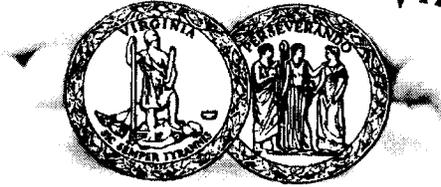


**ASSOCIATION EXAMINATION REPORT**  
**on**  
**PENN-PATRIOT INSURANCE COMPANY**  
**Bala Cynwyd, Pennsylvania**  
**as of**  
**December 31, 2012**

**COMMONWEALTH OF VIRGINIA**  
**STATE CORPORATION COMMISSION**  
**BUREAU OF INSURANCE**

# COMMONWEALTH OF VIRGINIA

JACQUELINE K. CUNNINGHAM  
COMMISSIONER OF INSURANCE  
STATE CORPORATION COMMISSION  
BUREAU OF INSURANCE



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I, Jacqueline K. Cunningham, Commissioner of Insurance of the Commonwealth of Virginia, do hereby certify that the annexed copy of the Examination Report of Penn-Patriot Insurance Company as of December 31, 2012, is a true copy of the original report on file with this Bureau.

IN WITNESS WHEREOF, I have hereunto set my hand  
and affixed to the original the seal of the Bureau at the City  
of Richmond, Virginia this 25<sup>th</sup> day of June, 2014

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Jacqueline K. Cunningham  
Commissioner of Insurance

(SEAL)

**TABLE OF CONTENTS**

Description ..... 1

History ..... 1

Management and Control ..... 2

Related Party Transactions ..... 5

Fidelity Bond and Other Insurance ..... 6

Territory and Plan of Operation ..... 6

Growth of the Company ..... 7

Reinsurance ..... 8

Scope ..... 11

Financial Statements ..... 12

Recommendations for Corrective Action..... 18

Subsequent Events ..... 19

Conclusion..... 20

Richmond, Virginia  
May 9, 2014

Honorable Jacqueline K. Cunningham  
Commissioner of Insurance  
Commonwealth of Virginia  
Richmond, Virginia

Dear Madam:

Pursuant to your instructions and by the authority of § 38.2-1317 of the Code of Virginia, a financial condition examination of the records and affairs of the

**Penn-Patriot Insurance Company**

Bala Cynwyd, Pennsylvania

hereinafter referred to as the Company, has been completed. The report thereon is submitted for your consideration.

**DESCRIPTION**

The Company is a stock property and casualty insurer and is licensed under and subject to the general insurance laws contained in Title 38.2 of the Code of Virginia and was last examined by representatives of the State Corporation Commission's Bureau of Insurance (Bureau) as of December 31, 2007. The current examination, which was called and conducted under the auspices of the NAIC, was made by Examiners from the Bureau in coordination with Examiners from the Commonwealth of Pennsylvania. This examination covers the period from January 1, 2008 through December 31, 2012.

**HISTORY**

The Company was incorporated in Virginia by the State Corporation Commission (Commission) on February 20, 2003. Initial capitalization was provided by the Company's immediate parent, Penn-America Insurance Company, on March 1, 2005 and consisted of 1,000,000 shares of common stock with a par value of \$1 per share and additional paid in capital of \$19,000,000. The Company was licensed as a property and casualty insurance company by the Commission's Bureau of Insurance on April 6, 2005.

## MANAGEMENT AND CONTROL

Management is vested in a board of directors, which shall consist of no less than seven members and no more than the maximum allowed by statute. Each director shall be elected to hold office until the next succeeding annual meeting of the shareholders or until his successor shall have been elected and qualified.

The bylaws provide for a president, a secretary and a treasurer. The board of directors or the president may appoint one or more vice presidents or other officers and assistant officers as deemed necessary. The president must be a member of the board of directors.

Directors and officers at December 31, 2012 were as follows:

<u>Director:</u>	<u>Principal Business Affiliation:</u>
James W. Crystal	Insurance Broker Frank Crystal & Company New York, New York
Seth J. Gersch	Advisory Panel Member Fox Paine & Company, LLC Hillsborough, California
Joseph R. Lebens	Executive Vice President, Chief Underwriting and Actuarial Officer Global Indemnity, plc Burlington, Connecticut
Thomas M. McGeehan	Executive Vice President and Treasurer Global Indemnity, plc King of Prussia, Pennsylvania
Matthew B. Scott	Executive Vice President – Chief Marketing Officer Global Indemnity, plc Berwyn, Pennsylvania
Cynthia Y. Valko	Chief Executive Officer Global Indemnity, plc Bala Cynwyd, Pennsylvania

Officers:

Joseph R. Lebens	Executive Vice President
Thomas M. McGeehan	Vice President and Treasurer
William J. Devlin, Jr.	Executive Vice President
Matthew B. Scott	Executive Vice President
Linda C. Hohn	Vice President and Secretary
Brian J. Riley	Vice President
Caroline M. Tate	Vice President

The Company a member of the Global Indemnity Group, Inc. (“GIGI”) insurance holding company, which is comprised of seven U.S. insurance companies, United National Insurance Company (“UNIC”) and its wholly owned subsidiaries, Diamond State Insurance Company (“DSIC”), United National Specialty Insurance Company (“UNSI”) and United National Casualty Insurance Company (“UNCIC”) along with Penn-America Insurance Company and its wholly owned subsidiaries, Penn-Star Insurance Company and the Company. The U.S. insurance subsidiaries comprising GIGI are indirectly owned by Global Indemnity plc, a publicly-traded (NASDAQ:GBLI) specialty property and casualty insurance holding company formed under the laws of Ireland. Fox Paine and Company, LLC, a California based private-equity firm, owns a controlling interest in Global Indemnity plc through its affiliated private-equity funds. The following organizational chart is an abbreviated version and only identifies certain members of the U.S. insurance related subsidiaries of GIGI, a U.S. holding company.



## RELATED PARTY TRANSACTIONS

### Cost Allocation Agreement

The insurers within the GIGI holding company, including the Company, participate in a cost allocation agreement amongst themselves and with the non-insurance affiliates of GIGI, including: American Insurance Service, Inc., Global Indemnity Group Service, LLC; American Insurance Adjustment, Agency, Inc.; Global Indemnity Insurance Agency, LLC; J.H. Ferguson & Associates, LLC, Penn-America Group, Penn Independent Corporation, and Global Indemnity Collectibles Insurance Services, LLC. The parties have agreed to share in the purchase of certain goods and services from third parties and to allocate such expenses in a fair and equitable manner. Effective, January 1, 2010, the Billing and Settlement section was amended whereas each affiliate shall pay all amounts due to each party, as reflected in such affiliate's books as of the end of each calendar quarter reporting period, within sixty (60) days after the end of each calendar quarter.

This agreement was approved by the Commission.

### Tax Allocation Agreement

The Company is party to a Tax Sharing Agreement dated January 25, 2005, and amended on August 12, 2010, by and among the affiliates of GIGI. Under this Tax Sharing Agreement the federal tax liability determined at the end of the taxable year of any individual insurer member of the affiliated group will not be more than it would have paid if it had filed on a separate return basis. Intercompany tax balances are settled with payments made within thirty days of the filing of the affiliated groups' return and refunds are paid within thirty (30) days after receipt of any tax refund.

### Dividends

During the period of this examination, the Company paid dividends to Penn-America as follows:

2008	\$450,000
2009	\$2,947,000
2010	\$2,900,000
2011	\$2,215,000
2012	\$717,668

## FIDELITY BOND AND OTHER INSURANCE

At December 31, 2012, the Company was a named insured on a financial institution bond providing coverage of \$15,000,000 for a single loss, subject to a single loss deductible of \$500,000. The Company was also a named insured on other insurance coverages as of December 31, 2012.

## TERRITORY AND PLAN OF OPERATION

The Company is domiciled and licensed only in the Commonwealth of Virginia. As of December 31, 2012, the Company was approved to write the following lines of business in Virginia:

Fire	Automobile Liability
Miscellaneous Property and Casualty	Automobile Physical Damage
Farmowners Multiple Peril	Fidelity
Homeowners Multiple Peril	Surety
Commercial Multiple Peril	Glass
Ocean Marine	Burglary and Theft
Inland Marine	Boiler and Machinery
Workers Compensation-Employers Liability	Credit
Liability Other Than Auto	Water Damage

The Company is an admitted insurance company in Virginia and is an eligible surplus lines company in Pennsylvania.

In Virginia, the Company writes standard lines such as preferred dwellings, apartments less than 25 years old with maximum height of four stories, restaurants with 40% or less liquor sales, main street retail stores, and garden apartments less than 25 years old with maximum height of four stories.

The Company uses a limited number of select general agents to distribute its products. The general agents issue the policies and work with retail brokers who represent potential insureds. The general agents are required to remit premium to the Company within 45 days. Claims are adjusted by internal insurance company adjusters.

