STATE OF INDIANA	)	BEFORE THE INDIANA
	) SS:	
COUNTY OF MARION	)	COMMISSIONER OF INSURANCE

IN THE MATTER OF:

Affiliates Insurance Company
255 Washington Street
Newton, MA 02458

Examination of Affiliates Insurance Company

NOTICE OF ENTRY OF ORDER

Enclosed is the Final Order entered by Stephen W. Robertson, Commissioner of the Indiana Department of Insurance, after fully considering and reviewing the Verified Report of Examination of Affiliates Insurance Company, any relevant examination work papers, and any written submissions or rebuttals. The Verified Report of Examination, as sent to you on September 29, 2014, has been adopted by the Commissioner.

Pursuant to Ind. Code § 27-1-3.1-12(b), within thirty (30) days of receipt of the Final Order, each director of Affiliates Insurance Company shall file an affidavit with the Indiana Department of Insurance stating that he/she has received a copy of the Verified Report of Examination and the Final Order.

The Final Order is a final administrative decision that may be appealed pursuant to Ind. Code § 4-21.5-5.

October 31, 2014
Date

Cynthia D. Donovan
Chief Financial Examiner

CERTIFIED MAIL NUMBER: 9214 8901 0661 5400 0042 2240 57

STATE OF INDIANA	)	BEFORE THE INDIANA
	) SS:	
COUNTY OF MARION	)	COMMISSIONER OF INSURANCE

IN THE MATTER OF:	)
	)
Affiliates Insurance Company	)
255 Washington Street	)
Newton, MA 02458	)

Examination of Affiliates Insurance Company

FINDINGS AND FINAL ORDER

The Indiana Department of Insurance conducted an examination into the affairs of the Affiliates Insurance Company (hereinafter "Company") for the time period January 1, 2009 through December 31, 2013.

The Verified Report of Examination was filed with the Commissioner of the Department of Insurance (hereinafter "Commissioner") by the Examiner on September 12, 2014.

A copy of the Verified Report of Examination, along with a Notice of Opportunity to Make Written Submission or Rebuttal, was mailed to the Company via Certified Mail on September 29, 2014 and was received by the Company on October 6, 2014.

The Company did not file any objections.

NOW THEREFORE, based on the Verified Report of Examination, I hereby make the following **FINDINGS:**

1. That the Verified Report of Examination is a true and accurate report of the financial condition and affairs of the Affiliates Insurance Company as of December 31, 2013.
2. That the Examiner's Recommendations are reasonable and necessary in order for the Affiliates Insurance Company to comply with the laws of the State of Indiana.

Based on the FINDINGS, the Commissioner does hereby ORDER:

1. Pursuant to Ind. Code § 27-1-3.1-11(a)(1), the Verified Report of Examination is adopted and shall be filed. Hereafter the Verified Report of Examination, may constitute prima facie evidence of the facts contained therein in any action or proceeding taken by the Indiana Department of Insurance against the Company, its officers, directors, or agents.

2. The Company shall comply with the Examiner's Recommendations enumerated in summary form and throughout the text of the Verified Report of Examination. A written response to these recommendations should be provided to the Department within 30 days of receipt of this order.

3. Compliance with the Examiner's recommendations shall be completed on or before the filing of the subsequent annual statement. In the event it is not feasible to comply with a recommendation before the filing of the subsequent annual statement, the Company shall submit a written explanation as to why it was not feasible with the filing of the annual statement.

Signed and Sealed this 31 day of October, 2014.

Stephen W. Robertson
Insurance Commissioner
Indiana Department of Insurance

ABOUT AFFIRMATIONS

The following pages for affirmations need to be signed by each Board Member and returned to the Indiana Department of Insurance within thirty (30) days in accordance with I.C. §27-1-3.1-12(b).

If your affirmations list individuals that are no longer on your Board of Directors, you may simply retype the form on plain white paper with the correct names and a line to the right for signature. If the names are misspelled, you may do the same, simply re-type the corrected form with a line to the right for signature.

Should you have any questions or difficulties with these forms or you require additional time past the thirty (30) day requirement, please do not hesitate to contact this department at (317) 232-2390.

STATE OF INDIANA

Department of Insurance

REPORT OF EXAMINATION

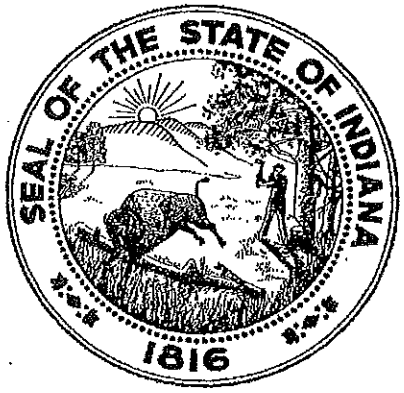
OF

AFFILIATES INSURANCE COMPANY

NAIC COMPANY CODE 13661

As of

December 31, 2013



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STATE OF INDIANA

IDOI

MICHAEL R. PENCE, Governor

Indiana Department of Insurance
311 W. Washington Street, Suite 300
Indianapolis, Indiana 46204-2787
Telephone: (317) 232-2385
Fax: (317) 232-5251
Stephen W. Robertson, Commissioner

