

Examination Warrant Number 16-0000-17728-R1

**Report of Examination of
Reamstown Mutual Insurance Company
Reamstown, Pennsylvania**

As of December 31, 2016

For Informational Purposes Only

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Harrisburg, Pennsylvania
August 16, 2018

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 16-0000-17728-R1, dated June 9, 2016, an examination was made of

Reamstown Mutual Insurance Company, NAIC Code: 17728

a Pennsylvania domiciled single-state, mutual property and casualty insurance company, hereinafter referred to as the "Company." The examination was conducted at the Company's home office, located at 20 South Reamstown Road, Reamstown, Pennsylvania 17567-0477.

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 five-year period from January 1, 2012 through December 31, 2016.

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

The Handbook requires that the Department plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company, evaluate system controls and procedures used to mitigate those risks, and review subsequent events. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with statutory accounting principles.

The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

This examination report includes significant findings of fact, in accordance with 40 P.S. § 323.5(a), and general information about the Company and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective

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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 Baker Tilly Virchow Krause, LLP ("CPA") provided an unmodified audit opinion on the Company's year-end financial statements based on statutory accounting principles. Relevant work performed by the CPA, during its annual audit of the Company, was reviewed during the examination and incorporated into the examination workpapers.

HISTORY

The Company was incorporated on April 10, 1895, licensed by the Department and commenced business on May 1, 1895.

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, (c)(3) Glass, (c)(4) Other Liability, (c)(6) Burglary and Theft, (c)(9) Elevator and (c)(10) Livestock.

MANAGEMENT AND CONTROL

SURPLUS REQUIREMENTS

The Company's minimum surplus requirement to conduct the business described above, pursuant to 40 P.S. § 386 is \$950,000 in minimum surplus. The Company has met all governing surplus requirements throughout the examination period.

BOARD OF DIRECTORS

Management of the Company is vested in its Board of Directors ("Board"), which was comprised of the following members as of the examination date, December 31, 2016:

Name and Address	Principal Occupation
Marlin Glenn Musser Lititz, PA	Investment Advisor Aavidum Financial Services
Barry Walter Harting Stevens, PA	Senior Vice President Ephrata National Bank
Clyde LaVerne Martin Akron, PA	Independent Insurance Agent Martin Insurance Agency
John Newton Musante Wernersville, PA	Retired
Emerson Lee Paul Reamstown, PA	CPA Weinhold, Nickel and Company
Matthew Allen Schnader Reinholds, PA	President/CEO Reamstown Mutual Insurance Company

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Molly Ludwig Clark
Sinking Spring, PA

School Teacher
Wilson School District

The By-laws of the Company provide that the Board is to be composed of not less than seven, but not more than eleven directors, to be elected by the Members from among the Membership by majority ballot of Members present, in person or by proxy, at the Annual Meeting of the policyholders. There are three different classes of directors. Each year a different class of directors is elected to serve a three-year term.

The Company's Conflict of Interest Policy is required to be signed by each director at the Company's Annual Meeting of the policyholders held in March.

COMMITTEES

As of the examination date, December 31, 2016, the following committees were appointed by the Board and serving in accordance with the Company's By-laws:

Audit Committee

Barry Walter Harting, Chairman
Emerson Lee Paul
Marlin Glenn Musser

Executive Committee

Clyde LaVerne Martin, Chairman
John Newton Musante

Investment Committee

Emerson Lee Paul, Chairman
Clyde LaVerne Martin
Marlin Glenn Musser
Matthew Allen Schnader
Joshua Eugene Hoffman

Nominating and Compensation Committee

Marlin Glenn Musser, Chairman
Barry Walter Harting
Clyde LaVerne Martin
Matthew Allen Schnader

OFFICERS

As of the examination date, December 31, 2016, the following officers were appointed and serving in accordance with the Company's By-laws:

Name

Matthew Allen Schnader
Joshua Eugene Hoffman
Jane Louise Wenger
Evelyn Germer Schronce

