

REPORT ON EXAMINATION
OF
PENN INSURANCE & ANNUITY COMPANY
AS OF
DECEMBER 31, 2015

Karen Weldin Stewart, CIR-ML
Commissioner



Delaware Department of Insurance

I, Karen Weldin Stewart, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT OF EXAMINATION, made as of December 31, 2015 of the

PENN INSURANCE & ANNUITY COMPANY

is a true and correct copy of the document filed with this Department.

Attest By: Raylyn Brown

Date: October 7, 2016

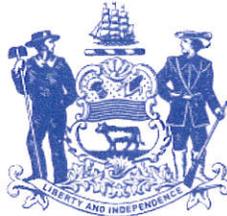


In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 7th day of October, 2016.

A handwritten signature in black ink, appearing to read "Karen Weldin Stewart".

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Karen Weldin Stewart, CIR-ML
Commissioner



Delaware Department of Insurance

REPORT OF EXAMINATION
OF THE
PENN INSURANCE & ANNUITY COMPANY
AS OF
DECEMBER 31, 2015

The above-captioned report was completed by examiners of the Delaware Department of Insurance.

Consideration has been duly given to the comments, conclusions and recommendations of the examiners regarding the status of the company as reflected in the report.

This report is hereby accepted, adopted and filed as an official record of this Department.

A handwritten signature in black ink, appearing to read "Karen Weldin Stewart", is written over a horizontal line.

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Dated this 7th day of October, 2016

TABLE OF CONTENTS

<u>SALUTATION</u>	1
<u>SCOPE OF EXAMINATION</u>	1
<u>SUMMARY OF SIGNIFICANT FINDINGS</u>	3
<u>COMPANY HISTORY</u>	3
<u>MANAGEMENT AND CONTROL</u>	5
<u>TERRITORY AND PLAN OF OPERATION</u>	11
<u>REINSURANCE</u>	112
<u>FINANCIAL STATEMENTS</u>	14
<u>ANALYSIS OF CHANGES IN THE FINANCIAL STATEMENTS RESULTING FROM</u> <u>EXAMINATION</u>	18
<u>COMMENTS ON FINANCIAL STATEMENT ITEMS</u>	19
<u>SUBSEQUENT EVENTS</u>	21
<u>SUMMARY OF RECOMMENDATIONS</u>	23
<u>CONCLUSION</u>	24

SALUTATION

August 17, 2016

Honorable Karen Weldin Stewart, CIR-ML
Delaware Insurance Commissioner
Delaware Department of Insurance
Rodney Building
841 Silver Lake Blvd.
Dover, Delaware 19904

Dear Commissioner;

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority No. 15.036, dated April 25, 2015, an examination has been made of the affairs, financial condition and management of

PENN INSURANCE AND ANNUITY COMPANY

hereinafter referred to as the “Company” or “PIA” and incorporated under the laws of the State of Delaware as a stock company. The examination was conducted at the main office of the Company, located 600 Dresher Road, Horsham, Pennsylvania 19044. The report for this examination thereon is respectfully submitted.

SCOPE OF EXAMINATION

The Delaware Department of Insurance (Department) performed a risk-focused financial examination of the Company. The last examination was conducted as of December 31, 2010 by the Department. This examination covered the period of January 1, 2011 through December 31, 2015.

The examination of the Company was performed as part of the multi-state coordinated examination of Penn Mutual Life Group (PML) of companies as of December 31, 2015. The

Pennsylvania Department of Insurance (PDOI) is the lead state for the PML. We conducted our examination in accordance with the *National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook* (Handbook).

The Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the company and evaluate system controls and procedures used to mitigate those risks. 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, pursuant to the General Corporation Law of the State of Delaware as required by 18 Del. C. §321, along with general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature, are not included within the examination report but separately communicated to other regulators and/or the Company.

During the course of this examination, consideration was given to work performed by the Company's external accounting firm, PriceWaterhouseCoopers, LLC (PwC). Certain auditor work papers of their 2015 audit have been incorporated into the work papers of the examiners

and have been utilized in determining the scope, areas of emphasis in conducting the examination and in the area of risk mitigation and substantive testing.

SUMMARY OF SIGNIFICANT FINDINGS

There were no significant material adverse findings or financial adjustments as a result of this examination. Please refer to summary of recommendations for non-adverse findings.

