

Examination Warrant Numbers 15-03118-11703-R1
15-03118-11219-R1
15-03118-12274-R1

**Report of Examination of
Lackawanna Casualty Company,
Lackawanna American Insurance Company, and
Lackawanna National Insurance Company
Wilkes-Barre, Pennsylvania
As of December 31, 2015**

For Informational Purposes Only

Lackawanna Insurance Group

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Harrisburg, Pennsylvania
January 9, 2017

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

Dear Sir:

In accordance with instructions contained in Examination Warrant Numbers 15-03118-11703-R1, 15-03118-11219-R1, and 15-03118-12274-R1, dated March 6, 2015, an examination was made of

Lackawanna Casualty Company, NAIC Code:11703,

Lackawanna American Insurance Company, NAIC Code:11219, and

Lackawanna National Insurance Company, NAIC Code:12274

Pennsylvania domiciled single-state, property and casualty insurance companies, hereinafter referred to collectively as "Lackawanna Insurance Group" or "Companies." The examination was conducted at the Companies' home office, located at 46 Public Square, Suite 501, Wilkes-Barre, Pennsylvania 18701.

A report of this group examination is hereby respectfully submitted.

SCOPE OF EXAMINATION

The Pennsylvania Insurance Department ("Department") has performed a group examination of the Companies, which were last examined as of December 31, 2010. This examination covered the five-year period from January 1, 2011, 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 the Companies, 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 Lackawanna Insurance Group 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 Companies' financial statements.

This examination report includes significant findings of fact, in accordance with 40 P.S. § 323.5(a), and general information about the Companies and their 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 Lackawanna Insurance Group.

For each year during the period under examination, the certified public accounting firm of Baker Tilly Virchow Krause, LLP (formerly ParenteBeard, LLC) ("CPA") provided an unmodified audit opinion on the Companies' year-end consolidated financial statements based on statutory accounting principles. Relevant work performed by the CPA, during its annual audit of the Companies, was reviewed during the examination and incorporated into the examination workpapers.

HISTORY

Lackawanna Casualty Company ("LCC") was incorporated on July 6, 1942, licensed by the Department October 6, 1942, and commenced business on or about November 1, 1942.

LCC is currently authorized to transact those classes of insurance described in 40 P.S. § 382(c)(1) Fidelity and Surety, (c)(4) Other Liability, and (c)(14) Workers' Compensation.

Lackawanna American Insurance Company ("LAIC") was incorporated on July 8, 1999, licensed by the Department on May 9, 2002, and commenced business on or about July 1, 2002.

LAIC is currently authorized to transact the class of insurance described in 40 P.S. § 382(c)(14) Workers' Compensation.

Lackawanna National Insurance Company ("LNIC") was incorporated on October 1, 2003, licensed by the Department on May 17, 2005, and commenced business on or about May 17, 2005.

LNIC is currently authorized to transact the class of insurance described in 40 P.S. § 382(c)(14) Workers' Compensation.

MANAGEMENT AND CONTROL

CAPITALIZATION

As of the examination date, December 31, 2015, LCC's total capital was \$80,830,698, consisting of 220,000 capital shares of issued and outstanding class A voting common stock with a par value of \$5.00 per share and 214,286 capital shares of issued and outstanding class B voting common stock with no par value amounting to \$1,100,001; \$500,000 in paid in and contributed surplus; and \$79,230,697 in unassigned funds (surplus).

LCC's minimum capital and minimum surplus requirements for the types of business for which it is licensed, pursuant to 40 P.S. § 386, is \$1,000,000 in capital and \$500,000 in surplus. LCC has met the minimum capital and minimum surplus requirements throughout the examination period.

As of the examination date, December 31, 2015, LAIC's total capital was \$39,148,769, consisting of 7,000 capital shares of issued and outstanding class A voting common stock with no par value and 3,000 capital shares of issued and outstanding class B voting common stock with no par value amounting to \$3,000,001; \$7,136,783 in paid in and contributed surplus; and \$29,011,985 in unassigned funds (surplus).

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

As of the examination date, December 31, 2015, LNIC's total capital was \$14,043,183, consisting of 7,000 capital shares of issued and outstanding class A voting common stock with no par value and 3,000 capital shares of issued and outstanding class B voting common stock with no par value amounting to \$1,500,001; \$3,500,000 in paid in and contributed surplus; and \$9,043,182 in unassigned funds (surplus).

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

STOCKHOLDERS

Pagnotti Enterprises, Inc. ("PEI"), a for-profit corporation organized under the laws of the State of Delaware, directly owns all of the issued and outstanding class A voting common stock of LCC representing 91.1% of the voting securities of LCC. LCC directly owns all of the issued and outstanding class A voting common stock of LAIC and LNIC representing 95.9% of the voting securities of each company.

Brynfan Associates, LP ("Brynfan"), a limited partnership organized under the laws of the State of Florida, directly owns all of the issued and outstanding class B voting common stock of LCC, LAIC, and LNIC representing 8.9%, 4.1%, and 4.1% of the voting securities of each company, respectively.

During the examination period, LCC paid to stockholders the following total cash dividends each year:

| <u>Year</u> | <u>Ordinary</u> | <u>Extraordinary</u> |
|-------------|-----------------|----------------------|
| 2011 | \$1,000,000 | n/a |
| 2012 | \$2,691,000 | \$50,000,000 |
| 2013 | \$7,000,000 | n/a |
| 2014 | \$8,700,000 | n/a |
| 2015 | \$1,900,000 | \$18,000,000 |

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As of December 31, 2015, the ultimate controlling persons of the holding company system that includes the Companies are:

| | | |
|-----------------------------|---------------------|------------------------|
| Micheline M. Pagnotti | Judith Haudenschild | Louis J. Pagnotti, Jr. |
| Robert H. Eggleston, Jr. | David H. Swisher | Mark H. DeStefano |
| Charles E. and Mary Parente | Brian J. Parente | Charles L. Parente |
| Marla Parente | John Parente | Tedesco Corporation |

As stated earlier, LCC directly controls 95.9% of the voting securities of LAIC and LNIC. PEI directly controls 91.1% of LCC.

As depicted in the organizational chart, Louis Pagnotti, Inc., The Ithaca Company, Tedesco Corporation, and Brynfan each own a greater than 10.0% share of PEI's voting securities.

Louis Pagnotti, Inc., a corporation organized under the laws of the State of Delaware, directly owns 56.66% of the class A voting common stock of PEI, representing 45.33% of the voting securities of PEI. Micheline M. Pagnotti, Judith Haudenschild, Louis J. Pagnotti, Jr., and Robert H. Eggleston, Jr. each individually own an 11.11%, 16.67%, 20.0%, and 16.67% share, respectively, of the voting securities of Louis Pagnotti, Inc. Individuals that own a greater than 10.0% share of the remaining voting securities of Louis Pagnotti, Inc. have disclaimers of control accepted by the Department.

The Ithaca Company, a for-profit corporation organized under the laws of the State of Delaware, directly owns 21.67% of the issued and outstanding class A voting common stock of PEI representing 17.34% of the voting securities of PEI. David H. Swisher and Mark H. DiStefano each individually own a 15.56% and 33.55% share, respectively, of the voting securities of The Ithaca Company. Individuals that own a greater than 10.0% share of the remaining voting securities of The Ithaca Company have disclaimers of control accepted by the Department.

Tedesco Corporation, a for-profit corporation organized under the laws of the Commonwealth of Pennsylvania, directly owns 21.67% of the issued and outstanding class A voting common stock of PEI representing 17.34% of the voting securities of PEI. Individuals that own a greater than 10.0% share of the voting securities of Tedesco Corporation have disclaimers of control accepted by the Department.

Brynfan directly owns all of the issued and outstanding class C voting common stock of PEI representing a 20.0% share of the voting securities of PEI.

Sedgwick Co., LLC ("Sedgwick"), a limited liability company organized under the laws of the State of Delaware, is the sole general partner of Brynfan. As of December 31, 2015, Charles E. and Mary Parente together own a 60.0% interest of Sedgwick and Charles L. Parente, Brian J. Parente, Marla Parente, and John Parente each individually own a 10.0% interest in Sedgwick.

Other non-insurance affiliates in the Companies' holding company system include Meya Development Company; Freya Land Company; Marvine Properties, LLC; PSA Realty Company; Lehigh Valley Coal Sales Company, Inc.; Cordelia Company; Jeddo Coal Company;

Jeddo-Highland Coal Company; Morea Culm Services, Inc.; Black Coal Company; Morea Co-Gen Inc.; North Coal Company; and Indian Head Coal Company.

As a result of the holding company procedures performed during the examination, the following findings were made:

1. Effective January 1, 2012, Brynfan (formerly known as Brynfan Associates) converted from a general partnership to a limited partnership, and Sedgwick became the sole general partner of Brynfan. Subsequently, effective January 1, 2013, the ownership interests of the controlling individuals of Sedgwick changed to those previously stated.

As relates the aforementioned transactions, no request for approval or request for exemption were made to the Department under 40 P.S. § 991.1402. The Companies did not file an amendment to the Annual Registration Statement as required by 31 Pa. Code § 25.17(c). In addition, the Companies' Annual Registration Statements for years 2012 through 2015 did not reflect these transactions nor accurately and completely present the identities and control of the affiliates.