Title

President & CEO
Treasurer & CFO
Vice President and Secretary
VP, Marketing & External Operations

CORPORATE RECORDS

MINUTES

A compliance review of corporate minutes revealed the following:

- The Annual Meetings of the Company's policyholders were held in compliance with the Company's By-laws.
- The policyholders elected directors at such meetings in compliance with the Company's By-laws.
- The Board appoints officers annually at the Annual Reorganizational Meeting of the Board of Directors.
- The policyholders ratified the prior year's actions of the officers and directors.
- Quorums were present at all directors' meetings.
- The Company's investment transactions are approved quarterly by the Board.
- All directors attend Board meetings regularly.
- The Company Board meeting's minutes approve the reinsurance contracts.

ARTICLES OF AGREEMENT

There were no changes to the Articles of Agreement since the last examination.

BY-LAWS

The Company made the following changes to its By-laws on March 1, 2014:

- Added an Action by Written Consent section which details any action permitted or required to be taken at a meeting of the Board of Directors may be taken without a meeting if a consent in writing, setting forth the action to be taken, is signed severally or collectively by all of the Directors.
- Added the position of Chairman of the Board.

SERVICE AND OPERATING AGREEMENTS

The Company was party to various licensing and consulting agreements.

REINSURANCE

CEDED

The Company has executed various reinsurance cession agreements that were in effect as of December 31, 2016.

The Company's reinsurance intermediary, Guy Carpenter & Company, LLC ("Guy Carpenter"), is licensed by the Department as required by 40 P.S. § 321.2(a). The Company operates this program pursuant to a properly executed written authorization between the intermediary and the Company as required by 40 P.S. § 321.3.

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All of the Company's reinsurers are either licensed, qualified or certified in the Commonwealth of Pennsylvania.

All ceded contracts described below contain Insolvency and Arbitration clauses and meet the minimum risk transfer requirements of SSAP No. 62R.

The following is a summary of the Company's ceded reinsurance program.

Property First Surplus

The Company entered into a Property First Surplus Agreement with various reinsurers. The contract's effective date was 12:01 A.M. January 1, 2016 and is continuous until 12:01 A.M. January 1, 2017. The Company's retention and the reinsurance limits are as follows:

<u>Company's Retention</u>	<u>Maximum Cession</u>	<u>Type of business Covered</u>
\$5,000 minimum with a maximum cession of \$500,000	\$500,000	All Property

Casualty Semi-Automatic Program Excess of Loss

The Company entered into an Casualty Semi-Automatic Program Excess of Loss Agreement with various reinsurers. The contract's effective date was 12:01 A.M. January 1, 2016 and is continuous until 12:01 A.M. January 1, 2017. The Company's retention and the reinsurance limits are as follows:

<u>Company's Retention</u>	<u>Reinsurance Per Loss Limits</u>	<u>Type of business Covered</u>
\$1,000,000	\$1,000,000	Personal, Farm and Commercial

Casualty Excess of Loss Facultative

The Company entered into a Casualty Excess of Loss Facultative Agreement with various reinsurers. The contract's effective date was 12:01 A.M. January 1, 2016 and is continuous until 12:01 A.M. January 1, 2017. The Company's retention and the reinsurance limits are as follows:

<u>Company's Retention</u>	<u>Reinsurance Per Loss Limits</u>	<u>Type of business Covered</u>
\$1,000,000	\$1,000,000 per occurrence	Comprehensive Personal Liability, Farmowners Comprehensive Liability, Farmowners Commercial General Liability, Commercial General Liability

The maximum liability limit is \$2,000,000 in the aggregate.

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Aggregate Excess of Loss

The Company entered into an Aggregate Excess of Loss Agreement with various reinsurers. The contract's effective date was 12:01 A.M. January 1, 2016 and is continuous until 12:01 A.M. January 1, 2017. The Company's retention and the reinsurance limits are as follows:

<u>Company's Minimum Retention</u>	<u>Reinsurance Per Loss Limits</u>	<u>Type of business Covered</u>
65% of Aggregate Ultimate Net Loss	100% of 150% of Gross Net Earned Premium Income	All Property and Casualty

This contract is subject to one reinstatement.