COMPANY HISTORY

General

The Company, a Delaware corporation and wholly owned subsidiary PML, was organized in 1980 for the purpose of developing and selling nonparticipating insurance products. Headquartered in Horsham, Pennsylvania, the Company is licensed in 48 states and the District of Columbia. Presently, the Company offers indexed universal life products for sale, and also receives renewal premiums on existing blocks of universal life policies. There is also a block of business that includes both immediate annuity and deferred annuity policies. The Company also has a significant amount of universal life business assumed from PML. Prior to 2007, PIA was primarily running off older books of business and reported minimal new sales. In 2007, the Company began offering Indexed Universal Life (“IUL”) products, which have been very successful for PIA. The Company markets its business through PML’s distribution systems and PML services its in-force business.

On December 31, 2013, the Company formed a subsidiary, PIA Reinsurance Company of Delaware (“PIA Re”), a wholly owned special purpose financial reinsurance company organized under the insurance laws of the State of Delaware.

In 2015, the Company formed Dresher Run I, LLC (“Dresher Run”), a non-insurance holding company incorporated in the State of Delaware, and subsequently made a capital contribution to Dresher Run in the form of cash of \$11 million. Pursuant to a share purchase agreement effective November 30, 2015, Dresher Run purchased Longevity Insurance Company (“Longevity”), a Texas-domiciled insurance company, and the state licenses held by Longevity, for a purchase price of \$10 million. Longevity previously issued life insurance and long-term care products which are currently 100% ceded to a third party. The admitted value of the Company’s investment in Dresher Run consists of statutory surplus of Longevity of \$7million and expenses paid by the Company related to Dresher Run’s acquisition of Longevity.

Capitalization

The Company has 1,000 shares of common stock issued and outstanding at year end. The par value per share is \$2,500 totaling \$2,500,000. There was no change in common stock during the examination period. The Company has no preferred stock outstanding. Gross Paid in and Contributed Capital increased from \$126.8 million in 2010 to \$289.7 in 2015 via capital infusions.

Dividends

According to Company records for the years indicated, and as reflected in minutes to the Board of Directors’ meetings, the following dividends were paid to the shareholder:

<u>Declared Date</u>	<u>Type</u>	<u>Amount</u>	<u>Paid Date</u>
March 2, 2015	Ordinary	\$35,000,000	March 6, 2016

The Company properly notified the Delaware Department of Insurance and is in compliance with 18 Del. C. §5004(e) “Registration of Insurers”.

MANAGEMENT AND CONTROL

The bylaws of the Company do not specify a specific number of Directors of the Company but instead allow the shareholders to elect any number of Directors from time to time as they deem necessary.

As of December 31, 2015, the following Directors of the Board were elected and serving:

Director	Primary Occupation
Eileen C. McDonnell	President and Chairman Penn Mutual Insurance Company
David M. O'Malley	Chief Operating Officer Penn Mutual Insurance Company
Susan T. Deakins	Senior Vice President and CFO Penn Mutual Insurance Company
Gregory J. Driscoll	Senior Vice President, Service Operations and CIO Penn Mutual Insurance Company

As of December 31, 2015, the following were the Officers of the Company as elected by the Board of Directors:

Officer	Position
Eileen C. McDonnell	President and Chairman
David M. O'Malley	Chief Operating Officer
Susan T. Deakins	Senior Vice President and Chief Financial Officer
Franklin L. Best, Jr.	Secretary and Counsel

There was one formal committee of the Board of Directors, and the following are the members in place as of December 31, 2015:

Audit Committee

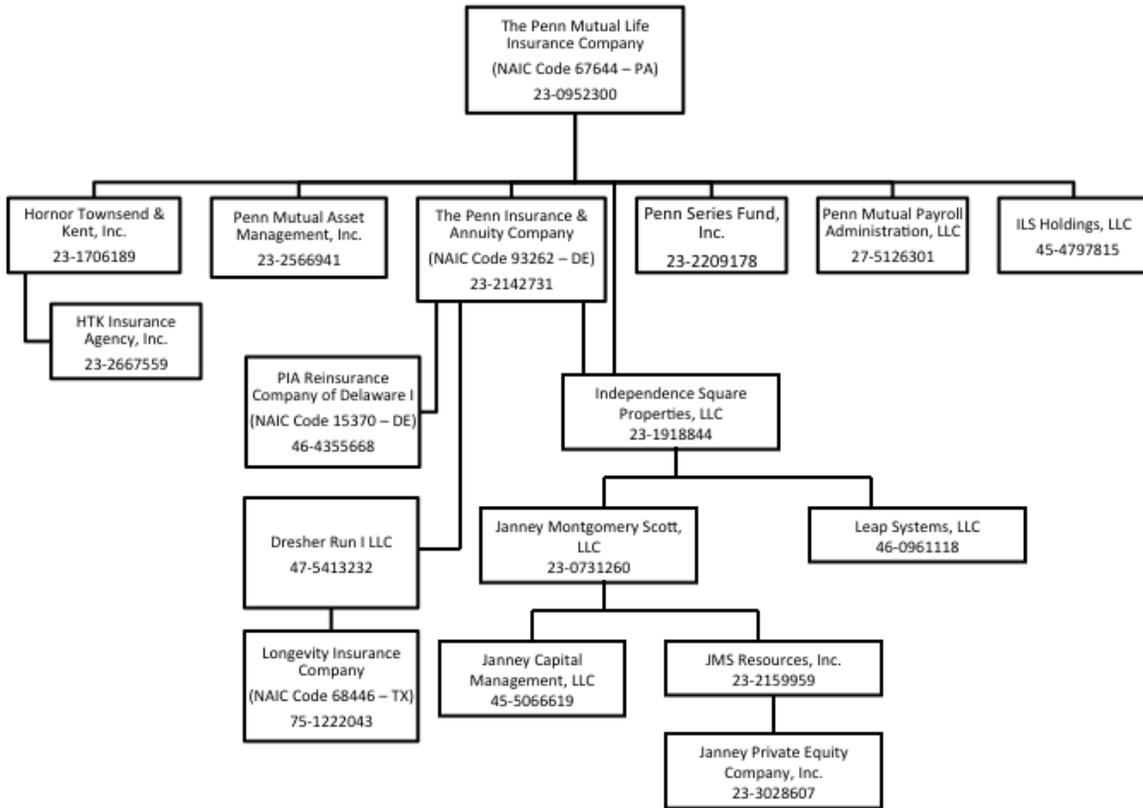
Susan T. Deakins

David M. O'Malley

Gregory J. Driscoll

Insurance Holding Company System

PIA, a Delaware corporation and wholly owned subsidiary of PML, was organized in 1980 for the purpose of developing and selling nonparticipating insurance products. PML is a holding company for the various business interests of its stockholders as defined under 18 Del. C. §5001 of the Delaware Insurance Code. In addition to owning PIA, PML owns numerous subsidiaries, including two investment funds and Janney Montgomery Scott, LLC, a stock brokerage and investment company located in Philadelphia. Due to PML's ownership of these investment vehicles, it is regulated by the Securities and Exchange Commission. The following abridged organizational chart, which is limited to the Company's parent, along with its subsidiaries, depicts the Company's relationship within the holding company system:



Affiliated Agreements

At December 31, 2015, PIA was party to the following affiliated tax, service and agency agreements:

Tax Sharing Agreements

PML and Subsidiaries - As amended January 1, 2014, PIA is a party to a tax sharing agreement with PML. PML has written agreements setting forth the manner in which the total consolidated federal income tax, for all entities, is allocated to each entity that is a party to the consolidation.

The agreements provide that any loss member of the group will receive a cash payment to the extent that said loss results in a reduction of the tax liability for other entities of the group if each had filed a separate return. Income members of the group will make cash payments to the extent that it would have shown a tax liability if each had filed a separate return. Such payments shall be made on the filing of each estimated payment and final consolidated return.

PIA-Captive Tax Agreement (the “Agreement”) dated as of December 31, 2013, was entered into between PIA and PIA Reinsurance Company of Delaware I, a Delaware corporation, (“PIA Re”). PIA has elected to be treated as the Intermediate Parent of an Intermediate Parent Group that includes PIA Re for purposes of the Group Tax Sharing Agreement. PIA and PIA Re desire to make payments in respect of tax liabilities and tax attributes to one another determined as if PIA were Parent and PIA Re was not a member of an Intermediate Parent Group

Administrative Services and Support Agreements

PIA and PML - Effective December 31, 2007, PIA entered into an Administrative Service and Support Agreement with PML. The Administrative Service and Support Agreement contains the following compensation/reimbursement provision: the Company is charged an amount equal to all expenses, direct and indirect, reasonably and equitably determined to be attributable to PIA by PML for services and facilities provided by PML to PIA. PML is to submit to PIA within thirty (30) days of the end of each calendar month a written statement of charges due to PML from PIA. In turn, PIA shall submit payment of such charges within thirty (30) days of receipt of such written statement. The total expenses incurred under this agreement were \$19,598,000 for 2015.