It is recommended that the Companies establish a formal process to monitor proposed transactions affecting the direct or indirect control of the Companies and obtain prior approval or exemption of transactions, when applicable, pursuant to the requirements of 40 P.S. § 991.1402.

It is recommended that the Companies ensure the Annual Registration Statement contains complete and accurate information on all affiliates in compliance with the requirements of 40 P.S. § 991.1404 and 31 Pa. Code § 25.17.

2. The following individuals were determined to be additional ultimate controlling persons of the Companies during the examination period and as of December 31, 2015: Robert H. Eggleston, Jr., Judith Haudenschild, Louis J. Pagnotti, Jr., David H. Swisher, Mark H. DeStefano, Charles E. and Mary Parente, Charles L. Parente, Brian J. Parente, Marla Parente, John Parente and Tedesco Corporation.

The Companies' Annual Registration Statements for years 2012 through 2015 did not identify the individuals as ultimate controlling persons.

It is recommended that the Companies ensure the Annual Registration Statement completely and accurately identifies all ultimate controlling persons in compliance with the requirements of 40 P.S. § 991.1404 and 31 Pa. Code § 25.17.

It is recommended that all ultimate controlling persons of the Companies comply with the filing requirements of 40 P.S. § 991.1404.

3. The Schedule Y filed within each of the Companies' annual and quarterly statements for years 2012 through 2015 did not contain complete or accurate information on affiliates and ultimate controlling persons of the Companies.

It is recommended that the Companies ensure that the Schedule Y filed within their future annual and quarterly statements contain complete and accurate information on all affiliates in compliance with NAIC Annual Statement Instructions – Property and Casualty.

Subsequent to December 31, 2015, and on November 23, 2016, and December 20, 2016, the Companies filed amendments to its 2015 Annual Registration Statement accurately identifying all ultimate controlling persons identified during the examination.

BOARD OF DIRECTORS

Management of the Companies is vested in each company's board of directors ("Board"). The composition of the three Companies' Boards is identical and comprised of the following members as of the examination date, December 31, 2015:

| Name and Address | Principal Occupation |
|----------------------------------------|------------------------------------------------------------------------------------|
| Joseph J. Calabro Fairhaven, NJ | President/Chief Executive Officer/Founder Physicians' Practice Enhancement, LLC |
| Mark H. DeStefano Scranton, PA | Vice President of Finance Latona Trucking, Inc. |
| Marguerite E. Dewees Dallas, PA | Senior Executive Assistant Highmark |
| Mary Anne Eggleston Scranton, PA | Corporate Secretary Pagnotti Enterprises, Inc. |
| Micheline M. Pagnotti Scranton, PA | President Pagnotti Enterprises, Inc. |
| John J. Parente, Jr. Springboro, OH | Retired |
| Kenneth M. Weaver Mountain Top, PA | President/Chief Financial Officer Lackawanna Casualty Company |

Subsequent to December 31, 2015, and on June 30, 2016, David H. Swisher, Esquire, of Clarks Summit, Pennsylvania, and John Parente of Tunkhannock, Pennsylvania, were appointed to the Companies' Board by Unanimous Consent of the Shareholders and Directors.

Pursuant to the Companies' by-laws, members of the Board are elected by the shareholders at the annual shareholders meeting. All Board members are elected to serve a term of one year or until their successors are chosen and qualified.

The Companies have a conflict of interest policy in place that covers Board members, officers, and key employees which is required to be signed annually.

COMMITTEES

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

Nominating Committee

Joseph J. Calabro
Marguerite E. Dewees
John J. Parente, Jr.

Audit Committee

Joseph J. Calabro
Marguerite E. Dewees
John J. Parente, Jr.

OFFICERS

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

Name

Charles E. Parente
Kenneth M. Weaver
David H. Swisher
Mary Anne Eggleston
Micheline M. Pagnotti

Title

Chief Executive Officer
President/Chief Financial Officer
Treasurer/Assistant Secretary
Vice President/Secretary
Chairwoman of the Board

Subsequent to December 31, 2015, and on November 5, 2016, Charles E. Parente, Chief Executive Officer, passed away.

CORPORATE RECORDS

MINUTES

A compliance review of the Companies' corporate minutes revealed the following:

- Shareholders of LCC, LAIC, and LNIC hold meetings and elect directors in compliance with their by-laws.
- Officers of the Companies are appointed annually by each company's Board in compliance with their by-laws.
- Quorums were present at all directors, committee, and shareholders' meetings.
- Directors attended Board meetings regularly.
- The Companies' investment transactions are approved quarterly by the Board.
- Minutes of Board meetings reflected Board discussion and review of the Companies' reinsurance treaty renewals.

ARTICLES OF INCORPORATION

There have been no changes or amendments to the articles of incorporation of LCC, LAIC, or LNIC during the period under examination.

BY-LAWS

LCC revised and restated its by-laws, which were adopted by LCC's Board on March 30, 2011. The revised and restated by-laws effected changes to officer definitions, officer responsibilities, and LCC's registered office.

LAIC revised and restated its by-laws, which were adopted by LAIC's Board on March 30, 2011. The revised and restated by-laws effected changes to officer definitions and officer responsibilities.

There have been no changes or amendments to LNIC's by-laws during the period under examination.

SERVICE AND OPERATING AGREEMENTS

The Companies are party to various service and operating agreements, including several intercompany and related-party agreements. The following significant agreements were in place during the period of examination:

1. An Administrative Services Cost-Sharing Agreement between LCC (provider) and PEI (recipient), dated January 1, 2011; the agreement sets forth administrative services to be provided by LCC to PEI and sets forth the expenses to be shared and payments terms. The agreement was approved by the LCC's Board on March 30, 2011.
2. An Administrative Services Cost-Sharing Agreement between PEI (provider) and LCC (recipient), dated January 1, 2011; the agreement sets forth administrative services to be provided by PEI to LCC and provides for the payment of expenses by PEI on behalf of LCC. The agreement sets forth the expenses to be shared and payments terms. The agreement was approved by the LCC's Board on March 30, 2011.
3. A Cost-Sharing Agreement between LCC and LAIC, dated January 1, 2011; the agreement sets forth administrative services to be provided by LCC to LAIC and sets forth the expenses to be shared and payment terms. The agreement was approved by the Companies' Board on March 30, 2011.
4. A Cost-Sharing Agreement between LCC and LNIC, dated January 1, 2011; the agreement sets forth administrative services to be provided by LCC to LNIC and sets forth the expenses to be shared and payments terms. The agreement was approved by the Companies' Board on March 30, 2011.

5. An Executive Services Agreement (“ESA”) between Brynfan, Inc. and LCC dated May 1, 1996; effective September 15, 2003, the ESA was assigned from Brynfan, Inc. to Sedgwick. Under the terms of the agreement, Sedgwick will provide executive services of Charles E. Parente, who shall serve as the Companies’ Chief Financial Officer for an annual fee. The ESA’s annual fee was revised through amendments dated December 31, 2004 and December 31, 2005.

During the examination period, the ESA was amended on December 15, 2015, to revise the annual fee. The Companies did not provide prior notice of the ESA’s 2015 amendment to the Department as required by 40 P.S. § 991.1405 (a)(2) and 31 Pa. Code § 25.21.

It is recommended that the Companies provide prior notice to the Department of transactions subject to the prior notice filing requirements of 40 P.S. § 991.1405 and 31 Pa. Code § 25.21.

Subsequent to December 31, 2015, and on November 5, 2016, the ESA terminated upon the death of Charles E. Parente.

6. A Tax Treaty Agreement between the LCC and PEI (formally PTV Group, Inc.), dated August 31, 1992; the agreement was amended on August 8, 1996, to clarify payment terms. The agreement sets forth the terms of calculation of the federal tax liabilities of LCC to be paid to PEI and payment terms.
7. A Tax Treaty Agreement, dated January 1, 2011, between the Companies; the agreement sets forth the terms of calculation of the federal tax liabilities of LAIC and LNIC to be paid to LCC and payment terms. The agreement was approved by the Companies’ Board on March 30, 2011.
8. Three lease agreements dated January 1, 2010, Agreement of Lease for 5th Floor, Agreement of Lease for 6th Floor, and Agreement of Lease for 7th Floor, between LCC and Frank M. Henry Associates (“FMH”) for the leasing of office space at 46 Public Square, Wilkes-Barre, Pennsylvania (“Office Building”). Pursuant to a January 8, 2015, Assignment and Assumption agreement between FMH and PSA Realty Company (“PSA”), PSA is the landlord under the agreements. The agreements set forth the space to be rented by LCC and payment terms.
9. A Promissory Note between and LCC and PSA; PSA, an affiliate, purchased the Office Building from FMH, a former affiliate. The transaction was financed through a \$6,000,000 loan from LCC to PSA, as evidenced by the Promissory Note executed on January 8, 2015, which stipulates repayment terms and interest.

10. A Mortgage, Assignment of Leases, and Security Agreement between PSA and LCC; PSA entered into this agreement with LCC effective January 8, 2015, to effectuate the purchase of the Office Building. The agreement defines the property purchased, responsibilities of the parties, and terms of the mortgage.
11. A Guarantee and Suretyship Agreement between Freya Land Company and LCC. Effective January 8, 2015, Freya Land Company, parent to PSA, provided a guarantee for the debt obligation of its subsidiary pursuant to the loan for the purchase of the Office Building.