September 12, 2014

Honorable Stephen W. Robertson
Commissioner
Indiana Department of Insurance
311 West Washington Street, Suite 300
Indianapolis, Indiana 46204-2787

Dear Commissioner:

Pursuant to the authority vested in Appointment Number 3805, an examination has been made of the affairs and financial condition of:

Affiliates Insurance Company
101 West Washington Street, Suite 1100
Indianapolis, Indiana 46204

an Indiana domestic stock, property and casualty insurance company hereinafter referred to as the "Company." The examination was conducted at the main administrative offices of the Company located at 255 Washington Street, Newton, MA 02458.

The Report of Examination, showing the status of the Company as of December 31, 2013, is hereby respectfully submitted.

SCOPE OF EXAMINATION

The present risk-focused examination is the Company's first full scope examination and was conducted by The Thomas Consulting Group, Inc. (Thomas Consulting) and covered the period from January 1, 2009 through December 31, 2013, and included any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

In conducting the risk-focused examination, the Indiana Department of Insurance (INDOI), by its representatives, relied upon the independent audit reports and opinions contained therein rendered by Ernst & Young LLP for each year of the examination period. Such reports were prepared on a statutory basis and reconciled to the financial statements contained in the respective Annual Statements.

The actuarial firm of Merlinos & Associates, Inc. was appointed by the INDOI to conduct a review of the Company's Loss Reserves and Loss Adjustment Expenses as of December 31, 2013.

In accordance with the NAIC *Financial Condition Examiners Handbook*, Thomas Consulting planned and performed the risk-focused examination to evaluate the financial condition of the Company, and to identify prospective risks related to its operations. The examination process included an evaluation of corporate governance, identification and assessment of inherent risks, and documentation of system controls and procedures used to mitigate the identified risks. In addition, the Examiners performed an assessment of the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. The examination also included a review of the Company's compliance with Statutory Accounting Principles, Annual Statement Instructions, and the Indiana Insurance Code. All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

HISTORY

The Company is an Indiana domiciled stock, property and casualty insurance company organized under the laws of the State of Indiana that was incorporated on November 10, 2008 to engage in writing insurance and reinsurance as permitted by the INDOI. The Company received its Certificate of Authority to transact insurance business, from the INDOI, on May 12, 2009, and began to act as a property reinsurer effective June 1, 2010. The Company is acting as a reinsurer to Lexington Insurance Company (Lexington), which, along with other insurers, is providing property insurance to the eight shareholders of the Company.

CAPITAL AND SURPLUS

As of December 31, 2013, the Company's total capital and surplus was $46,922,130 which included: common capital stock of $1,600,000, consisting of 160,000 shares outstanding common stock, with a par value of $10 per share, gross paid-in and contributed surplus of $40,199,618, and unassigned funds (surplus) of $5,122,512. All of the outstanding shares were owned by eight shareholders at the date of examination.

DIVIDENDS TO STOCKHOLDERS

The Company did not declare or pay shareholder dividends during the period covered by this examination.

TERRITORY AND PLAN OF OPERATION

The Company is licensed to transact insurance business in the State of Indiana. As of December 31, 2013, the Company has written only property reinsurance policies with Lexington, who acts as a fronting insurer for the Company. The original policyholders of the Lexington policy, that the Company reinsures, are related parties of the Company: Reit Management & Research LLC (RMR) and companies to which RMR provides management services, CommonWealth REIT (CWH), Hospitality Properties Trust (HPT), Government Properties Income Trust (GOV), Five Star Quality Care, Inc. (FVE), TravelCenters of America LLC (TA), Senior Housing Properties Trust (SNH), and Select Income REIT (SIR).

GROWTH OF THE COMPANY

The following exhibit summarizes the financial results of the Company during the examination period:

Year	Admitted Assets	Liabilities	Capital & Surplus	Net Premiums Earned	Net Income (Loss)
2013	$62,819,145	$15,897,015	$46,922,130	$4,007,115	$2,333,831
2012	56,806,483	12,455,519	44,350,964	2,395,792	2,486,023
2011	42,937,104	6,410,731	36,526,373	1,282,488	1,035,561
2010	39,123,469	3,601,982	35,521,487	688,949	(5,399)
2009	35,074,191	74,922	34,999,269	0	(934,767)

On May 21, 2012, SIR became a shareholder of the Company investing $5,335,456, in the Company, representing $200,000 (20,000 shares of $10 par) in capital stock, with the remaining balance classified as gross paid in and contributed surplus.