PIA and PIA Re - Effective December 31, 2013, PIA entered into an Administrative Service and Support Agreement with PIA Re. PIA provides certain services and the use of facilities to PIA Re for the operation of PIA Re's business. The total expenses incurred under this agreement were \$320,000 for 2015.

Investment Management Agreement

PIA and PMAM - As amended on January 1, 2015, PIA is a party to an Investment Management Agreement with Penn Mutual Asset Management, Inc. (PMAM) for investment management services. For 2015, the total expenses incurred under this agreement were \$1,376,000.

Revolving Loan Agreement

The PIA entered into a revolving loan agreement with its affiliate, Janney Montgomery Scott (JMS) on August 19, 2011, to provide funding to JMS in an amount not to exceed \$40,000,000. Terms of the loan specify that semi-annual interest be paid on the outstanding balances based on market rates determined at the dates of the loans. The principal balances are not due until maturity in August 2030. The Company recorded \$3,650,000 in interest income on this note for the years ended December 31, 2015. At December 31, 2015 the Company had outstanding principal receivable from JMS of \$40,000,000 respectively, and outstanding interest receivables of \$920,000, relating to this agreement.

Unaffiliated Agreements

At December 31, 2015, PIA was party to the following unaffiliated tax, service and agency agreements:

State Street Bank Custodian Agreement - Effective March 30, 2012, the Company entered into a custody agreement with State Street Bank and Trust Company ("State Street").

Pursuant to the agreement, State Street acts as the custodian for the Company's portfolio of investment securities. A review of the terms of the custodian agreement indicates that the agreement contains the minimum standards required under the NAIC Handbook. PIA is in compliance with Delaware and NAIC guidelines.

Bank of New York Mellon - The Company entered into a Custodian Agreement with Bank of New York Mellon ("BNY-Mellon") effective March 30, 2012. Pursuant to the agreement, BNY-Mellon acts as the custodian for the Company's Separate Accounts portfolio of investment securities. A review of the terms of the custodian agreement indicates that the agreement contains the minimum standards required under the NAIC Handbook. PIA is in compliance with Delaware and NAIC guidelines.

Corporate Records

The recorded minutes of the shareholders and Board of Directors (Board), were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions and events, for the approval of investment transactions in accordance with 18 Del. C. §1304.

Inspection of Company files indicated that an ethics statement/conflict of interest statement was completed by all directors and employees for the examination period.

A review was performed for compliance with Code 18 Del. C. § 4919 for changes in directors and officers. "Every domestic stock or mutual insurer shall promptly notify the Commissioner in writing of any change of personnel among its directors or principal officers". The Company is in compliance.

TERRITORY AND PLAN OF OPERATION

Territory

PIA was organized in 1980 for the purpose of developing and selling nonparticipating insurance products. PML is a Nationally-Significant company as defined by the NAIC. Headquartered in Horsham, Pennsylvania, the Company is licensed in 48 states and the District of Columbia.

Plan of Operation

The Company's business activities are primarily concentrated in the sale of indexed universal life products and also renewal premiums received on existing blocks of universal life policies. There is a block of business that includes both immediate annuity and deferred annuity policies. The Company has an amount of universal life assumed reinsurance from PML that is ceded to PIA Re. The Company markets its business through PML's distribution systems and PML services its in-force business.

As of December 31, 2015, the Company reported direct net written premiums in the amount of \$488,254,185. Distribution by line of business was as follows:

<u>Lines of Business</u>	<u>Net Premiums</u>	<u>Percentage of Total</u>
Ordinary life insurance	\$ 487,689,747	99.9%
Ordinary individual annuities	\$ 145,065	0.0%
Group life insurance	\$ 419,373	0.1%
Total	\$ 488,254,185	100.0%

REINSURANCE**General**

The Company has assumed and ceded reinsurance on certain life and annuity contracts under various agreements. The Company reported the following distribution of net premiums written for 2015:

Direct	\$ 247,092,218
Assumed:	
Reinsurance assumed from affiliates	384,074,189
Reinsurance assumed from non-affiliates	-
Total gross (direct and assumed)	<u>\$ 631,166,407</u>
Ceded:	
Reinsurance ceded to affiliates	\$ 127,755,663
Reinsurance ceded to non-affiliates	15,156,559
Total ceded	<u>\$ 142,912,222</u>
Net premiums written	<u>\$ 488,254,185</u>

The Company maintains various reinsurance agreements with affiliates.