Multi-Line Excess of Loss

The Company entered into a Multi-Line Excess of Loss Agreement with various reinsurers. The contract's effective date was 12:01 A.M. January 1, 2016 and is continuous until 12:01 A.M. January 1, 2017. The Company's retention and the reinsurance limits are as follows:

<u>Company's Retention</u>	<u>Reinsurance Per Loss Limits</u>	<u>Type of business Covered</u>
\$100,000	\$300,000 each loss, each risk Limited to \$600,000 each loss	All Property
\$100,000	\$1,400,000	All Casualty

Property Facultative Pro Rata

The Company entered into a Property Facultative Pro Rata Agreement with various reinsurers. The contract's effective date was 12:01 A.M. January 1, 2016 and is continuous until 12:01 A.M. January 1, 2017. The Company's retention and the reinsurance limits are as follows:

<u>Company's Minimum Retention</u>	<u>Maximum Cession</u>	<u>Type of business Covered</u>
\$3,000	\$1,000,000	All Property

There is a 25% ceding commission on the agreement.

Property Facultative Per Risk Excess of Loss

The Company entered into a Property Facultative Per Risk Excess of Loss Agreement with various reinsurers. The contract's effective date was 12:01 A.M. January 1, 2016 and is continuous until 12:01 A.M. January 1, 2017. The Company's retention and the reinsurance limits are as follows:

<u>Company's Retention</u>	<u>Reinsurance Per Loss Limits</u>	<u>Type of business Covered</u>
\$600,000	\$1,000,000	All Property

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Umbrella Facultative (Two Layers)

The Company entered into an Umbrella Facultative Agreement with various reinsurers. The contract's effective date was 12:01 A.M. January 1, 2016 and is continuous until 12:01 A.M. January 1, 2017. The Company's retention and the reinsurance limits for the agreement are as follows:

<u>Company's Retention</u>	<u>Reinsurance Per Loss Limits</u>	<u>Type of business Covered</u>
5% of up to \$1,000,000 of Ultimate Net Loss, each Loss Occurrence, each Policy	95% of \$1,000,000	All Personal, Farm and Commercial Umbrella Liability

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

<u>Company's Retention</u>	<u>Reinsurance Per Loss Limits</u>	<u>Type of business Covered</u>
\$1,000,000	\$5,000,000	All Personal, Farm and Commercial Umbrella Liability

The liability of the Reinsurer shall not exceed an annual aggregate limit of \$10,000,000. There is a 32.5% ceding commission on the agreement.

Equipment Breakdown Quota Share

The Company entered into an Umbrella Facultative Agreement with Factory Mutual Insurance Company. The contract's effective date was 12:01 A.M. December 1, 2012 and is continuous until terminated by either party. The Company's retention and the reinsurance limits are as follows:

<u>Company's Retention</u>	<u>Maximum Cession</u>	<u>Type of business Covered</u>
0%	\$25,000,000	Equipment Breakdown - Fire Farm, Farmowners, Commercial Fire, Fire Dwelling and Businessowners

<u>Company's Retention</u>	<u>Maximum Cession</u>	<u>Type of business Covered</u>
0%	\$50,000	Equipment Breakdown - Homeowners and Mobile Homeowners

ASSUMED

The Company has not entered into any reinsurance assumption agreements during the examination period.

TERRITORY AND PLAN OF OPERATION

The Company is licensed only in the Commonwealth of Pennsylvania. There have been no changes to the Company's marketing strategy since the prior examination.