The Company received its Certificate of Authority to transact business in the State of Indiana from the INDOI on May 12, 2009. During the year ended December 31, 2009, the Company had incurred start-up costs but had not written any insurance policies or collected any premiums. This contributed to the Company's net loss in 2009. The Company began to act as a reinsurer with Lexington effective June 1, 2010.

LOSS EXPERIENCE

The following exhibit shows the underwriting results of the Company for the period under examination. The amounts were compiled from the Company's filed Annual Statements and from examination results:

Year	Premiums Earned	Losses and Loss Expenses Incurred	Other Underwriting Expenses Incurred	Loss and Loss Adjustment Expense Ratio	Combined Ratio
2013	$ 4,007,115	$ 66,005	$ 800,012	1.65%	21.61%
2012	2,395,792	25,284	641,030	1.06%	27.81%
2011	1,282,488	131,711	528,291	10.27%	51.46%
2010	688,949	2,141	327,437	0.31%	47.84%
2009	0	0	944,842	-	-

With the exception of 2009, the Company reported an underwriting profit in each of the other four years covered by this examination.

MANAGEMENT AND CONTROL

Directors

The Company's Bylaws specify the number of directors which shall constitute the whole Board of Directors and shall be fixed from time to time by resolution of the Board of Directors or Shareholders. The number of directors shall not be less than five (5) nor more than fifteen (15). The following is a listing of persons serving as directors as of December 31, 2013:

Name and Residence	Principal Business Affiliation
Donna D. Fraiche Baton Rouge, Louisiana	Attorney Baker, Donelson, Bearman, Caldwell & Berkewitz PC
Bruce M. Gans Chatham, New Jersey	Chief Medical Officer Kessler Institute for Rehabilitation
Barbara D. Gilmore Peabody, Massachusetts	Law Clerk United States Bankruptcy Court, Central Division of the District of Massachusetts
John L. Harrington Westwood, Massachusetts	Chairman of the Board Yawkey Foundation
Arthur G. Koumantzelis Lincoln, Massachusetts	Retired
William A. Lamkin Saint Helena, California	Partner Ackrell Capital LLC
Gerard M. Martin Rye Beach, New Hampshire	Owner and Treasurer North Atlantic Medical Services, Inc.
Joseph L. Morea Cold Spring Harbor, New York	Retired; Independent Trustee CommonWealth REIT
Thomas M. O'Brien Bay Village, Ohio	President, Chief Executive Officer and Managing Director TravelCenters of America, LLC
Adam D. Portnoy Boston, Massachusetts	Owner, President, Chief Executive Officer and Director Reit Management & Research LLC and RMR Advisors, Inc.
Barry M. Portnoy Eaton, Massachusetts	Owner and Director Reit Management & Research LLC and RMR Advisors, Inc.

Jeffrey P. Somers Needham, Massachusetts	Of Counsel Morse, Barnes-Brown & Pendleton, PC
William C. Young Carmel, Indiana	Area Director Reit Management & Research LLC
Frederick N. Zeytoonjian Somers, Connecticut	Chairman and Chief Executive Officer Turf Products, LLC

There have been some changes in the Board of Directors of the Company during the examination period.

Effective January 30, 2009, Frank J. Bailey resigned from the Board of Directors. Mr. Bailey was a director of the Company from October 21, 2008, until he resigned. Effective February 27, 2009, Jeffrey P. Somers was elected to the Board of Directors.

On April 23, 2012, David S. Buchanan resigned from the Board of Directors. Mr. Buchanan served as director of the Company from October 21, 2008 to April 23, 2012. Effective April 23, 2012, William C. Young was elected to the Board of Directors.

Patrick F. Donelan was a director from October 21, 2008, until his death on December 31, 2013.

William C. Young, the Indiana resident director, resigned March 31, 2014. As a result, prior to completion of field work, the Company's Board of Directors did not have at least one director who resided in the State of Indiana as required by IC 27-1-7-11. **(Please see the "Other Significant Findings" section of this report regarding this issue.)**

Officers

The Bylaws specify that the officers of the Company shall be a President, one or more Vice Presidents, a Secretary, a Treasurer and such other officers as may be appointed in accordance with the provisions of Section 5.3. The Company's daily operations were managed by the following officers as of December 31, 2013:

Name	Position
Jennifer B. Clark	President and Secretary
John C. Popeo	Treasurer and Assistant Secretary
Karen Jacoppo-Wood	Vice President and Assistant Secretary
Charles A. Harris II	Comptroller and Chief Accounting Officer

Corporate Governance

The written corporate governance framework for the Company is set forth in the charters of each of the Company's five Board of Directors committees. The committees meet on a regular basis with Company management to review the operations, business and financial affairs of the Company. Each committee has certain responsibilities and duties, including those related to the Company's governance principles, strategies, process controls and financial objective. Each committee annually reviews its performance, as

required by the committee's respective charter. Results of such evaluations are then reported to the Board during the Board's annual meeting.