		2015 (000's omitted)	
	Affiliate	Premium	Reserves
Funds Withheld	PML	\$ 48,702	\$ 942,839
Funds Withheld	PIA Re	(58,360)	(1,427,092)
IUL Inforce	PML	201,237	182,994
Coinsurance	PML	134,135	428,233
IUL	PML	(67,281)	(33,641)
YRT – Over retention	PML	(2,114)	(236)
Total		<u>256,319</u>	<u>93,197</u>
Total Assumed (positive)		384,074	1,554,166
Total ceded (negative)		<u>(127,755)</u>	<u>(1,460,969)</u>
Total		<u>\$ 256,319</u>	<u>\$ 93,197</u>

Funds Withheld

The Company ceded a closed block of business to PIA Re on a 100% coinsurance funds withheld basis at December 31, 2013.

At December 31, 2014, the Company entered into a contract with PML to assume reserves pursuant to transactions subject to the requirements of Section 7 of the NAIC XXX and AXXX Reinsurance Model Regulation. The contract is a 70% coinsurance with funds withheld agreement with PML that reinsures all risks related to an in-force block of single life no-lapse guaranteed universal life policies, net of inuring reinsurance, issued between October 2007 and June 2013, and inforce as of December 31, 2014. The policies are within the scope of the NAIC Valuation of Life Insurance Policies Model Regulation (“Regulation AXXX”). The Company then contemporaneously reinsured the policies to PIA Re, effective December 31, 2014, by amending the 2013 Funds Withheld Reinsurance Agreement with PIA Re.

The table below highlights the support for the PIA reserve credit relating to its agreement with PIA Re, as well as the unamortized gain from the 2013 inforce transaction as of December 31:

	2015
Reserve Credit	\$ 1,427,092,000
Assets supporting reserve:	
Primary Assets - PML	646,520,000
Primary Assets – PIA	305,721,000
Other Assets – PIA Re	474,851,000
<u>Unamortized initial gain</u>	<u>87,008,000</u>

IUL Inforce - Effective January 1, 2015, the Company assumed from PML an inforce block of single life *index universal life* policies issued by PML between 2012 and 2014. The Company

assumed 100% of the risk, net of inuring reinsurance. The Company assumed \$113,021,000 of reserves, received \$81,000,000 in securities and paid \$32,021,000 in ceding commission.

Coinsurance - The Company assumes certain risks under reinsurance agreements with Penn Mutual relating to various fixed and indexed universal life business.

IUL - The Company cedes to Penn Mutual the equity risk associated with PIA's Indexed UL products on a Yearly Renewable Term basis.

YRT Over Retention - The Company ceded to PML policies issued after October 1, 2006 and before October 1, 2014 which resulted in retention greater than \$1,000,000 per life.

The single life retention limit for PIA is now at \$5 million (effective October 1, 2014). In addition, PIA now has a retention limit of \$7.5 million for joint policies. This change was effective March 1, 2015.

FINANCIAL STATEMENTS

Financial statements, as reported and filed by the Company with the State Department of Insurance, are reflected in the following:

- o Statement of assets, liabilities and surplus
- o Statement of income
- o Reconciliation of surplus for the period since the last examination
- o Supporting schedules and exhibits to the extent needed

PENN INSURANCE AND ANNUITY COMPANY
STATEMENT OF ASSETS
DECEMBER 31, 2015

Assets	Assets	Nonadmitted Assets	Net Admitted Assets	Note
Bonds	\$ 2,224,740,279		\$ 2,224,740,279	1
Preferred stocks	11,554,687		11,554,687	
Common Stocks	105,914,102	83,735,503	22,178,599	
Cash \$-10,223,122, cash equivalents \$0 and short-term investments \$21,558,076	31,781,198		31,781,198	
Contract loans	454,142,838		454,142,838	
Other invested assets	161,787,406	3,594,785	158,192,621	2
Investment income due and accrued	45,075,941		45,075,941	
Amounts recoverable from reinsurers (reinsurance)	25,827,866		25,827,866	
Funds held by or deposited with reinsured companies	646,519,219		646,519,219	3
Other amounts receivable under reinsurance contracts	47,166,570		47,166,570	
Current federal and foreign income taxes	1,992,021		1,992,021	
Net deferred tax asset	78,072,362	36,112,689	41,959,673	
Guaranty funds	121,046		121,046	
Receivable to Parent, subs and affiliates	3,138,136		3,138,136	
Aggregate write-ins for other than invested assets	10,444,735	437,505	10,007,230	
Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell	<u>3,848,278,406</u>	<u>123,880,482</u>	<u>3,724,397,924</u>	
From separate accounts	<u>56,096,655</u>		<u>56,096,655</u>	
Total Assets	<u><u>\$ 3,904,375,061</u></u>	<u><u>\$123,880,482</u></u>	<u><u>\$ 3,780,494,579</u></u>	