REINSURANCE

POOLING AGREEMENT

LCC entered into a Proportional Reinsurance Agreement with LAIC effective July 1, 2002 ("Pooling Agreement"). On January 7, 2005, the Pooling Agreement was revised to include LNIC. For policies effective July 1, 2002 through September 30, 2005, the pooling participation shares for LCC and LAIC are 70% and 30%, respectively. For policies effective October 1, 2005 and forward, the pooling participation shares for LCC, LAIC, and LNIC are 70%, 20% and 10%, respectively. On April 3, 2009, the Pooling Agreement was amended to clarify the cession and assumption of gross liabilities rather than net liabilities.

The Pooling Agreement provides for LAIC and LNIC to cede and for LCC to assume all premium and gross liabilities for all workers' compensation business. In return, LCC shall cede and LAIC and LNIC shall assume their proportional share of premium collections and gross liabilities.

CEDED

The Companies' sole reinsurer during the period under examination is General Reinsurance Corporation, which is licensed and domiciled in the United States with an AM Best rating of A++ (Superior). The following is a summary of the Companies' reinsurance program as of December 31, 2015;

| | |
|---------------------|--------------------------------------------------------------|
| Reinsurer: | General Reinsurance Corporation |
| Type of Contract: | Excess of Loss |
| Business Covered | Workers' Compensation and Employer's Liability |
| Effective Date: | May 1, 2015 |
| Term: | One year |
| Company Retention | First Layer: \$2,000,000 per occurrence |
| Reinsurance Limits: | First Layer: \$3,000,000 excess \$2,000,000 per occurrence |
| | Second Layer: \$5,000,000 excess \$5,000,000 all occurrences |

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Third Layer: \$5,000,000 excess \$10,000,000 all occurrences
Fourth Layer: \$5,000,000 excess \$15,000,000 all occurrences

The Companies' reinsurance contracts appear to transfer risk and contained the appropriate arbitration and insolvency clauses.

The Companies do not use a reinsurance intermediary.

ASSUMED

Other than reinsurance assumed pursuant to the Pooling Agreement, the Companies do not assume any reinsurance from non-affiliates.

TERRITORY AND PLAN OF OPERATION

The Companies are licensed solely in Pennsylvania and predominantly write workers' compensation coverage, which accounts for virtually 100% of premiums written at December 31, 2015. LCC writes a nominal amount of surety business.

The Companies' marketing philosophy has not significantly changed during the examination period. The Companies maintain a focus on small- to medium-sized businesses in the low- to moderate-hazard classes of business in the following markets: manufacturing, healthcare, auto dealers, restaurants, retail operations, wholesale operations, hospitality, artisan contractors, colleges/universities, trucking, and other service-related companies.

The Companies currently market business through a force of independent producers.

The following charts illustrate the direct and assumed and ceded premium amounts by lines of business for each of the Companies for the year ended December 31, 2015:

| Lackawanna Casualty Company | | | | |
|------------------------------------|-----------------------------------|----------------------|----------------------------|----------------------------|
| Line of Business | Direct and Assumed Premium | Ceded Premium | Net Written Premium | Percentage of Total |
| December 31, 2015 | | | | |
| Workers' compensation | \$ 114,974,924 | \$ 36,317,523 | \$ 78,657,401 | 100.0% |
| Surety | 18,737 | 0 | 18,737 | 0.0% |
| Totals | \$ 114,993,661 | \$ 36,317,523 | \$ 78,676,138 | 100.0% |

| Lackawanna American Insurance Company | | | | |
|----------------------------------------------|-----------------------------------|----------------------|----------------------------|----------------------------|
| Line of Business | Direct and Assumed Premium | Ceded Premium | Net Written Premium | Percentage of Total |
| December 31, 2015 | | | | |
| Workers' compensation | \$ 96,598,167 | \$ 74,115,306 | \$ 22,482,861 | 100.0% |
| Totals | \$ 96,598,167 | \$ 74,115,306 | \$ 22,482,861 | 100.0% |

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| Lackawanna National Insurance Company | | Direct and Assumed Premium | Ceded Premium | Net Written Premium | Percentage of Total |
|---------------------------------------|--|----------------------------------|----------------------|------------------------|------------------------|
| December 31, 2015 | | | | | |
| Workers' compensation | | \$ 23,293,882 | \$ 12,057,117 | \$ 11,236,765 | 100.0% |
| Totals | | <u>\$ 23,293,882</u> | <u>\$ 12,057,117</u> | <u>\$ 11,236,765</u> | <u>100.0%</u> |

SIGNIFICANT OPERATING RATIOS AND TRENDS

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

| Lackawanna Casualty Company | Amount | Percentage |
|--------------------------------------|-----------------------|----------------|
| Premiums earned | \$ 326,729,321 | 100.0 % |
| Losses incurred | \$ 211,598,264 | 64.8 % |
| Loss expenses incurred | 25,229,705 | 7.7 % |
| Other underwriting expenses incurred | 64,354,292 | 19.7 % |
| Net underwriting gain or (loss) | 25,547,060 | 7.8 % |
| Totals | <u>\$ 326,729,321</u> | <u>100.0 %</u> |

| Lackawanna American Insurance Company | Amount | Percentage |
|---------------------------------------|----------------------|----------------|
| Premiums earned | \$ 93,207,006 | 100.0 % |
| Losses incurred | \$ 60,866,649 | 65.3 % |
| Loss expenses incurred | 7,327,896 | 7.9 % |
| Other underwriting expenses incurred | 17,276,105 | 18.5 % |
| Net underwriting gain or (loss) | 7,736,356 | 8.3 % |
| Totals | <u>\$ 93,207,006</u> | <u>100.0 %</u> |

| Lackawanna National Insurance Company | Amount | Percentage |
|---------------------------------------|----------------------|----------------|
| Premiums earned | \$ 46,625,134 | 100.0 % |
| Losses incurred | \$ 30,968,324 | 66.4 % |
| Loss expenses incurred | 3,928,910 | 8.4 % |
| Other underwriting expenses incurred | 8,485,586 | 18.2 % |
| Net underwriting gain or (loss) | 3,242,314 | 7.0 % |
| Totals | <u>\$ 46,625,134</u> | <u>100.0 %</u> |

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

| | 2015 | 2014 | 2013 | 2012 | 2011 |
|----------------------------------|----------------|----------------|----------------|----------------|----------------|
| Admitted assets | \$ 213,388,758 | \$ 217,118,785 | \$ 208,883,589 | \$ 193,300,958 | \$ 226,975,774 |
| Liabilities | \$ 132,556,060 | \$ 127,371,655 | \$ 119,648,379 | \$ 111,107,870 | \$ 109,367,220 |
| Surplus as regards policyholders | \$ 80,830,698 | \$ 89,747,130 | \$ 89,235,210 | \$ 82,193,286 | \$ 117,608,554 |
| Gross premium written | \$ 114,993,661 | \$ 103,635,255 | \$ 100,562,636 | \$ 95,874,063 | \$ 83,072,757 |
| Net premium written | \$ 78,676,138 | \$ 70,971,062 | \$ 68,880,773 | \$ 65,511,915 | \$ 56,555,622 |
| Underwriting gain/(loss) | \$ 5,442,911 | \$ 4,807,855 | \$ 6,362,722 | \$ 7,663,000 | \$ 1,270,572 |
| Investment gain/(loss) | \$ 4,035,639 | \$ 4,503,404 | \$ 2,971,028 | \$ 11,759,510 | \$ 3,872,447 |
| Other gain/(loss) | \$ 1,487,367 | \$ 67,025 | \$ 57,908 | \$ 2,024,398 | \$ 33,424 |
| Net Income | \$ 8,286,819 | \$ 7,238,668 | \$ 6,869,339 | \$ 17,844,767 | \$ 4,639,941 |

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

| | 2015 | 2014 | 2013 | 2012 | 2011 |
|----------------------------------|---------------|---------------|---------------|---------------|---------------|
| Admitted assets | \$ 84,910,434 | \$ 79,130,679 | \$ 74,592,750 | \$ 68,357,284 | \$ 62,391,780 |
| Liabilities | \$ 45,761,665 | \$ 42,699,057 | \$ 40,517,033 | \$ 37,140,287 | \$ 34,393,209 |
| Surplus as regards policyholders | \$ 39,148,769 | \$ 36,431,622 | \$ 34,075,717 | \$ 31,216,997 | \$ 27,998,571 |
| Gross premium written | \$ 96,598,167 | \$ 89,279,750 | \$ 85,227,412 | \$ 74,705,048 | \$ 60,139,520 |
| Net premium written | \$ 22,482,861 | \$ 20,267,456 | \$ 19,627,696 | \$ 18,681,074 | \$ 16,131,833 |
| Underwriting gain/(loss) | \$ 1,781,790 | \$ 1,486,292 | \$ 1,897,349 | \$ 2,094,010 | \$ 476,915 |
| Investment gain/(loss) | \$ 1,475,597 | \$ 1,598,300 | \$ 1,490,460 | \$ 1,407,636 | \$ 1,258,797 |
| Other gain/(loss) | \$ 138,492 | \$ 19,464 | \$ 16,628 | \$ 575,908 | \$ 9,517 |
| Net income | \$ 2,656,045 | \$ 2,458,464 | \$ 2,698,229 | \$ 3,046,232 | \$ 1,406,684 |