The committees and the member directors that were elected to serve as of December 31, 2013 were as follows:

Executive and Underwriting:

Adam D. Portnoy	Co-Chairman
Barry M. Portnoy	Co-Chairman
Barbara D. Gilmore	
John L. Harrington	
William A. Lamkin	
Jeffrey P. Somers	

Investment Committee:

John L. Harrington	Chairman
Joseph L. Morea	
Thomas M. O'Brien	
Adam D. Portnoy	

Audit and Risk Assessment Committee:

William A. Lamkin	Chairman
Barbara D. Gilmore	
Arthur G. Koumantzelis	

The Company also receives oversight from its other committees that were comprised of the Nominating, Governance and Dispute Resolution Committee, and Compensation Committee.

CONFLICT OF INTEREST

The Company has not established a code of conduct policy and procedures for the disclosure of any material interest or affiliation by any one director, officer or key employee, which is likely to conflict with their official duties. Although the Company's parent has a code of conduct, it did not include the Company. **(Please see the "Other Significant Findings" section of this report regarding this issue.)**

OATH OF OFFICE

Indiana Code 27-1-7-10(i) stipulates that every director, when elected, shall take and subscribe to an oath stating that he or she will faithfully, honestly and diligently administer the affairs of the corporation and will not knowingly violate any of the laws applicable to such corporation. Each director signed an "Oath of Office" statement.

CORPORATE RECORDS

Articles of Incorporation and Bylaws

The Company's Articles of Incorporation and Bylaws were not amended during the period under examination.

Minutes

The Board of Directors and Shareholders meeting minutes were reviewed for the period under examination through the fieldwork date and significant actions taken during each meeting were noted. During the examination, the Company was unable to locate the Shareholders minutes for 2009 and 2010. This is a violation of IC 27-1-7-16 which states that every corporation shall keep correct and complete books of account and minutes of the proceedings of its shareholders meetings, and these records shall likewise be kept at its principal office. **(Please see the "Other Significant Findings" section of this report regarding this issue.)**

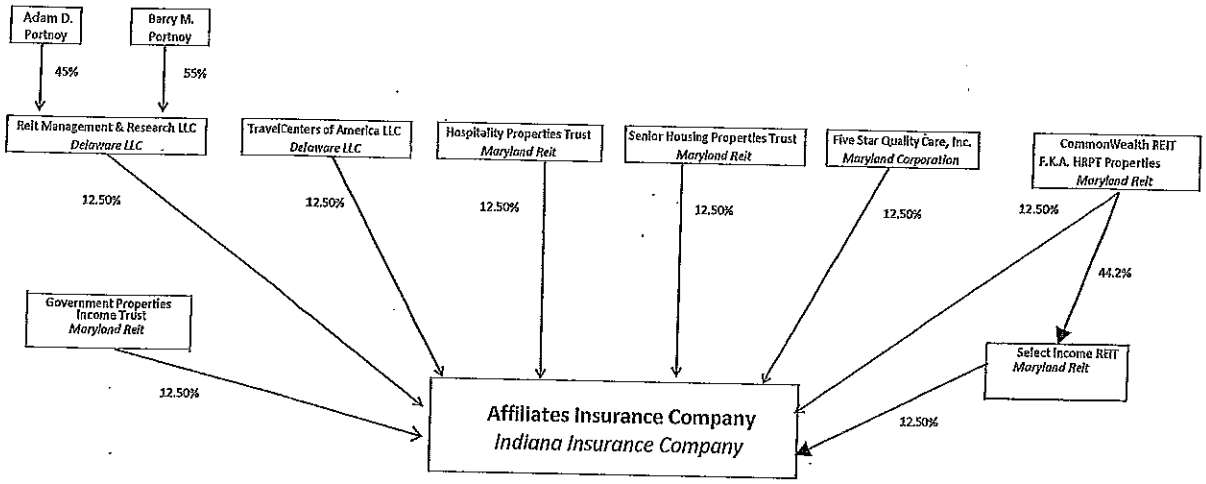
Subsequent to the examination period it was identified that the 2014 Annual Shareholders meeting was not held during the first five months of the year. This is a violation of IC-27-1-7-7(b) which requires the Annual Shareholders meeting to be held within five months of the fiscal close of December 31, for each year. **(Please see the "Other Significant Findings" section of this report regarding this issue.)**

AFFILIATED COMPANIES

Organizational Structure

As of December 31, 2013, the Ultimate Controlling Persons were eight shareholders, whereby each shareholder owned the same number of shares of the Company. Pursuant to the terms of a Subscription Agreement between the Company and GOV dated December 16, 2009, GOV acquired 20,000 shares of the Company's common stock (representing approximately 14% of the Company's outstanding common stock at the time of the acquisition). Pursuant to the terms of the Subscription Agreement by and between the Company and SIR, dated May 21, 2012, SIR acquired 20,000 shares of the Company's common stock (representing 12.5% of the Company's outstanding common stock at the time of the acquisition). Every Shareholder (aside from RMR) is a publicly owned entity. As of December 31, 2013, each of the Shareholders owned 12.5% of the outstanding common stock of the Company, and were together considered to be the Company's Ultimate Controlling Persons under Indiana's Insurance Holding Company System Regulation. Barry M. Portnoy and Adam Portnoy, who are directors of the Company, own 55% and 45%, of RMR, respectively. RMR is a shareholder of the Company.