PENN INSURANCE AND ANNUITY COMPANY
STATEMENT OF LIABILITES AND SURPLUS
DECEMBER 31, 2015

	Cuurent Year	NOTES
Aggregate reserve for life contracts	\$ 2,248,841,861	4
Liability for deposit type contracts	6,532,665	
Contract Claims		
Life	12,253,925	
Premiums and annuity considerations for life and	27,030,543	
Contract liabilities not included elsewhere		
Other amounts payable on reinsurance	46,742,574	
Interest Maintenance Reserve	2,387,714	
Transfers to Separate Accounts due or accrued	- 118,348	
Taxes, licenses and fees due or accrued, excluding	- 385,316	
Remittances and items not allocated	16,205,835	
Asset valuation reserve	21,545,438	
Reinsurance in unauthorized companies	547,898	
Payable to parent, subsidiaries and affiliates	8,084,368	
Drafts outstanding	12,804,956	
Funds held under coinsurance	952,240,114	5
Payable for securities	5,986,135	
Aggregate write-ins for liabilities	634,812	
Total Liabilities excluding Separate Accounts business	<u>\$ 3,361,335,174</u>	
From Separate Accounts Statement	<u>\$ 56,096,655</u>	6
Total Liabilities	<u><u>\$ 3,417,431,829</u></u>	
Capital and Surplus		
Common capital stock	\$ 2,500,000	
Gross paid in and contributed surplus	289,661,695	
Unassigned funds (surplus)	70,901,055	
Total Surplus	<u>\$ 360,562,750</u>	
Total Capital and Surplus	<u>\$ 363,062,750</u>	
Total Liabilities, Surplus and Other Funds	<u><u>\$ 3,780,494,579</u></u>	

**PENN INSURANCE AND ANNUITY COMPANY
STATEMENT OF INCOME
DECEMBER 31, 2015**

Premium and Annuity Considerations	488,254,185
Consideration for supplementary contracts	75,708
Net investment income	138,277,155
Amortization of IMR	(1,320,592)
Commissions and expense allowances on reinsurance ceded	6,545,137
Income from fees associated with investment management	865,942
Aggregate write ins for miscellaneous income	92,209,551
Totals	<u>724,907,086</u>
Death benefits	<u>37,837,327</u>
Annuity benefits	14,857,857
Disability benefits	493,863
Surrender benefits	56,410,890
Interest and adjustments on contract or deposit type contract	1,495,634
Payments on supplementary contracts with life contingencies	383,570
Increase in aggregate reserves\	431,772,833
Totals	<u>543,251,974</u>
Commissions on premiums	12,453,931
Commissions and expense allowance	110,696,768
General insurance expenses	26,167,683
Insurance taxes, licenses and fees	6,085,881
Net transfers to or Separate Accounts	(7,237,836)
Aggregate write-ins for deductions	51,759,707
Totals	<u>743,178,108</u>
Net gain from operations before dividends	(18,271,022)
Dividends to policyholders	-
Net gains from operations before dividends to policyholders	(18,271,022)
Federal and foreign income taxes	14,337,157
Net gains from operations after dividends to policyholders	(32,608,179)
Net realized capital gains	(266,424)
Net Income	<u><u>(32,874,603)</u></u>

**PENN INSURANCE AND ANNUITY COMPANY
RECONCILIATION OF SURPLUS FOR THE PERIOD
SINCE THE LAST EXAMINATION
DECEMBER 31, 2015**

	Common Stock	Gross Paid in capital	Aggregate write in for surplus	Unassigned Funds	Total Surplus
1/1/2011	\$2,500,000	\$ 126,868,751	\$ 4,486,000	-\$ 28,734,336	\$ 105,120,415
12/31/2011		43,925,708			43,925,708
12/31/2011			200,895		200,895
12/31/2011				(18,010,631)	(18,010,631)
12/31/2012			(4,686,895)	4,686,895	-
12/31/2012		80,000,000			80,000,000
12/31/2012				(20,809,371)	(20,809,371)
12/31/2013		38,867,232			38,867,232
12/31/2013				87,007,749	87,007,749
12/31/2013				(5,560,483)	(5,560,483)
12/31/2014				106,492,714	106,492,714
12/31/2015				(35,000,000)	(35,000,000)
12/31/2015				(19,171,478)	(19,171,478)
	<u>\$2,500,000</u>	<u>\$ 289,661,691</u>	<u>\$ -</u>	<u>\$ 70,901,059</u>	<u>\$ 363,062,750</u>