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

| | 2015 | 2014 | 2013 | 2012 | 2011 |
|----------------------------------|---------------|---------------|---------------|---------------|---------------|
| Admitted assets | \$ 33,323,636 | \$ 29,087,825 | \$ 27,569,455 | \$ 24,237,659 | \$ 21,664,629 |
| Liabilities | \$ 19,280,453 | \$ 16,341,329 | \$ 15,912,935 | \$ 13,629,202 | \$ 12,431,791 |
| Surplus as regards policyholders | \$ 14,043,183 | \$ 12,746,496 | \$ 11,656,520 | \$ 10,608,457 | \$ 9,232,838 |
| Gross premium written | \$ 23,293,882 | \$ 16,234,330 | \$ 15,934,228 | \$ 14,633,219 | \$ 12,337,895 |
| Net premium written | \$ 11,236,765 | \$ 10,133,728 | \$ 9,831,160 | \$ 9,339,523 | \$ 8,065,916 |
| Underwriting gain/(loss) | \$ 892,441 | \$ 752,636 | \$ 757,386 | \$ 608,450 | \$ 231,401 |
| Investment gain/(loss) | \$ 630,264 | \$ 575,558 | \$ 549,917 | \$ 755,014 | \$ 619,307 |
| Other gain/(loss) | \$ 69,246 | \$ 9,733 | \$ 8,314 | \$ 288,710 | \$ 4,758 |
| Net Income | \$ 1,280,938 | \$ 1,057,943 | \$ 1,020,277 | \$ 1,271,944 | \$ 702,760 |

PENDING LITIGATION

The Companies are involved in litigation arising in and out of the normal course of business. The Lackawanna Insurance Group is not party to any current or pending litigation that might have a material, adverse impact on the financial position of the Companies through the date of this examination report.

FINANCIAL STATEMENTS

The financial condition of the Companies, as of December 31, 2015, and the results of operations for the five-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.

For Informational Purposes Only

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

Lackawanna Casualty Company

| | 2016 | 2014 | 2013 | 2012 | 2011 |
|-------------------------------------------------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Bonds | \$ 80,288,304 | \$ 74,853,121 | \$ 76,439,668 | \$ 67,877,148 | \$ 59,675,515 |
| Common stocks | 71,823,370 | 82,101,062 | 76,886,400 | 71,617,354 | 118,864,896 |
| Mortgage loans on real estate | 5,918,107 | 985,323 | 5,282,102 | 6,776,702 | 6,985,037 |
| Cash, cash equivalents and short term investments | 14,490,668 | 24,871,332 | 9,948,763 | 8,517,461 | 9,941,373 |
| Other invested assets | 7,104,231 | 7,238,980 | 8,496,119 | 11,266,802 | 11,549,583 |
| Subtotals, cash and invested assets | 179,622,678 | 190,049,818 | 177,053,050 | 166,055,467 | 207,018,404 |
| Investment income due and accrued | 1,122,468 | 1,082,642 | 989,396 | 725,473 | 804,806 |
| Premiums and agents' balances due | 21,821,633 | 20,140,438 | 19,095,685 | 17,216,607 | 14,622,369 |
| Amounts recoverable from reinsurers | 19,021 | 15,760 | 5,758 | 2,955 | 12,078 |
| Current federal and foreign income tax recoverable and interest thereon | 0 | 0 | 0 | 428,326 | 0 |
| Net deferred tax asset | 3,341,826 | 2,295,541 | 3,690,683 | 3,471,977 | 514,878 |
| Electronic data processing equipment and software | 58,988 | 20,258 | 23,448 | 28,943 | 12,232 |
| Receivable from parent, subsidiaries and affiliates | 7,397,111 | 3,514,166 | 8,012,510 | 5,362,215 | 3,783,011 |
| Aggregate write-ins for other than invested assets | 5,033 | 262 | 13,081 | 9,093 | 0 |
| Total | \$ 213,386,758 | \$ 217,118,785 | \$ 208,883,589 | \$ 193,300,956 | \$ 226,975,774 |
| Losses | \$ 81,270,114 | \$ 78,975,912 | \$ 71,887,889 | \$ 67,879,790 | \$ 68,327,853 |
| Loss adjustment expenses | 9,902,822 | 9,674,732 | 8,843,952 | 9,356,257 | 9,101,316 |
| Commissions payable, contingent commissions and other similar charges | 2,093,953 | 1,903,407 | 1,745,263 | 1,577,433 | 1,369,814 |
| Other expenses | 2,878,363 | 2,595,085 | 2,667,164 | 1,945,077 | 2,162,542 |
| Taxes, licenses and fees | 745,469 | 1,860,016 | 1,525,370 | 1,093,579 | 2,928,301 |
| Current federal and foreign income taxes | 660,905 | 1,602,660 | 1,555,347 | 0 | 303,669 |
| Unearned premiums | 33,455,773 | 30,657,488 | 29,446,599 | 26,888,148 | 22,919,130 |
| Advance premium | 1,138,787 | 1,091,748 | 1,105,958 | 1,152,962 | 1,052,811 |
| Ceded reinsurance premiums payable (net of ceding commissions) | 253,801 | 203,971 | 178,361 | 195,544 | 224,963 |
| Amounts withheld or retained by company for account of others | 119,160 | 2,062 | 103,485 | 20,789 | 65,341 |
| Payable for securities | 0 | 741,919 | 517,725 | 915,363 | 828,640 |
| Aggregate write-ins for liabilities | 50,913 | 62,679 | 71,476 | 82,748 | 62,840 |
| Total liabilities | 132,556,060 | 127,371,655 | 119,648,379 | 111,107,670 | 109,367,220 |
| Aggregate write-ins for special surplus funds | 0 | 0 | 0 | 0 | 637,174 |
| Common capital stock | 1,100,001 | 1,100,001 | 1,100,001 | 1,100,001 | 1,100,001 |
| Gross paid in and contributed surplus | 600,000 | 500,000 | 500,000 | 500,000 | 500,000 |
| Unassigned funds (surplus) | 79,230,697 | 88,147,129 | 87,635,209 | 80,593,285 | 115,371,379 |
| Surplus as regards policyholders | 80,830,698 | 89,747,130 | 89,235,210 | 82,193,286 | 117,608,554 |
| Totals | \$ 213,386,758 | \$ 217,118,785 | \$ 208,883,589 | \$ 193,300,956 | \$ 226,975,774 |

Lackawanna American Insurance Company

| | 2016 | 2014 | 2013 | 2012 | 2011 |
|-------------------------------------------------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Bonds | \$ 65,403,869 | \$ 59,194,006 | \$ 60,829,943 | \$ 55,114,150 | \$ 50,335,403 |
| Cash, cash equivalents and short term investments | 10,945,622 | 12,180,753 | 6,191,430 | 6,642,603 | 6,317,175 |
| Subtotals, cash and invested assets | 76,349,391 | 71,374,759 | 67,121,373 | 61,756,753 | 56,652,578 |
| Investment income due and accrued | 854,444 | 711,768 | 681,913 | 493,030 | 490,531 |
| Premiums and agents' balances due | 6,234,753 | 5,750,438 | 5,452,008 | 4,918,809 | 4,234,961 |
| Current federal and foreign income tax recoverable and interest thereon | 147,895 | 0 | 0 | 0 | 0 |
| Net deferred tax asset | 1,323,951 | 1,293,714 | 1,337,456 | 1,188,692 | 1,013,710 |
| Total | \$ 84,910,434 | \$ 79,130,679 | \$ 74,692,750 | \$ 68,357,284 | \$ 62,391,780 |
| Losses | \$ 21,925,744 | \$ 20,385,912 | \$ 18,622,150 | \$ 18,939,880 | \$ 18,372,399 |
| Loss adjustment expenses | 2,919,968 | 2,823,013 | 2,574,319 | 2,699,292 | 2,542,008 |
| Commissions payable, contingent commissions and other similar charges | 598,273 | 543,831 | 498,647 | 450,695 | 391,376 |
| Other expenses | 24,000 | 18,000 | 12,000 | 6,000 | 0 |
| Taxes, licenses and fees | 204,319 | 484,575 | 421,226 | 313,626 | 847,715 |
| Current federal and foreign income taxes | 0 | 272,454 | 41,623 | 298,689 | 58,017 |
| Unearned premiums | 9,523,172 | 8,709,543 | 8,354,022 | 7,619,066 | 6,503,980 |
| Advance premium | 324,796 | 311,927 | 315,888 | 329,418 | 300,803 |
| Ceded reinsurance premiums payable (net of ceding commissions) | 137,980 | 117,538 | 109,802 | 115,918 | 125,261 |
| Amounts withheld or retained by company for account of others | 3,460 | 483 | 533 | 718 | 870 |
| Payable to parent, subsidiaries and affiliates | 8,909,839 | 8,433,600 | 9,103,757 | 7,542,094 | 6,437,789 |
| Payable for securities | 1,190,114 | 598,181 | 462,968 | 624,891 | 812,991 |
| Total liabilities | 45,761,665 | 42,699,057 | 40,517,033 | 37,140,287 | 34,393,209 |
| Aggregate write-ins for special surplus funds | 0 | 0 | 0 | 0 | 219,755 |
| Common capital stock | 3,000,001 | 3,000,001 | 3,000,001 | 3,000,001 | 3,000,001 |
| Gross paid in and contributed surplus | 7,136,783 | 7,136,783 | 7,136,783 | 7,136,783 | 7,136,783 |
| Unassigned funds (surplus) | 29,011,985 | 26,294,838 | 23,938,933 | 21,080,213 | 17,642,032 |
| Surplus as regards policyholders | 39,148,769 | 36,431,622 | 34,075,717 | 31,216,997 | 27,998,671 |
| Totals | \$ 84,910,434 | \$ 79,130,679 | \$ 74,692,750 | \$ 68,357,284 | \$ 62,391,780 |