The following exhibit shows the premium written by the Company by line of business for the year ended December 31, 2016:

Line of Business	Direct and Assumed Premium	Ceded Premium	Net Written Premium	Percentage of Total
December 31, 2016				
Fire	\$ 310,772	\$ 63,045	\$ 247,727	4.2%
Allied lines	207,181	42,030	165,151	2.8%
Farmowners multiple peril	2,810,028	1,454,781	1,355,247	23.1%
Homeowners multiple peril	3,279,351	1,113,624	2,165,727	37.0%
Commercial multiple peril	2,493,157	644,824	1,848,333	31.6%
Inland marine	15,661	2,467	13,194	0.2%
Other liability - occurrence	134,338	72,302	62,036	1.1%
Totals	\$ 9,250,488	\$ 3,393,073	\$ 5,857,415	100.0%

The Company utilizes independent agents for distribution of its insurance product to consumers. Marketing of the Company's insurance products is done by these agencies on behalf of the Company.

The Company wrote 91.7% of its total business in farmowners, homeowners and commercial multiple peril lines as of December 31, 2016.

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.

	Amount	Percentage
Premiums earned	\$ 27,257,067	100.0%
Losses incurred	\$ 12,597,559	46.2%
Loss expenses incurred	2,618,247	9.6%
Other underwriting expenses incurred	11,796,080	43.3%
Net underwriting gain or (loss)	245,181	0.9%
Totals	\$ 27,257,067	100.0%

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

	2016	2015	2014	2013	2012
Admitted assets	\$ 8,607,550	\$ 8,508,653	\$ 7,794,376	\$ 8,201,956	\$ 7,149,574
Liabilities	\$ 5,259,252	\$ 5,534,890	\$ 4,816,000	\$ 4,945,907	\$ 4,894,673
Surplus as regards policyholders	\$ 3,348,298	\$ 2,973,763	\$ 2,978,376	\$ 3,256,049	\$ 2,254,901
Gross premium written	\$ 9,250,488	\$ 9,483,926	\$ 9,179,624	\$ 8,597,678	\$ 7,858,691
Net premium written	\$ 5,857,415	\$ 6,269,211	\$ 5,516,622	\$ 5,290,417	\$ 5,163,245
Underwriting gain/(loss)	\$ 352,584	\$ (54,112)	\$ (765,879)	\$ 804,203	\$ (91,615)
Investment gain/(loss)	\$ 80,549	\$ 170,804	\$ 183,447	\$ 170,631	\$ 77,369
Other gain/(loss)	\$ 82,454	\$ 95,778	\$ 86,832	\$ 79,226	\$ 67,411
Net income	\$ 351,785	\$ 143,340	\$ (304,279)	\$ 720,410	\$ 50,991

PENDING LITIGATION

The Company is not involved in any material litigation, other than in normal course of business, as of the date of this examination report, August 16, 2018, that would be expected to have a material adverse impact to the financial condition of the Company.

A letter was received from the Company's external law firm Saul Ewing Arnstein & Lehr LLP verifying no material litigation.

A review of the Company's Board minutes indicated no evidence of litigation. A review of the Company's general ledger produced no significant legal expenses. Additionally, the Company verified by management per their representation letter that there was no additional outstanding significant litigation.

FINANCIAL STATEMENTS

The financial condition of the Company, as of December 31, 2016, and the results of its 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.