Organizational Chart



Note:
Senior Housing Properties Trust owns 0.211% of Commonwealth REIT and 8.71% of Five Star Quality Care, Inc.
Hospitality Properties Trust owns 9.1% of TravelCenters of America LLC.

Affiliated Agreements

The following affiliated agreements and transactions were disclosed as part of the Form B Holding Company Registration Statement and were filed with INDOI and not disapproved by INDOI in accordance with IC 27-1-23-4.

Management and Administrative Services Agreement

The Company has a Management and Administrative Services Agreement (Agreement) with RMR pursuant to which RMR earns a fee of 3% of the net earned and deposit premiums under active insurance policies issued or underwritten by the Company, including assumed business, and is reimbursed for reasonable expenses on a monthly basis. The Company has no employees. Pursuant to the Agreement, RMR provides certain management and administrative services to the Company. These services include, but not are not limited to, accounting, banking; human resources, internal audit, information technology, legal, and tax services. The Agreement expires on December 31 of each year, and automatically renews for successive one year terms unless written notice of termination is given by either party 30 days in advance. During the year ended December 31, 2013, the Company incurred management fees totaling $353,954. The Agreement between the Company and RMR was non-disapproved by the INDOI on May 8, 2009. An Amended and Restated Management and Administrative Services Agreement between the Company and RMR was non-disapproved by the INDOI on October 26, 2012. The Amended and Restated Management and Administrative Services Agreement incorporated non-substantive amendments to clarify the existing text.

Shareholders Agreement

The provisions of the Shareholders Agreement address such issues as investing in the Company, compensation of the board, transfer of shares, special approval requirements, other covenants and agreements, representations and warranties, termination, and miscellaneous provisions.

FIDELITY BOND AND OTHER INSURANCE

The Company protects itself against loss from any fraudulent or dishonest acts by a fidelity bond issued by Liberty Mutual Insurance Company. The bond has blanket coverage of $300,000 with a $15,000 deductible. The fidelity bond exceeds the prescribed minimum coverage specified by the NAIC.

The Company was not named as the insured on any other insurance coverage.

STATUTORY AND SPECIAL DEPOSITS

The Company reported statutory deposits for the benefit of all policyholder with the State of Indiana as of December 31, 2013, as shown below. The Company did not have any statutory deposits with other states as of December 31, 2013.

State	Book Value	Fair Value
For all Policyholders:		
Indiana	$100,997	$101,000

REINSURANCE

The Company's reinsurance program is described below:

Reinsurance Assumed

The policy year June 1, 2013 through May 31, 2014, included two reinsurance contracts with Lexington reinsuring direct business written by Lexington. The Company received a premium of $8,000,000 under the first reinsurance contract to assume risk of $7,500,000 per occurrence up to an $8,000,000 annual aggregate limit. This contract was accounted for as a deposit contract because it does not transfer insurance risk. Any contracts which do not transfer risk, and therefore don't qualify as insurance, are accounted for using deposit accounting. Under deposit accounting, assumed premiums are treated as deposits that are recorded as liabilities on the balance sheet. Contract premiums, losses, and loss adjustment expenses are not shown in the statement of income for this contract.

The second reinsurance contract provides up to $10,000,000 of coverage per occurrence after the first $8,000,000 Self-Retention Layer is exhausted. The Company participates in 45% of the second reinsurance contract and received a gross premium related to this contract of $4,186,663. The second agreement provides coverage limits in excess of the first agreement. Lexington receives a fronting fee from the Company for acting as its fronting carrier on these agreements. For the June 1, 2013 to June 1, 2014 contract period, the Company paid a fronting fee of $110,000 and $55,000 for the Self-Retention Layer and Excess Layer reinsurance contract, respectively.

A Summary of the Self-Retention Layer and Excess Layer is listed below:

Policy Year	Self-Retention Layer Annual Aggregate Exposure	Excess Layer Premium Single Loss Exposure
6/1/10-5/31/11	$2,750,000	The Company is responsible for 10% of losses over $2.75 million in the aggregate and any individual claim over $1 million up to $25 million.
6/1/11- 5/31/12	$5,000,000	The Company is responsible for 10% of losses over $5 million in the aggregate and any individual claim over $1 million up to $25 million.
6/1/12-5/31/13	$7,500,000	The Company is responsible for 40% of losses over $7.5 million in the aggregate and any individual claim over $5 million up to $10 million.
6/1/13-5/31/14	$8,000,000	The Company is responsible for 45% of losses over $8 million in the aggregate and any individual claim over $7.5 million up to $10 million.