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

Lackawanna National Insurance Company

| | 2015 | 2014 | 2013 | 2012 | 2011 |
|-------------------------------------------------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Bonds | \$ 21,785,722 | \$ 19,114,892 | \$ 21,642,496 | \$ 18,691,984 | \$ 15,795,635 |
| Cash, cash equivalents, and short term investments | 7,391,925 | 4,635,486 | 2,370,258 | 651,322 | 2,933,156 |
| Subtotals, cash and invested assets | <u>29,177,647</u> | <u>23,650,378</u> | <u>24,012,754</u> | <u>19,343,306</u> | <u>18,728,693</u> |
| Investment income due and accrued | 311,188 | 247,335 | 218,228 | 187,124 | 209,966 |
| Premiums and agents' balances due | 3,117,375 | 2,875,217 | 2,726,003 | 2,459,404 | 2,117,481 |
| Current federal and foreign income tax recoverable and interest thereon | 60,501 | 0 | 17,303 | 0 | 0 |
| Net deferred tax asset | 656,925 | 631,644 | 595,187 | 573,248 | 468,178 |
| Receivable from parent, subsidiaries and affiliates | 0 | 1,683,251 | 0 | 1,684,577 | 140,311 |
| Total | <u>\$ 33,323,636</u> | <u>\$ 29,087,825</u> | <u>\$ 27,569,455</u> | <u>\$ 24,237,659</u> | <u>\$ 21,664,629</u> |
| Losses | \$ 10,613,597 | \$ 9,825,618 | \$ 8,922,863 | \$ 7,929,523 | \$ 7,213,688 |
| Loss adjustment expenses | 1,364,810 | 1,315,223 | 1,187,011 | 1,139,920 | 910,916 |
| Commissions payable, contingent commissions and other similar charges | 299,136 | 271,915 | 249,323 | 225,347 | 195,686 |
| Other expenses | 12,000 | 9,000 | 8,000 | 3,000 | 0 |
| Taxes, licenses and fees | 76,021 | 212,008 | 187,831 | 136,530 | 404,316 |
| Current federal and foreign income taxes | 0 | 137,965 | 0 | 162,584 | 61,180 |
| Unearned premiums | 4,781,586 | 4,354,772 | 4,177,011 | 3,809,533 | 3,251,990 |
| Advance premium | 162,398 | 155,964 | 157,994 | 164,709 | 150,402 |
| Ceded reinsurance premiums payable (net of ceding commissions) | 68,990 | 58,769 | 54,901 | 57,958 | 62,630 |
| Amounts withheld or retained by company for account of others | 386 | 97 | 97 | 97 | 97 |
| Payable to parent, subsidiaries and affiliates | 1,921,529 | 0 | 67,040 | 0 | 0 |
| Payable for securities | 0 | 0 | 912,764 | 0 | 180,885 |
| Total liabilities | <u>19,280,453</u> | <u>16,341,329</u> | <u>15,912,835</u> | <u>13,629,202</u> | <u>12,431,791</u> |
| Aggregate write-ins for special surplus funds | 0 | 0 | 0 | 0 | 93,730 |
| Common capital stock | 1,500,001 | 1,500,001 | 1,500,001 | 1,500,001 | 1,500,001 |
| Gross paid in and contributed surplus | 3,500,000 | 3,500,000 | 3,500,000 | 3,500,000 | 3,500,000 |
| Unassigned funds (surplus) | 9,043,182 | 7,746,495 | 6,656,619 | 5,608,456 | 4,139,107 |
| Surplus as regards policyholders | <u>14,043,183</u> | <u>12,746,496</u> | <u>11,656,620</u> | <u>10,608,457</u> | <u>9,232,838</u> |
| Totals | <u>\$ 33,323,636</u> | <u>\$ 29,087,825</u> | <u>\$ 27,569,455</u> | <u>\$ 24,237,659</u> | <u>\$ 21,664,629</u> |

For Informational Purposes Only

Comparative Statement of Income For the Year Ended December 31,

| Lackawanna Casualty Company | | 2015 | 2014 | 2013 | 2012 | 2011 |
|------------------------------------------------------------------------------------------|--|---------------------|---------------------|---------------------|----------------------|---------------------|
| Underwriting Income | | | | | | |
| Premiums earned | | \$ 76,011,777 | \$ 69,814,381 | \$ 66,437,633 | \$ 61,726,766 | \$ 52,738,784 |
| Deductions: | | | | | | |
| Losses Incurred | | 50,538,934 | 48,050,497 | 42,817,493 | 35,518,524 | 36,674,816 |
| Loss expenses Incurred | | 5,402,840 | 5,750,994 | 4,286,955 | 4,718,947 | 5,069,969 |
| Other underwriting expenses Incurred | | 14,627,092 | 13,205,035 | 12,970,463 | 13,828,295 | 9,723,407 |
| Total underwriting deductions | | <u>70,568,866</u> | <u>65,006,526</u> | <u>60,074,911</u> | <u>54,063,766</u> | <u>51,468,192</u> |
| Net underwriting gain or (loss) | | <u>5,442,911</u> | <u>4,807,855</u> | <u>6,362,722</u> | <u>7,663,000</u> | <u>1,270,572</u> |
| Investment Income | | | | | | |
| Net investment income earned | | 2,707,026 | 2,585,523 | 1,272,550 | 1,808,438 | 3,152,812 |
| Net realized capital gains or (losses) | | 1,328,613 | 1,917,881 | 1,898,478 | 9,951,072 | 719,635 |
| Net investment gain or (loss) | | <u>4,035,639</u> | <u>4,503,404</u> | <u>2,971,028</u> | <u>11,769,510</u> | <u>3,872,447</u> |
| Other Income | | | | | | |
| Net gain or (loss) from agents' or premium balances charged off | | (85,664) | (39,794) | (43,926) | (15,127) | (58,807) |
| Finance and service charges not included in premiums | | 117,491 | 107,917 | 101,726 | 78,271 | 92,115 |
| Aggregate write-ins for miscellaneous income | | 1,455,440 | (1,098) | 109 | 1,961,254 | 116 |
| Total other income | | <u>1,487,367</u> | <u>67,025</u> | <u>57,908</u> | <u>2,024,398</u> | <u>33,424</u> |
| Net income before dividends to policyholders and before federal and foreign income taxes | | 10,965,917 | 9,378,284 | 9,391,658 | 21,446,908 | 5,176,443 |
| Federal and foreign income taxes Incurred | | 2,679,096 | 2,139,618 | 2,522,319 | 3,602,141 | 536,502 |
| Net income | | <u>\$ 8,286,819</u> | <u>\$ 7,238,666</u> | <u>\$ 6,869,339</u> | <u>\$ 17,844,767</u> | <u>\$ 4,639,941</u> |
| | | | | | | |
| Lackawanna American Insurance Company | | 2015 | 2014 | 2013 | 2012 | 2011 |
| Underwriting Income | | | | | | |
| Premiums earned | | \$ 21,707,503 | \$ 19,927,416 | \$ 18,925,687 | \$ 17,598,522 | \$ 15,047,878 |
| Deductions: | | | | | | |
| Losses Incurred | | 14,439,695 | 13,157,286 | 12,329,285 | 10,461,864 | 10,478,519 |
| Loss expenses Incurred | | 1,572,239 | 1,643,141 | 1,230,211 | 1,428,262 | 1,454,043 |
| Other underwriting expenses Incurred | | 3,913,779 | 3,640,697 | 3,468,842 | 3,614,386 | 2,638,401 |
| Total underwriting deductions | | <u>19,925,713</u> | <u>18,441,124</u> | <u>17,028,338</u> | <u>15,504,512</u> | <u>14,570,963</u> |
| Net underwriting gain or (loss) | | <u>1,781,790</u> | <u>1,486,292</u> | <u>1,897,349</u> | <u>2,094,010</u> | <u>476,915</u> |
| Investment Income | | | | | | |
| Net investment income earned | | 1,146,445 | 1,402,197 | 842,763 | 709,286 | 762,881 |
| Net realized capital gains or (losses) | | 329,152 | 196,103 | 647,697 | 698,350 | 495,916 |
| Net investment gain or (loss) | | <u>1,475,597</u> | <u>1,598,300</u> | <u>1,490,460</u> | <u>1,407,636</u> | <u>1,258,797</u> |
| Other Income | | | | | | |
| Net gain or (loss) from agents' or premium balances charged off | | (24,447) | (11,370) | (12,548) | (4,322) | (16,802) |
| Finance and service charges not included in premiums | | 33,569 | 30,834 | 29,176 | 21,599 | 26,319 |
| Aggregate write-ins for miscellaneous income | | 129,370 | 0 | 0 | 558,631 | 0 |
| Total other income | | <u>138,492</u> | <u>19,464</u> | <u>16,628</u> | <u>575,908</u> | <u>9,517</u> |
| Net income before dividends to policyholders and before federal and foreign income taxes | | 3,395,879 | 3,104,056 | 3,404,437 | 4,077,554 | 1,745,229 |
| Federal and foreign income taxes Incurred | | 739,834 | 645,592 | 706,208 | 1,031,322 | 338,545 |
| Net income | | <u>\$ 2,656,045</u> | <u>\$ 2,458,464</u> | <u>\$ 2,698,229</u> | <u>\$ 3,046,232</u> | <u>\$ 1,406,684</u> |