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

	2016	2015	2014	2013	2012
Bonds	\$ 4,572,461	\$ 3,737,424	\$ 3,125,225	\$ 3,027,710	\$ 2,751,531
Common stocks	1,630,297	568,484	1,992,965	2,045,607	1,416,190
Real estate	172,497	185,729	199,423	213,118	215,246
Cash, cash equivalents, and short term investments	926,931	1,951,478	892,699	1,787,549	1,634,421
Receivable for securities	0	0	0	0	5,025
Subtotals, cash and invested assets	7,302,188	6,443,115	6,210,312	7,073,984	6,022,413
Investment income due and accrued	27,190	20,424	21,033	22,469	19,837
Premiums and agents' balances due	888,375	967,025	929,620	855,634	788,751
Amounts recoverable from reinsurers	113,129	643,794	229,997	83,321	100,929
Current federal and foreign income tax recoverable and interest thereon	3,816	149,429	277,661	0	83,601
Net deferred tax asset	205,368	230,303	111,985	150,242	130,956
Electronic data processing equipment and software	21,765	25,220	13,768	16,406	3,087
Aggregate write-ins for other than invested assets	45,721	29,343	0	0	0
Total	\$ 8,607,550	\$ 8,508,653	\$ 7,794,376	\$ 8,201,956	\$ 7,149,574
Losses	\$ 842,798	\$ 823,007	\$ 553,273	\$ 887,096	\$ 1,000,892
Loss adjustment expenses	139,540	105,200	101,637	160,005	128,224
Commissions payable, contingent commissions and other similar charges	293,131	303,916	252,620	293,581	237,271
Other expenses	70,465	62,655	57,322	81,968	88,396
Taxes, licenses and fees	97,576	275,598	99,045	89,394	81,205
Current federal and foreign income taxes	0	0	0	39,989	0
Unearned premiums	3,426,975	3,606,667	3,112,999	3,002,718	2,816,979
Advance premium	262,086	226,688	225,640	208,722	151,477
Ceded reinsurance premiums payable (net of ceding commissions)	77,306	65,901	373,075	142,618	328,498
Amounts withheld or retained by company for account of others	42,457	36,912	23,658	15,603	11,200
Drafts outstanding	6,918	28,346	16,731	24,213	50,531
Total liabilities	5,259,252	5,534,890	4,816,000	4,945,907	4,894,673
Unassigned funds (surplus)	3,348,298	2,973,763	2,978,376	3,256,049	2,254,901
Surplus as regards policyholders	3,348,298	2,973,763	2,978,376	3,256,049	2,254,901
Totals	\$ 8,607,550	\$ 8,508,653	\$ 7,794,376	\$ 8,201,956	\$ 7,149,574

**Comparative Statement of Income
For the Year Ended December 31,**

	2016	2015	2014	2013	2012
Underwriting Income					
Premiums earned	\$ 6,037,107	\$ 5,775,543	\$ 5,405,341	\$ 5,104,678	\$ 4,934,398
Deductions					
Losses incurred	2,358,992	2,696,391	3,364,697	1,778,242	2,399,237
Loss expenses incurred	615,996	552,883	517,230	469,016	463,122
Other underwriting expenses incurred	2,709,635	2,580,381	2,289,293	2,053,217	2,163,654
Total underwriting deductions	5,684,623	5,829,655	6,171,220	4,300,475	5,026,013
Net underwriting gain or (loss)	352,584	(54,112)	(765,879)	804,203	(91,615)
Investment Income					
Net investment income earned	65,213	56,077	80,902	93,226	117,615
Net realized capital gains or (losses)	15,336	114,727	102,545	77,405	(40,246)
Net investment gain or (loss)	80,549	170,804	183,447	170,631	77,369
Other Income					
Finance and service charges not included in premiums	71,161	76,312	76,122	79,418	67,324
Aggregate write-ins for miscellaneous income	11,293	19,466	10,710	0	87
Total other income	82,454	95,778	86,832	79,226	67,411
Net income before dividends to policyholders and before federal and foreign income taxes	515,587	212,470	(495,600)	1,054,060	53,165
Federal and foreign income taxes incurred	163,802	69,130	(191,321)	333,650	2,174
Net income	\$ 351,785	\$ 143,340	\$ (304,279)	\$ 720,410	\$ 50,991

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

	2016	2015	2014	2013	2012
Surplus as regards policyholders.					
December 31, previous year	\$ 2,973,763	\$ 2,978,376	\$ 3,256,049	\$ 2,254,901	\$ 1,987,330
Net income	351,785	143,340	(304,279)	720,410	50,991
Net unrealized capital gains or (losses)	43,776	(188,456)	46,770	167,684	98,603
Change in net deferred income tax	(2,385)	21,234	(14,163)	(11,181)	(12,361)
Change in nonadmitted assets	(18,640)	19,269	(6,001)	124,235	130,338
Change in surplus as regards policyholder for the year	374,535	(4,613)	(277,673)	1,001,148	267,571
Surplus as regards policyholders.					
December 31 current year	\$ 3,348,298	\$ 2,973,763	\$ 2,978,376	\$ 3,256,049	\$ 2,254,901

