 2011, the Company's assets increased by $6,884,866, its liabilities increased by $3,980,114, and its surplus increased by $2,904,752.

This examination was conducted by Michael Lisowski, Dennis Williams, and Stephanie Ohnmacht, CFE, with the latter in charge.

Respectfully,

Melissa L. Greiner
Director
Bureau of Financial Examinations

Shannon Hopkins

Shannon Hopkins, CFE
Examination Manager

Stephanie A. Ohnmacht
-cdd

Stephanie A. Ohnmacht, 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.