The Company maintains an account at U.S. Bank under a trust agreement for use by Lexington to satisfy potential claim obligations under the reinsurance contracts. As of December 31, 2013, the balance in this account was $14,842,618 which satisfied maximum exposure limits under the first reinsurance agreement and a portion of the exposure under the second contract. This amount is included in aggregate write-ins for other than invested assets on the statement of assets.

RESERVES

Kathleen C. Odomirok, FCAS, MAAA, of Ernst & Young LLP was the Company's Appointed Actuary in 2013. Ms. Odomirok was appointed by the Board of Directors of the Company on October 24, 2013, to render an opinion on the reserves of the Company. John Dawson, FCAS, MAAA, of Ernst & Young LLP rendered an opinion on such reserves for the years ended December 31, 2010 to 2012.

The scope of the opinion stated the Actuary examined the reserves as shown in the Annual Statement of the Company as prepared for filing with state regulatory officials as of December 31, 2013. In forming the opinion, information prepared by the Company was relied upon. The provided data was evaluated for reasonableness and consistency. The data was reconciled to Schedule P - Part 1 of the Company's Annual Statement as of December 31, 2013.

The 2013 opinion stated the reserve balances: 1) make a reasonable provision in the aggregate for all unpaid losses and loss adjustment expenses, gross and net as to reinsurance ceded, under the terms of the Company's contracts and agreements, 2) are consistent with estimates of unpaid losses and loss adjustment expenses computed in accordance with standards and principles established by the Actuarial Standards Board, 3) are computed on the basis of similar general methods as used at December 31, 2012, and 3) meet the requirements of the insurance laws of Indiana.

ACCOUNTS AND RECORDS

The Company's accounting procedures, practices, account records, and supporting data were reviewed and tested to the extent deemed necessary. The Annual Statement totals for Admitted Assets, Liabilities,

Surplus, Premiums Written and Net Income for the years ended December 31, 2009 through December 31, 2013, were agreed to each year's trial balance with no exceptions noted.

The Company's independent auditors issued unqualified opinions on the Company's audited statutory statements for each year during the examination period. The audited financial statements were agreed to the Annual Statement for the year ended December 31, 2013, with no exceptions noted. All of the independent audit work papers were made available to the Examiners during the examination.

The Company's accounts and records are maintained using electronic data processing with the exception of certain items entered manually into the general ledger. The Company maintains adequate supporting work papers which were reviewed during the examination. From a review of the internal controls, it was determined that the Company's current information systems possess most of the physical and internal controls as prescribed by the NAIC.

The Company's second quarter, fourth quarter and annual premium tax filings for 2013 were not filed timely with the INDOI. In addition, the second quarter 2014 filing was not filed timely with the INDOI. Notices of the filings not being received were sent to the Company shortly after the respective due dates but the Company failed to respond. As a result, the Company is in violation of IC-27-1-18-2 (a) which requires on or before March 1 of each year, that a domestic company report to the department, under the oath of the president and secretary, the gross amount of premiums received by it on policies made, written, or renewed during the twelve month period ending on December 31 of the preceding calendar year. In addition, the Company is in violation of IC-27-1-18-2(d) which requires the payment of the tax on the second quarter and fourth quarter shall be due and payable on or before June 15 and December 15 of the current calendar year, respectively. **(Please see the "Other Significant Findings" section of this report regarding this issue.)**

Overall, the Examiners determined the Company's accounting procedures, practices, and account records were satisfactory.

FINANCIAL EXHIBITS

Comparative Exhibit – Statutory Statement of Assets
Comparative Exhibit – Statutory Statement of Liabilities, Surplus and Other Funds
Comparative Exhibit - Statutory Statement of Income
Comparative Exhibit – Statutory Capital and Surplus Account

NOTE: Amounts are shown in whole dollars and columns may not total due to rounding.

AFFILIATES INSURANCE COMPANY

FINANCIAL STATEMENTS

Assets

	As of December 31, 2013			
	Per Annual Statement	Exam Adjustments	Per Examination	December 31, Prior Year
Assets:				
Bonds	$ 35,963,144	$ -	$ 35,963,144	$ 32,979,276
Preferred stocks	208,453	-	208,453	-
Common stocks	3,039,635	-	3,039,635	-
Cash $(1,973,876), cash equivalents $0 and short-term investments $6,208,415	8,182,291	-	8,182,291	7,764,360
Subtotals, cash and invested assets	$ 47,393,523	$ -	$ 47,393,523	$ 40,743,636
Investment income due and accrued	323,464	-	323,464	316,707
Uncollected premiums and agents' balnces in the course of collection	167,236	-	167,236	52,580
Net deferred tax asset	91,610	-	91,610	108,533
Aggregate write-ins for other than invested assets	14,843,312	-	14,843,312	15,585,027
Total Assets	**$ 62,819,145**	**$ -**	**$ 62,819,145**	**$ 56,806,483**