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

	2016	2015	2014	2013	2012
Cash from Operations					
Premiums collected net of reinsurance	\$ 5,982,787	\$ 5,925,550	\$ 5,689,441	\$ 5,095,600	\$ 5,149,841
Net investment income	65,965	75,345	99,185	100,835	132,744
Miscellaneous income	82,443	95,778	86,832	79,226	87,411
Total income	6,131,195	6,096,673	5,875,458	5,275,661	5,349,996
Benefit and loss related payments	1,806,536	2,840,454	3,845,196	1,874,430	2,173,287
Commissions, expenses paid and aggregate write-ins for deductions	3,472,188	2,896,519	2,920,847	2,432,381	2,482,618
Federal and foreign income taxes paid (recovered)	26,089	0	126,329	220,000	44,970
Total deductions	5,306,813	5,736,973	6,892,372	4,526,811	4,700,875
Net cash from operations	824,382	359,700	(1,016,914)	748,850	649,121
Cash from Investments					
Proceeds from investments sold, matured or repaid:					
Bonds	407,505	1,087,182	1,000,474	491,457	713,462
Stocks	59,975	5,093,045	1,505,186	866,293	336,929
Net gain or (loss) on cash and short-term investments	718	0	0	0	0
Miscellaneous proceeds	0	0	0	5,025	5,024
Total investment proceeds	468,188	6,180,227	2,505,660	1,362,775	1,055,415
Cost of investments acquired (long-term only):					
Bonds	1,228,800	1,731,710	1,075,897	762,446	318,317
Stocks	1,040,973	3,752,910	1,304,381	1,153,982	700,677
Real estate	0	0	0	12,762	0
Total investments acquired	2,269,773	5,484,620	2,380,278	1,929,190	1,018,994
Net cash from investments	(1,801,575)	695,607	125,382	(566,415)	36,421
Cash from Financing and Miscellaneous Services					
Other cash provided (applied):					
Other cash provided or (applied)	(47,354)	3,472	(3,318)	(29,307)	43,565
Net cash from financing and miscellaneous sources	(47,354)	3,472	(3,318)	(29,307)	43,565
Reconciliation of cash and short-term investments:					
Net change in cash and short-term investments	(1,024,547)	1,058,779	(894,850)	153,128	729,107
Cash and short-term investments					
Beginning of the year	1,951,478	892,699	1,787,549	1,634,421	905,314
End of the year	\$ 926,931	\$ 1,951,478	\$ 892,699	\$ 1,787,549	\$ 1,634,421

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, 2016, the Company's invested assets were distributed as follows:

	Amount	Percentage
Bonds	\$ 4,572,461	62.6 %
Common stocks	1,630,297	22.3 %
Real estate	172,497	2.4 %
Cash	442,067	6.1 %
Short-term investments	484,864	6.6 %
Totals	<u>\$ 7,302,186</u>	<u>100.0 %</u>

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

NAIC Designation	Amount	Percentage
1 - highest quality	\$ 3,518,458	69.6 %
2 - high quality	1,290,336	25.5 %
3 - medium quality	198,076	3.9 %
4 - low quality	50,455	1.0 %
Totals	<u>\$ 5,057,325</u>	<u>100.0 %</u>

Years to Maturity	Amount	Percentage
1 year or less	\$ 1,157,787	22.9 %
2 to 5 years	2,428,504	48.0 %
6 to 10 years	1,006,635	19.9 %
11 to 20 years	464,398	9.2 %
over 20 years	1	0.0 %
Totals	<u>\$ 5,057,325</u>	<u>100.0 %</u>

The Company's investments consisted of the following as a percent of admitted assets as of December 31, 2016: Bonds (53.1%); Common stocks (18.9%); Real estate (2.0%); and cash, short-term investments and cash equivalents (10.87%). There were no investments in other assets. The total invested assets represent approximately 84.8% of admitted assets as of December 31, 2016.