Comparative Statement of Income For the Year Ended December 31,

| Lackawanna National Insurance Company Underwriting Income | 2015 | 2014 | 2013 | 2012 | 2011 |
|------------------------------------------------------------------------------------------|---------------------|---------------------|---------------------|---------------------|-------------------|
| Premiums earned | \$ 10,849,086 | \$ 9,963,708 | \$ 9,480,155 | \$ 8,808,247 | \$ 7,523,938 |
| Deductions: | | | | | |
| Losses incurred | 7,219,847 | 6,578,643 | 6,299,642 | 5,630,932 | 5,239,260 |
| Loss expenses incurred | 786,118 | 821,574 | 725,471 | 862,184 | 733,563 |
| Other underwriting expenses incurred | 1,950,680 | 1,810,855 | 1,897,656 | 1,706,681 | 1,319,714 |
| Total underwriting deductions | <u>9,956,645</u> | <u>9,211,072</u> | <u>8,722,769</u> | <u>8,199,797</u> | <u>7,292,537</u> |
| Net underwriting gain or (loss) | <u>892,441</u> | <u>752,636</u> | <u>757,386</u> | <u>608,450</u> | <u>231,401</u> |
| Investment Income | | | | | |
| Net investment income earned | 402,391 | 517,076 | 432,327 | 370,358 | 425,659 |
| Net realized capital gains or (losses) | 227,873 | 68,482 | 117,590 | 394,656 | 193,648 |
| Net investment gain or (loss) | <u>630,264</u> | <u>585,558</u> | <u>549,917</u> | <u>765,014</u> | <u>619,307</u> |
| Other Income | | | | | |
| Net gain or (loss) from agents' or premium balances charged off | (12,223) | (5,685) | (6,274) | (2,161) | (8,401) |
| Finance and service charges not included in premiums | 16,784 | 15,418 | 14,588 | 10,814 | 13,159 |
| Aggregate write-ins for miscellaneous income | 64,685 | 0 | 0 | 280,057 | 0 |
| Total other income | <u>69,246</u> | <u>9,733</u> | <u>8,314</u> | <u>288,710</u> | <u>4,758</u> |
| Net income before dividends to policyholders and before federal and foreign income taxes | 1,691,951 | 1,337,927 | 1,315,617 | 1,652,174 | 855,466 |
| Dividends to policyholders | 15,258 | 28,569 | 45,108 | 64,522 | 49,284 |
| Federal and foreign income taxes incurred | 295,755 | 251,415 | 250,232 | 315,708 | 103,422 |
| Net income | <u>\$ 1,280,938</u> | <u>\$ 1,057,943</u> | <u>\$ 1,020,277</u> | <u>\$ 1,271,944</u> | <u>\$ 702,760</u> |

For Informational Purposes Only

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

Lackawanna Casualty Company

| | 2015 | 2014 | 2013 | 2012 | 2011 |
|--------------------------------------------------------|---------------|---------------|---------------|----------------|----------------|
| Surplus as regards policyholders, | | | | | |
| December 31, previous year | \$ 89,747,130 | \$ 89,235,210 | \$ 82,193,288 | \$ 117,608,554 | \$ 109,484,687 |
| Net income | 8,288,819 | 7,238,668 | 6,869,339 | 17,844,767 | 4,639,941 |
| Net unrealized capital gains or (losses) | 2,425,441 | 3,290,926 | 5,679,308 | (1,305,909) | 3,774,349 |
| Change in net deferred income tax | 190,996 | (1,478,577) | 1,131,821 | (82,214) | (315,650) |
| Change in nonadmitted assets | 80,312 | 160,905 | 361,458 | 818,968 | 388,053 |
| Dividends to stockholders | (19,900,000) | (8,700,000) | (7,000,000) | (52,691,000) | (1,000,000) |
| Aggregate write-ins for gains and losses in surplus | 0 | 0 | 0 | 0 | 637,174 |
| Change in surplus as regards policyholder for the year | (8,918,432) | 511,820 | 7,041,924 | (35,415,268) | 8,123,867 |
| Surplus as regards policyholders, | | | | | |
| December 31, current year | \$ 80,830,698 | \$ 89,747,130 | \$ 89,235,210 | \$ 82,193,288 | \$ 117,608,554 |

Lackawanna American Insurance Company

| | 2015 | 2014 | 2013 | 2012 | 2011 |
|--------------------------------------------------------|---------------|---------------|---------------|---------------|---------------|
| Surplus as regards policyholders, | | | | | |
| December 31, previous year | \$ 36,431,622 | \$ 34,075,717 | \$ 31,218,997 | \$ 27,968,571 | \$ 26,426,638 |
| Net income | 2,658,045 | 2,458,484 | 2,696,229 | 3,046,232 | 1,406,684 |
| Net unrealized capital gains or (losses) | 32,456 | (32,456) | 0 | 0 | (690) |
| Change in net deferred income tax | 3,366 | (136,426) | 197,200 | 85,722 | 153,772 |
| Change in nonadmitted assets | 25,250 | 66,323 | (36,709) | 86,472 | 42,561 |
| Aggregate write-ins for gains and losses in surplus | 0 | 0 | 0 | 0 | (30,394) |
| Change in surplus as regards policyholder for the year | 2,717,147 | 2,355,905 | 2,858,720 | 3,218,426 | 1,571,933 |
| Surplus as regards policyholders, | | | | | |
| December 31, current year | \$ 39,148,769 | \$ 36,431,622 | \$ 34,075,717 | \$ 31,218,997 | \$ 27,968,571 |

Lackawanna National Insurance Company

| | 2015 | 2014 | 2013 | 2012 | 2011 |
|--------------------------------------------------------|---------------|---------------|---------------|---------------|--------------|
| Surplus as regards policyholders, | | | | | |
| December 31, previous year | \$ 12,746,496 | \$ 11,656,520 | \$ 10,608,457 | \$ 9,232,838 | \$ 8,443,448 |
| Net income | 1,280,638 | 1,057,943 | 1,020,277 | 1,271,944 | 702,760 |
| Change in net deferred income tax | 12,802 | 21,716 | 21,632 | 78,499 | 78,387 |
| Change in nonadmitted assets | 2,947 | 10,317 | 6,154 | 25,178 | 17,388 |
| Aggregate write-ins for gains and losses in surplus | 0 | 0 | 0 | 0 | (9,145) |
| Change in surplus as regards policyholder for the year | 1,296,687 | 1,089,976 | 1,048,063 | 1,375,619 | 789,390 |
| Surplus as regards policyholders, | | | | | |
| December 31, current year | \$ 14,043,183 | \$ 12,746,496 | \$ 11,656,520 | \$ 10,608,457 | \$ 9,232,838 |