1 - represents net income, change in unrealized capital gain(losses), change in unrealized foreign exchange gain(losses), change in net deferred income tax, change in non admitted assets, change in reinsurance for

2- change in ssap no 10.e

3- contributed capital

4- change in method for ssap 10.e

5- The Company entered into a 100% coinsurance agreement with fundswitheldagreemnet with PIA re, an

6- Dividends paid

**ANALYSIS OF CHANGES IN THE FINANCIAL STATEMENTS RESULTING FROM
EXAMINATION**

There were no financial adjustments to the Company's financial statements as a result of this examination.

COMMENTS ON FINANCIAL STATEMENT ITEMS**Note 1 Bonds****\$2,224,740,279**

Procedures were performed to confirm the existence and ownership of the investments reported in Schedule D- Part 1 and the other investment schedules. These procedures were performed without exception. The Company continues to invest primarily in Bonds with ratings of “1” or “2” per the NAIC Securities Valuation Office Manual. The Company’s Bond portfolio accounted for 58.8% of total admitted assets (excluding Separate Accounts). The Bond portfolio as of the December 31, 2015 examination date consisted of the following:

Designation	Percent of Portfolio
NAIC 1	66.00%
NAIC 2	28.00%
NAIC 3	4.20%
NAIC 4	1.30%
NAIC 5	0.30%
NAIC 6	0.20%

Bonds were comprised of the following classes:

<u>Description</u>	<u>Statement Value</u>	<u>% of Total</u>
U.S. Governments	\$ 42,203,515	1.90%
U.S. States, Territories & Possessions	37,022,162	1.66%
U.S. Political Subdivisions of States	181,118,840	8.14%
U.S. Special Revenues	273,351,555	12.29%
Industrial and Miscellaneous	1,691,044,207	76.01%
Total	<u>\$ 2,224,740,279</u>	<u>100.00%</u>

Note 2 Other Invested Assets **\$ 158,192,621**

Alternative Assets	\$87,846,688
Investments in Subsidiaries	16,538,735
Revolving Loan agreement	40,000,000
Low Income Housing Tax Credits	13,807,199

Alternative investments of \$ 87,846,688 represent partnerships in various asset classes. The unfunded commitments related to these investments are \$60,603, 955. The Company invests in Low Income Housing Tax Credits (LIHTC) investments, which generate tax credits for investing in affordable housing projects. Investors in entities operating qualified affordable housing projects receive tax benefits in the form of tax deductions from operating losses and tax credits. There were no impairments or write downs due to forfeiture of eligibility in 2015. Please refer to intercompany agreements for additional explanation, of the revolving loan agreement.

Investments in Subsidiaries **\$16,538,735**

The following table summarizes the gross, non-admitted, and net admitted value of the Company's investments in subsidiaries, controlled and affiliated entities, segregated by line item classification.

December 31, 2015 (000's omitted)			
	Gross	Non admitted	Net Admitted
Common stock, affiliated:			
PIA Re	\$ 83,736	\$ (83,736)	\$ -
Other invested assets:			
Independence Square Properties (ISP)	8,895	(586)	8,309
Dresher Run	11,239	(3,009)	8,230
Subtotal	20,134	(3,595)	16,539
Total	\$ 103,870	\$ (87,331)	\$ 16,539

As of December 31, 2015 the Company's investment in Independence Square Properties ("ISP") was \$8.9 million. ISP is the holding Company that owns JMS and Leap Systems, LLC. The Company ownership interest for 2015 is 4.23%. ISP had total assets of \$215,468,000 and total liabilities of \$5,184,000 as of December 31, 2015. The admitted value of the Company's investments includes goodwill of \$1,834,000 and other intangible assets of \$142,000 at December 31, 2015. In 2015, the Company made an additional capital contribution in the form of cash to ISP in the amount of \$79,000.

The admitted value of the Company's investment in Dresher Run consists of statutory surplus of Longevity of \$7,701,000 and expenses paid by the Company related to Dresher Run's acquisition of Longevity of \$529,000. All other assets held by Dresher Run are non-admitted by the Company. The acquisition and purpose of this was described in Company Background.