The Company maintains a custodial agreement with Branch Bank and Trust Co which is in compliance with 31 Pa. Code § 148a.3.

The Company was party to an investment advisor agreement with Cubic Financial Advisors, LLC.

The Company has a written investment policy as required by 40 P.S. § 653b(b). The investment policy is reviewed and approved on an annual basis by the Board. The Company was following its investment policy at December 31, 2016.

LIABILITIES

LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES

The Company reported reserves in the amount of \$842,798 for losses and \$139,540 for loss adjustment expenses ("LAE") on the December 31, 2016 Annual Statement.

Ronald T. Kuehn, FCAS, MAAA, an independent actuarial consultant associated with the firm Huggins Actuarial Services, Inc., has been the Company's Appointed Actuary ("AA") for each year in the examination period. At December 31, 2016, the AA provided a Statement of Actuarial Opinion stating that the loss and LAE reserve amounts "make a reasonable provision in the aggregate for all unpaid loss and loss adjustment expense obligations of the Company under the terms of its contracts and agreements."

In order for the examination team to gain an adequate comfort level with the Company's loss and LAE reserve estimates, the Department's internal actuarial examiner assisted the examination team in performing a risk-focused review of the Company's pricing and reserving processes and results.

Based on the procedures performed and the results obtained, the examination team obtained sufficient documentation to support the conclusion that the Company's carried loss and LAE reserve amounts are reasonably stated as of December 31, 2016.

SUBSEQUENT EVENTS

The following changes in management occurred subsequent to the examination date of December 31, 2016:

- Effective March 10, 2017, Jane Wenger retired as Corporate Secretary and Joshua Hoffman was appointed as Vice President and Secretary of the Company.
- Effective November 16, 2017, Joshua Hoffman was appointed as President and CEO of the Company.
- Effective April 11, 2018, Matthew Schnader, former President, CEO, Executive Vice President of Marketing and member of the Board of Directors, left the Company.
- Effective May 18, 2018, Joshua Hoffman, former President, CEO and CFO left the Company.
- Effective May 18, 2018, Terri Alwood, former Product/Compliance Manager, was appointed President and CEO of the Company.

Effective May 7, 2018, the Company entered into a consulting agreement with Mark Glessner. The services in conjunction with this agreement include reviewing operating and

regulatory financial statements of the Company, advising the Board and Audit Committee on operating and regulatory financial statements of the Company, and performing other duties as assigned by the Board and/or Audit Committee.

RECOMMENDATIONS

PRIOR EXAMINATION

The prior examination report contained no recommendations.

CURRENT EXAMINATION

As a result of the current examination, there are no recommendations being made.

For Informational Purposes Only

CONCLUSION

As a result of this examination, the financial condition of Reamstown Mutual Insurance Company, as of December 31, 2016, was determined to be as follows:

	Amount	Percentage
Admitted assets	\$ 8,607,550	100.0 %
Liabilities	\$ 5,259,252	61.1 %
Surplus as regards policyholders	3,348,298	38.9 %
Total liabilities and surplus	\$ 8,607,550	100.0 %

Since the previous examination, made as of December 31, 2011, the Company's assets increased by \$2,474,042, its liabilities increased by \$1,113,074, and its surplus increased by \$1,360,968.

This examination was conducted by Ryan Monahan, CFE.

Respectfully,

Melissa L. Greiner

Melissa L. Greiner

Director

Bureau of Financial Examinations

David R. Evans -cdd

David R. Evans, CFE

Examination Manager

Ryan Monahan -cdd

Ryan Monahan, CFE

Examiner-in-Charge