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

| Lackawanna Casualty Company | 2015 | 2014 | 2013 | 2012 | 2011 |
|-------------------------------------------------------------------|----------------------|----------------------|---------------------|---------------------|---------------------|
| Cash from Operations | | | | | |
| Premiums collected net of reinsurance | \$ 77,157,030 | \$ 69,960,792 | \$ 67,093,470 | \$ 63,362,916 | \$ 53,257,752 |
| Net investment income | 3,755,248 | 3,361,733 | 2,084,844 | 2,769,445 | 3,727,747 |
| Miscellaneous income | 1,487,367 | 67,025 | 57,908 | 2,024,398 | 33,424 |
| Total income | 82,399,645 | 73,389,550 | 69,236,222 | 68,146,759 | 57,018,923 |
| Benefit and loss related payments | 46,247,993 | 40,972,278 | 38,812,395 | 35,955,466 | 30,747,487 |
| Commissions, expenses paid and aggregate write-ins for deductions | 20,444,565 | 17,704,528 | 16,448,025 | 20,126,869 | 11,287,821 |
| Federal and foreign income taxes paid (recovered) | 4,561,646 | 2,048,352 | 1,413,624 | 9,863,940 | 2,069,353 |
| Total deductions | 71,254,204 | 60,725,158 | 56,674,044 | 65,936,275 | 44,084,641 |
| Net cash from operations | 11,145,441 | 12,664,392 | 12,562,178 | 2,210,484 | 12,934,282 |
| Cash from Investments | | | | | |
| Proceeds from investments sold, matured or repaid: | | | | | |
| Bonds | 35,934,459 | 37,619,796 | 76,325,301 | 48,504,424 | 38,403,662 |
| Stocks | 17,203,688 | 5,937,644 | 6,131,226 | 71,120,981 | 30,354,098 |
| Mortgage loans | 1,069,216 | 4,296,780 | 1,494,601 | 208,336 | 198,789 |
| Other invested assets | 743,170 | 940,044 | 3,352,300 | 234,833 | 1,052,449 |
| Net gain or (loss) on cash and short-term investments | 0 | 594 | (93) | (364) | 0 |
| Miscellaneous proceeds | 400,000 | 824,685 | 301,359 | 386,721 | 1,383,482 |
| Total investment proceeds | 55,350,633 | 49,619,643 | 87,604,694 | 120,454,931 | 71,392,480 |
| Cost of investments acquired (long-term only): | | | | | |
| Bonds | 42,045,206 | 36,638,957 | 84,868,205 | 56,486,183 | 49,689,015 |
| Stocks | 4,117,444 | 6,018,032 | 3,611,750 | 13,790,919 | 26,231,917 |
| Mortgage loans | 6,000,000 | 1 | 0 | 1 | 0 |
| Other invested assets | 0 | 0 | 300,000 | 0 | 1,063,258 |
| Miscellaneous applications | 1,141,916 | 600,495 | 698,997 | 300,001 | 649,999 |
| Total investments acquired | 53,304,566 | 43,257,485 | 89,478,952 | 70,577,104 | 77,634,189 |
| Net cash from investments | 2,046,067 | 6,362,158 | (1,874,258) | 49,877,827 | (6,241,709) |
| Cash from Financing and Miscellaneous Services | | | | | |
| Other cash provided (applied): | | | | | |
| Dividends to stockholders (paid) | 19,900,000 | 8,700,000 | 7,000,000 | 52,691,000 | 1,000,000 |
| Other cash provided or (applied) | (3,672,072) | 4,696,119 | (2,256,618) | (821,223) | (4,724,366) |
| Net cash from financing and miscellaneous sources | (23,672,072) | (4,103,881) | (9,256,618) | (53,512,223) | (5,724,366) |
| Reconciliation of cash and short-term investments: | | | | | |
| Net change in cash and short-term investments | (10,380,666) | 14,922,569 | 1,431,302 | (1,423,912) | 968,207 |
| Cash and short-term investments: | | | | | |
| Beginning of the year | 24,871,332 | 9,948,763 | 8,517,461 | 9,941,373 | 8,973,166 |
| End of the year | \$ 14,490,666 | \$ 24,871,332 | \$ 9,948,763 | \$ 8,517,461 | \$ 9,941,373 |

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

Lackawanna American Insurance Company

| | 2015 | 2014 | 2013 | 2012 | 2011 |
|-------------------------------------------------------------------|----------------------|----------------------|---------------------|---------------------|---------------------|
| Cash from Operations | | | | | |
| Premiums collected net of reinsurance | \$ 22,051,062 | \$ 19,979,296 | \$ 19,119,626 | \$ 18,046,244 | \$ 15,192,040 |
| Net investment income | 1,856,116 | 2,085,084 | 1,485,370 | 1,435,950 | 1,387,145 |
| Miscellaneous income | 138,492 | 19,464 | 16,628 | 575,808 | 9,517 |
| Total income | 24,045,670 | 22,083,844 | 20,621,624 | 20,058,102 | 16,668,702 |
| Benefit and loss related payments | 12,899,863 | 11,393,524 | 10,647,015 | 9,894,383 | 8,370,617 |
| Commissions, expenses paid and aggregate write-ins for deductions | 5,608,977 | 4,920,611 | 4,662,474 | 5,354,134 | 3,120,136 |
| Federal and foreign income taxes paid (recovered) | 1,337,420 | 520,354 | 1,296,937 | 1,166,685 | 699,232 |
| Total deductions | 19,846,160 | 16,834,469 | 16,606,426 | 16,415,202 | 12,189,965 |
| Net cash from operations | 4,199,510 | 5,249,355 | 4,015,198 | 3,642,900 | 4,398,717 |
| Cash from Investments | | | | | |
| Proceeds from investments sold, matured or repaid: | | | | | |
| Bonds | 32,318,922 | 29,469,134 | 63,901,813 | 38,306,192 | 37,367,839 |
| Net gain or (loss) on cash and short-term investments | 0 | 362 | (294) | (17) | 0 |
| Miscellaneous proceeds | 591,934 | 135,216 | 0 | 11,900 | 684,336 |
| Total investment proceeds | 32,910,856 | 29,604,712 | 63,901,519 | 38,318,075 | 38,052,175 |
| Cost of investments acquired (long-term only): | | | | | |
| Bonds | 38,824,813 | 28,194,537 | 69,567,443 | 42,739,700 | 43,495,513 |
| Miscellaneous applications | 0 | 0 | 361,925 | 0 | 0 |
| Total investments acquired | 38,824,813 | 28,194,537 | 69,929,368 | 42,739,700 | 43,495,513 |
| Net cash from investments | (5,913,957) | 1,410,175 | (6,027,849) | (4,421,625) | (5,443,338) |
| Cash from Financing and Miscellaneous Services | | | | | |
| Other cash provided (applied): | | | | | |
| Other cash provided or (applied) | 479,216 | (670,207) | 1,561,478 | 1,104,153 | 1,826,318 |
| Net cash from financing and miscellaneous sources | 479,216 | (670,207) | 1,561,478 | 1,104,153 | 1,826,318 |
| Reconciliation of cash and short-term investments: | | | | | |
| Net change in cash and short-term investments | (1,235,231) | 5,969,323 | (451,173) | 325,428 | 781,697 |
| Cash and short-term investments: | | | | | |
| Beginning of the year | 12,180,753 | 6,191,430 | 6,642,603 | 6,317,175 | 5,535,478 |
| End of the year | \$ 10,945,522 | \$ 12,180,753 | \$ 6,191,430 | \$ 6,642,603 | \$ 6,317,175 |

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

Lackawanna National Insurance Company

| | 2015 | 2014 | 2013 | 2012 | 2011 |
|-------------------------------------------------------------------|---------------------|---------------------|---------------------|--------------------|---------------------|
| Cash from Operations | | | | | |
| Premiums collected net of reinsurance | \$ 11,020,865 | \$ 9,989,649 | \$ 9,577,125 | \$ 9,032,109 | \$ 7,596,019 |
| Net investment income | 621,861 | 718,821 | 658,186 | 565,816 | 462,960 |
| Miscellaneous income | 69,246 | 9,733 | 8,314 | 288,710 | 4,758 |
| Total Income | 11,711,972 | 10,718,203 | 10,243,625 | 9,886,635 | 8,063,727 |
| Benefit and loss related payments | 6,431,868 | 5,675,988 | 5,306,202 | 4,915,097 | 4,151,252 |
| Commissions, expenses paid and aggregate write-ins for deductions | 2,792,974 | 2,454,450 | 2,297,759 | 2,574,967 | 1,590,136 |
| Dividends to policyholders | 15,258 | 28,569 | 45,108 | 64,522 | 49,284 |
| Federal and foreign income taxes paid (recovered) | 616,922 | 127,638 | 490,693 | 421,428 | 257,211 |
| Total deductions | 9,857,022 | 8,286,645 | 8,139,762 | 7,976,034 | 6,047,883 |
| Net cash from operations | 1,854,950 | 2,431,558 | 2,103,863 | 1,910,601 | 2,015,844 |
| Cash from Investments | | | | | |
| Proceeds from investments sold, matured or repaid: | | | | | |
| Bonds | 6,321,374 | 11,254,126 | 8,351,377 | 8,392,275 | 7,671,366 |
| Miscellaneous proceeds | 0 | 0 | 912,764 | 0 | 0 |
| Total investment proceeds | 6,321,374 | 11,254,126 | 9,264,141 | 8,392,275 | 7,671,366 |
| Cost of Investments acquired (long-term only): | | | | | |
| Bonds | 8,924,954 | 8,867,401 | 11,400,685 | 10,849,561 | 8,402,884 |
| Miscellaneous applications | 0 | 912,764 | 0 | 180,885 | 613,859 |
| Total investments acquired | 8,924,954 | 9,780,165 | 11,400,685 | 11,030,446 | 9,016,743 |
| Net cash from investments | (2,603,580) | 1,473,961 | (2,136,544) | (2,638,171) | (1,345,377) |
| Cash from Financing and Miscellaneous Services | | | | | |
| Other cash provided (applied): | | | | | |
| Other cash provided or (applied) | 3,605,069 | (1,740,291) | 1,751,817 | (1,554,266) | (429,583) |
| Net cash from financing and miscellaneous sources | 3,605,069 | (1,740,291) | 1,751,817 | (1,554,266) | (429,583) |
| Reconciliation of cash and short-term investments: | | | | | |
| Net change in cash and short-term investments | 2,856,439 | 2,165,228 | 1,718,936 | (2,281,836) | 240,884 |
| Cash and short-term investments: | | | | | |
| Beginning of the year | 4,535,486 | 2,370,258 | 651,322 | 2,933,158 | 2,692,274 |
| End of the year | \$ 7,391,925 | \$ 4,535,486 | \$ 2,370,258 | \$ 651,322 | \$ 2,933,158 |