AFFILIATES INSURANCE COMPANY

FINANCIAL STATEMENTS

Liabilities, Surplus and Other Funds

	As of December 31, 2013			
	Per Annual Statement	Exam Adjustments	Per Examination	December 31, Prior Year
Liabilities:				
Losses	$ 55,556	$ -	$ 55,556	$ 106,459
Loss adjustment expenses	66,790	-	66,790	12,154
Other expenses	125,720	-	125,720	173,192
Current federal and foreign income taxes	891,069	-	891,069	1,290,363
Net deferred tax liability	-	-	-	5,448
Unearned premiums	1,770,277	-	1,770,277	1,292,483
Payable to parent, subsidiaries and affiliates	4,242	-	4,242	26,380
Aggregte write-ins for liabilities	12,983,361	-	12,983,361	9,549,040
Total Liabilities	**$ 15,897,015**	**$ -**	**$ 15,897,015**	**$ 12,455,519**
Common capital stock	$ 1,600,000	$ -	$ 1,600,000	$ 1,600,000
Gross paid in and contributed surplus	40,199,618	-	40,199,618	40,199,618
Unassigned funds (surplus)	5,122,512	-	5,122,512	2,551,346
Surplus as Regards Policyholders	**$ 46,922,130**	**$ -**	**$ 46,922,130**	**$ 44,350,964**
Total Liabilities, Surplus and Other Funds	**$ 62,819,145**	**$ -**	**$ 62,819,145**	**$ 56,806,483**

AFFILIATES INSURANCE COMPANY

FINANCIAL STATEMENTS

Statement of Income

	As of December 31, 2013			
	Per Annual Statement	Examination Adjustments	Per Examination	December 31, Prior Year
Underwriting Income:				
Premiums earned	$ 4,007,115	$ -	$ 4,007,115	$ 2,395,792
Losses incurred	$ 9,521	$ -	$ 9,521	$ (5,335)
Loss adjustment expenses incurred	56,484	-	56,484	30,619
Other underwriting expenses incurred	800,012	-	800,012	641,030
Aggregate write-ins for underwriting deductions	99,815	-	99,815	(1,062,149)
Total underwriting deductions	$ 965,832	$ -	$ 965,832	$ (395,835)
Net underwriting gain (loss)	$ 3,041,283	$ -	$ 3,041,283	$ 2,791,627
Investment Income				
Net investment income earned	$ 776,179	$ -	$ 776,179	$ 736,967
Net realized capital gains (losses) less capital gains tax	81,505	-	81,505	147,038
Net investment gain	$ 857,684	$ -	$ 857,684	$ 884,005
Net income before dividends to policyholders after capital gains tax and before federal and foreign income taxes	$ 3,898,967	$ -	$ 3,898,967	$ 3,675,632
Dividends to policyholders	-	-	-	-
Net gain from operations after dividends to policyholders, after capital gains tax before all other federal and foreign income taxes	$ 3,898,967	$ -	$ 3,898,967	$ 3,675,632
Federal and foreign income taxes incurred	1,565,136	-	1,565,136	1,189,609
Net Income	$ 2,333,831	$ -	$ 2,333,831	$ 2,486,023

AFFILIATES INSURNCE COMPANY

FINANCIAL STATEMENTS

Capital and Surplus Account

	As of December 31, 2013			
	Per Annual Statement	Exam Adjustments	Per Examination	December 31, Prior Year
Capital and Surplus Account:				
Surplus as regards policyholders, December 31, prior year	$ 44,350,964	$ -	$ 44,350,964	$ 36,526,373
Net income	$ 2,333,831	$ -	$ 2,333,831	$ 2,486,023
Change in net unrealized capital gains or (losses) less capital gains tax of $87,652	162,781	-	162,781	(2,324)
Change in net deferred income tax	178,811	-	178,811	-
Change in nonadmitted assets	(104,257)	-	(104,257)	5,436
Capital changes paid in	-	-	-	200,000
Surplus adjustments paid in	-	-	-	5,135,456
Change in surplus as regards policyholders for the year	**$ 2,571,166**	**$ -**	**$ 2,571,166**	**$ 7,824,591**
Surplus as regards policyholders, December 31, current year	**$ 46,922,130**	**$ -**	**$ 46,922,130**	**$ 44,350,964**

COMMENTS ON THE FINANCIAL STATEMENTS

There were no recommended adjustments to surplus as of December 31, 2013, based on the results of this examination.

OTHER SIGNIFICANT FINDINGS

1. Conflict of Interest Policy

The Company has not established a conflict of interest policy and procedures for the disclosure of any material interest or affiliation by any one director, officer or key employee, which is likely to conflict with their official duties. As a result, no conflict of interest statements were signed by any of the officers or directors during the period under examination.