Note 3 Funds Held by or Deposited with reinsured Companies **\$646,519,219**

PIA has recorded an asset for funds withheld established for the economic reserves related to the 70% coinsurance with funds withheld agreement, which is noted in the Reinsurance section above, with PML that reinsures all risks related to an in-force block of single life no-lapse guarantee universal life policies.

Note 4 Aggregate Reserves for Life Policies and Contracts **\$2,248,841,861**

The amount shown above agrees with the amount reported on the Company's December 31, 2015 Annual Statement. As per Exhibit 5 of the 2015 Annual Statement, this reserve is distributed as follows:

<u>Ordinary</u>	<u>Gross</u>	<u>Ceded</u>	<u>Total</u>
Life Insurance	\$ 3,642,282,377	\$ 1,461,586,630	\$ 2,180,695,747
Annuities (excluding supplementary contracts)	55,634,694	-	55,634,694
Supplementary Contracts	1,216,401	-	1,216,401
Accidental Death Benefits	16,987	-	16,987
Disability- Active Lives	138,281	-	138,281
Disability- Disabled Lives	3,213,792	-	3,213,792
Miscellaneous Reserves	591,688	-	591,688
Total Ordinary	<u>3,703,094,220</u>	<u>1,461,586,630</u>	<u>2,241,507,590</u>
Group			
Life Insurance	6,920,838	-	6,920,838
Annuities (excluding supplementary contracts)	413,433	-	413,433
Total Group	<u>7,334,271</u>	<u>-</u>	<u>7,334,271</u>
Total Policy Reserve	<u>\$ 3,710,428,491</u>	<u>\$ 1,461,586,630</u>	<u>\$ 2,248,841,861</u>

It should be noted that in addition to the annuities reported in Exhibit 5, the Company reports period-certain immediate annuities which do not contain life contingencies on Page 3, Line 3 as part of the Deposit-Type Contract liability. These annuities amounted to \$6,532,665 at December 31, 2015.

The Company's policy and contract reserve valuation material was reviewed by the lead state independent Actuary Lewis & Ellis. The Delaware Department of Insurance appointed INS Consultants Inc. ("INS"), to peer review the lead state report. The underlying data from the Company's policy master file was tested by the examiners. No exceptions were noted during either the examiner data testing or their review of the Company's reserve. They concluded that the Company's reserve for life policies and contracts appears to be fairly stated. Additionally, a review of the Company's reserves for compliance with standard valuation laws, applicable NAIC Actuarial Guidelines and Model Regulations was performed without exception. Reserve trend analyses were also performed and generally produced reasonable results.

Note 5 Funds Held Under Coinsurance **\$952,240,114**

PIA recorded a liability in the amount of \$952,240,114 for funds held pursuant to the 100% coinsurance funds withheld agreement entered into with PIA Re as mentioned in the reinsurance section above, which represents the economic reserves under the terms of the reinsurance agreement.

Note 6 Separate Accounts Assets/Liabilities **\$56,096,655**

PIA maintains separate accounts, which are registered with the Securities Exchange Commission (“SEC”) for its individual variable annuity products with accounting for assets and liabilities in the amount of \$56,096,655 as of December 31, 2015. 100% of separate accounts consisted of Individual Annuities at year end.

SUBSEQUENT EVENTS

There were no significant subsequent events.

COMPLIANCE with PRIOR EXAMINATION RECOMMENDATIONS

The previous examination made two recommendations. Company is in compliance with recommendation during the period under examination.

SUMMARY OF RECOMMENDATIONS

There were no recommendations as a result of this examination.

CONCLUSION

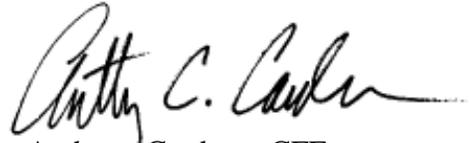
The assistance of Delaware's consulting actuarial firm, INS Consultants, Inc. is acknowledged. In addition, the assistance and cooperation of the Company's outside audit firm, PriceWaterHouse Coopers, and the Company's management and staff were appreciated and are acknowledged.

In addition to the undersigned, Anthony Cardone, CPA, CFE, (Examination Supervisor) participated in the examination.

Respectfully submitted,



Albert M. Piccoli, Sr., CFE
Examiner-In-Charge
Delaware Department of Insurance



Anthony Cardone, CFE
Administrative Supervisor
Delaware Department of Insurance