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, LCC's invested assets were distributed as follows:

| | Amount | Percentage |
|-------------------------------|-----------------------|----------------|
| Bonds | \$ 80,288,304 | 44.7 % |
| Common stocks | 71,823,370 | 40.0 % |
| Mortgage loans on real estate | 5,916,107 | 3.3 % |
| Cash | 1,189,022 | 0.6 % |
| Short-term investments | 13,301,644 | 7.4 % |
| Other invested assets | 7,104,231 | 4.0 % |
| Totals | <u>\$ 179,622,678</u> | <u>100.0 %</u> |

As of December 31, 2015, LAIC's invested assets were distributed as follows:

| | Amount | Percentage |
|------------------------|----------------------|----------------|
| Bonds | \$ 65,403,869 | 85.7 % |
| Cash | 896,024 | 1.2 % |
| Cash equivalents | 30,173 | 0.0 % |
| Short-term investments | 10,019,325 | 13.1 % |
| Totals | <u>\$ 76,349,391</u> | <u>100.0 %</u> |

As of December 31, 2015, LNIC's invested assets were distributed as follows:

| | Amount | Percentage |
|------------------------|----------------------|----------------|
| Bonds | \$ 21,785,722 | 74.7 % |
| Cash | 460,793 | 1.6 % |
| Short-term investments | 6,931,132 | 23.7 % |
| Totals | <u>\$ 29,177,647</u> | <u>100.0 %</u> |

Lackawanna Insurance Group

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

| NAIC Designation | Amount | Percentage |
|-------------------------|----------------------|-------------------|
| 1 - highest quality | \$ 79,241,609 | 84.7 % |
| 2 - high quality | 14,348,339 | 15.3 % |
| Totals | \$ 93,589,948 | 100.0 % |

| Years to Maturity | Amount | Percentage |
|--------------------------|----------------------|-------------------|
| 1 year or less | \$ 22,504,692 | 24.0 % |
| 2 to 5 years | 16,997,499 | 18.2 % |
| 6 to 10 years | 54,087,757 | 57.8 % |
| Totals | \$ 93,589,948 | 100.0 % |

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

| NAIC Designation | Amount | Percentage |
|-------------------------|----------------------|-------------------|
| 1 - highest quality | \$ 64,801,284 | 85.9 % |
| 2 - high quality | 10,652,083 | 14.1 % |
| Totals | \$ 75,453,367 | 100.0 % |

| Years to Maturity | Amount | Percentage |
|--------------------------|----------------------|-------------------|
| 1 year or less | \$ 16,795,211 | 22.3 % |
| 2 to 5 years | 14,125,604 | 18.7 % |
| 6 to 10 years | 44,532,552 | 59.0 % |
| Totals | \$ 75,453,367 | 100.0 % |

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

| NAIC Designation | Amount | Percentage |
|-------------------------|----------------------|-------------------|
| 1 - highest quality | \$ 28,716,854 | 100.0 % |
| Totals | \$ 28,716,854 | 100.0 % |

| Years to Maturity | Amount | Percentage |
|--------------------------|----------------------|-------------------|
| 1 year or less | \$ 8,924,779 | 31.1 % |
| 2 to 5 years | 2,801,452 | 9.7 % |
| 6 to 10 years | 16,990,623 | 59.2 % |
| Totals | \$ 28,716,854 | 100.0 % |

As depicted above, the Companies' investment portfolio primarily consists of bonds, common stocks, short-term investments, mortgage loans on real estate, and cash. The Companies' bond portfolio is comprised of high-quality municipal, United States government, and corporate bonds.

The Companies each entered into a custodial agreement with US Bank National Association, a national banking association organized under the laws of the United States of America, effective March 17, 2011. The custodial agreements comply with the standards for custodial agreements pursuant to 31 Pa. Code § 148a.3.

The Companies have 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 Companies were following their investment policies at December 31, 2015.

LIABILITIES

LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES

The following chart depicts the Companies' reserves for losses and loss adjustment expenses ("LAE") as reported on their December 31, 2015, Annual Statements. These amounts represent each company's share as defined in the Pooling Agreement.

| <u>Company</u> | <u>Losses</u> | <u>LAE</u> |
|----------------|---------------|--------------|
| LCC | \$ 81,270,114 | \$ 9,902,822 |
| LAIC | \$ 21,925,744 | \$ 2,919,968 |
| LNIC | \$ 10,613,597 | \$ 1,364,810 |

Kay Kufera, FCAS, MAAA, of Kufera Consulting, Inc. ("Kufera") has been the Lackawanna Insurance Group appointed actuary for the entire examination period.

For each year under the examination period, Kufera issued a Statement of Actuarial Opinion for each company concluding that the Companies' reserves made a reasonable provision for all unpaid loss and LAE expense obligations under the terms of its contacts and agreements.

In order for the examination team to gain an adequate comfort level with the Companies' loss and LAE estimates, the examination team performed a risk-focused review of the Companies' reserving and pricing processes. Based on the procedures performed and results obtained, the examination team obtained sufficient evidence to support the conclusion that the Companies' 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 June 30, 2016, David H. Swisher, Esquire, and John Parente were appointed to the Companies' Board.

On November 6, 2016, the Companies' CEO, Charles E. Parente, passed away.

RECOMMENDATIONS

PRIOR EXAMINATION

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

CURRENT EXAMINATION

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

1. It is recommended that the Companies establish a formal process to monitor proposed transactions affecting the direct or indirect control of the Companies and obtain prior approval or exemption of transactions, when applicable, pursuant to the requirements of 40 P.S. § 991.1402 (see “Insurance Holding Company System,” Page 6).
2. It is recommended that the Companies ensure the Annual Registration Statement contains complete and accurate information on all affiliates in compliance with the requirements of 40 P.S. § 991.1404 and 31 Pa. Code § 25.17 (see “Insurance Holding Company System,” Page 6).
3. It is recommended that the Companies ensure the Annual Registration Statement completely and accurately identifies all ultimate controlling persons in compliance with the requirements of 40 P.S. § 991.1404 and 31 Pa. Code § 25.17 (see “Insurance Holding Company System,” Page 6).
4. It is recommended that all ultimate controlling persons of the Companies comply with the filing requirements of 40 P.S. § 991.1404 (see “Insurance Holding Company System,” Page 6).
5. It is recommended that the Companies ensure that the Schedule Y filed within their future annual and quarterly statements contain complete and accurate information on all affiliates in compliance with NAIC Annual Statement Instructions – Property and Casualty (see “Insurance Holding Company System,” Page 7).
6. It is recommended that the Companies provide prior notice to the Department of transactions subject to the prior notice filing requirements of 40 P.S. § 991.1405 and 31 Pa. Code § 25.21 (see “Service and Operating Agreements, Page 10).

CONCLUSION

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

| Lackawanna Casualty Company | Amount | Percentage |
|----------------------------------|----------------|------------|
| Admitted assets | \$ 213,386,758 | 100.0 % |
| Liabilities | \$ 132,556,060 | 62.1 % |
| Surplus as regards policyholders | 80,830,698 | 37.9 % |
| Total liabilities and surplus | \$ 213,386,758 | 100.0 % |

Since the previous examination, made as of December 31, 2010, the LCC's assets increased by \$6,204,921, its liabilities increased by \$34,858,910, and its surplus decreased by \$28,653,989.

| Lackawanna American Insurance Company | Amount | Percentage |
|---------------------------------------|---------------|------------|
| Admitted assets | \$ 84,910,434 | 100.0 % |
| Liabilities | \$ 45,761,665 | 53.9 % |
| Surplus as regards policyholders | 39,148,769 | 46.1 % |
| Total liabilities and surplus | \$ 84,910,434 | 100.0 % |

Since the previous examination, made as of December 31, 2010, the LAIC's assets increased by \$30,670,675, its liabilities increased by \$17,948,544, and its surplus increased by \$12,722,131.

| Lackawanna National Insurance Company | Amount | Percentage |
|---------------------------------------|---------------|------------|
| Admitted assets | \$ 33,323,636 | 100.0 % |
| Liabilities | \$ 19,280,453 | 57.9 % |
| Surplus as regards policyholders | 14,043,183 | 42.1 % |
| Total liabilities and surplus | \$ 33,323,636 | 100.0 % |

Since the previous examination, made as of December 31, 2010, the LNIC's assets increased by \$13,564,703, its liabilities increased by \$7,964,968, and its surplus increased by \$5,599,735.

This examination was conducted by David Hughes, Elizabeth McGarry and Stephanie Ohnmacht, CFE, with the latter in charge.

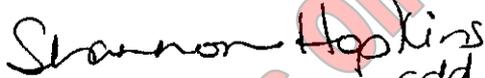
Respectfully,



Melissa L. Greiner

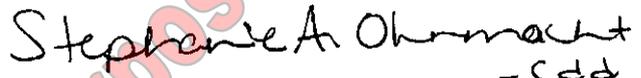
Director

Bureau of Financial Examinations



Shannon Hopkins, CFE

Examination Manager



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.

For Informational Purposes Only