It is recommended that the Company establish a conflict of interest policy and require the officers and directors to sign conflict of interest statements each year.

2. Indiana Resident Director

William C. Young, the Indiana resident director, resigned March 31, 2014. As a result, prior to completion of field work, the Company's Board of Directors did not have at least one director who resided in the State of Indiana as required by IC 27-1-7-11.

It is recommended that the Company elect a director who resides in the State of Indiana as required by IC 27-1-7-11.

3. Shareholders Minutes Retention

The Company was unable to locate the Shareholders minutes for 2009 and 2010. This is a violation of IC 27-1-7-16 which states that every corporation shall keep correct and complete books of account and minutes of the proceedings of its shareholders meetings, and these records shall likewise be kept at its principal office.

It is recommended the Company keep correct and complete books of account and minutes of the proceedings of its Shareholders meetings and these records shall likewise be kept at its principal office as required by IC 27-1-7-16.

4. Shareholders Meeting

The 2014 Annual Shareholders Meeting was not held within the first five months of the year. This is in violation of IC-27-1-7-7(b) which requires the Annual Shareholders Meeting to be held within five months of the fiscal close of December 31.

It is recommended the Company hold its Annual Shareholders Meeting within five months of the fiscal close of December 31 in accordance with IC-27-1-7-7(b).

5. **Premium Tax Filing**

The Company's second quarter, fourth quarter, and annual premium tax filings for 2013 were not filed timely with the INDOI. In addition, the second quarter 2014 filing was not filed timely with the INDOI. Notices of the filings not being received were sent to the Company shortly after the respective due dates but the Company failed to respond. As a result, the Company is in violation of IC-27-1-18-2 (a) which requires on or before March 1 of each year, that a domestic company report to the department, under the oath of the president and secretary, the gross amount of premiums received by it on policies made, written, or renewed during the twelve month period ending on December 31 of the preceding calendar year. In addition, the Company is in violation of IC-27-1-18-2(d) which requires the payment of the tax on the second quarter and fourth quarter shall be due and payable on or before June 15 and December 15 of the current calendar year, respectively

In the future, it is strongly recommended the Company comply with IC 27-1-18-2(a) and IC 27-1-18-2(d). The second quarter premium tax filing for 2013 was submitted to the INDOI on July 25, 2013. The second quarter premium tax filing 2014 was submitted to the INDOI on July 9, 2014. The annual and fourth quarter premium tax filings for 2013 were submitted to the INDOI on July 10, 2014.

SUBSEQUENT EVENTS

Change in Shareholders

In March 2014, the Board of Trustees of CWH was removed without cause by written consent of the CWH shareholders. Following the INDOI's approval of the remaining seven shareholders (Shareholders) Form A Filing Exemption Request on May 9, 2014, the Shareholders of the Company exercised their option pursuant to the Amended and Restated Shareholders Agreement dated May 21, 2012, to purchase all of CWH's ownership interests in the Company, which right to purchase was triggered by the removal of CWH's Board. Each of the Shareholders purchased an equal number of CWH's shares in the Company. Following these purchases, the Shareholders of the Company each owned approximately 14.3% of the Company. CWH remains an Ultimate Controlling Person through its 36.7% ownership of SIR as of June 30, 2014.

MANAGEMENT REPRESENTATION

In support of contingencies and accuracy of information provided during the course of the examination, the Examiners obtained a management representation letter in the standard NAIC format. This letter was executed by key financial personnel of the Company and provided to the Examiners.

AFFIDAVIT

This is to certify that the undersigned is a duly qualified Examiner-In-Charge appointed by the Indiana Department of Insurance and that he, in coordination with staff assistance from The Thomas Consulting Group, Inc., hereinafter collectively referred to as the "Examiners" performed an examination of the **Affiliates Insurance Company** as of **December 31, 2013.**

The Indiana Department of Insurance is accredited under the National Association of Insurance Commissioners Financial Regulation Accreditation Standards.

The examination was performed in accordance with those procedures required by the 2013 NAIC *Financial Condition Examiners Handbook* and other procedures tailored for this examination. Such procedures performed on this examination do not constitute an audit made in accordance with generally accepted auditing standard and no audit opinion is expressed on the financial statements contained in this report.

The attached report of examination is a true and complete report of condition of the **Affiliates Insurance Company** as of **December 31, 2013,** as determined by the undersigned.

David Daulton, CFE
The Thomas Consulting Group, Inc.

State of: Oregon
County of: Jackson

On this 20 day of October, 2014, before me personally appeared, David Daulton, to sign this document.

IN WITNESS WHEROF, I have hereunto set my hand and affixed my notarial seal in said County and State, the day and year last above written.

My commission expires 02-23-2015

Notary Public

OFFICIAL SEAL
TERESITA L ROCHE
NOTARY PUBLIC-OREGON
COMMISSION NO. 456253
MY COMMISSION EXPIRES FEBRUARY 23, 2015