### GROWTH OF THE COMPANY

The following data, obtained from Annual Statements filed with the Bureau and from examination reports, indicates the growth of the Company for the period from inception to December 31, 2012:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Aggregate Write ins For Special Surplus Funds</u>	<u>Common Capital Stock</u>	<u>Gross Paid In and Contributed Surplus</u>	<u>Unassigned Funds</u>
2005	\$68,621,507	\$47,258,257		\$1,000,000	\$19,000,000	\$1,363,250
2006	74,762,390	49,739,099		1,000,000	19,000,000	5,023,291
2007	71,846,354	44,609,400		1,000,000	19,000,000	7,236,954
2008	73,029,766	43,549,968		1,000,000	19,000,000	9,479,798
2009	56,805,110	27,345,902	319,675	1,000,000	19,000,000	9,139,533
2010	52,342,432	23,145,327		1,000,000	19,000,000	9,197,105
2011	47,868,726	20,145,918		1,000,000	19,000,000	7,722,808
2012	45,697,217	18,114,916		1,000,000	19,000,000	7,582,301

<u>Year</u>	<u>Premiums Earned</u>	<u>Losses and Loss Adjustment Expenses Incurred</u>	<u>Other Underwriting Expenses</u>	<u>Net Underwriting Gain or (Loss)</u>
2005	\$17,904,353	\$10,551,135	\$5,194,728	\$2,158,490
2006	24,299,688	13,976,672	7,048,676	3,274,340
2007	17,490,984	10,027,379	4,146,749	3,316,856
2008	13,996,225	8,509,922	4,039,592	1,446,711
2009	5,810,184	3,654,158	2,181,798	(25,772)
2010	4,602,682	1,521,971	2,075,473	1,005,238
2011	5,201,926	3,695,636	2,051,109	(544,819)
2012	4,278,961	3,233,151	1,709,025	(663,215)

**REINSURANCE**

The Company had the following reinsurance coverage in force at December 31, 2012:

**Ceded to Non-Affiliated Reinsurers**

<u>Type of Agreement</u>	<u>Class of Business</u>	<u>Company Retention</u>	<u>Reinsurer's Limits</u>
Excess of Loss	Casualty and Professional Liability	\$1,000,000 per occurrence	\$2,000,000 excess of \$1,000,000 per occurrence for general liability
			4,000,000 excess of \$1,000,000 per occurrence for professional liability
Excess of Loss	Property	<u>First Layer:</u> \$2,000,000 each and every risk	\$3,000,000 excess of \$2,000,000 each occurrence
		<u>Second Layer:</u> \$5,000,000 each and every risk	\$10,000,000 excess of \$5,000,000 each occurrence
Excess of Loss	Casualty Clash	\$3,000,000 per occurrence	\$10,000,000 excess of \$3,000,000 per occurrence
Surplus Share	Umbrella	\$500,000 retained line	Nine times retained line (\$4,500,000 maximum cession)
Excess of Loss	Property (Auto-Facultative)	\$15,000,000 per occurrence	\$15,000,000 excess of \$15,000,000 per occurrence

<u>Type of Agreement</u>	<u>Class of Business</u>	<u>Company Retention</u>	<u>Reinsurer's Limits</u>
Excess of Loss	Property Catastrophe	<u>First Layer</u> \$20,000,000 per occurrence	50% of \$20,000,000 excess of \$20,000,000 per occurrence
		<u>Second Layer</u> \$40,000,000 per occurrence	80% of \$50,000,000 excess of \$40,000,000
		<u>Third Layer</u> \$90,000,000 per occurrence	100% of \$10,000,000 excess of \$90,000,000 per occurrence
Quota Share	Equipment Breakdown	0% retention	100% ceded to reinsurer

The Company is named with its affiliates on various other reinsurance agreements, but no significant transactions occurred under these agreements.

#### Reinsurance-Related Parties

#### **Intercompany Pooling**

Effective January 1, 2009, each of the GIGI insurance companies participate in a single intercompany pool whereby UNIC is the lead insurer. Under the terms of the Reinsurance Pooling Agreement, each of the insurers cedes 100% of their premiums and liabilities to UNIC net of unaffiliated and affiliated third party reinsurance. UNIC then retrocedes net retained premiums and net retained liabilities to the pool members in the following participation percentages:

United National Insurance Company	40%
Diamond State Insurance Company	10%
United National Specialty Insurance Company	5%
United National Casualty Insurance Company	5%
Penn-America Insurance Company	25%
Penn-Star Insurance Company	10%
Penn-Patriot Insurance Company	<u>5%</u>
Total	<u>100%</u>

**Wind River Stop Loss Reinsurance Contract**

Effective January 1, 2012, the Company renewed the stop loss reinsurance contract with Wind River Reinsurance Company, LTD, its Bermuda insurance affiliate, (Wind River). This reinsurance contract indemnifies the Company for its Ultimate Net Loss for losses occurring and/or claims made on or after January 1, 2012 under policies in-force at the inception of the treaty. The Company retains Ultimate Net Loss equal to 75% of Net Earned Premium for the term of the contract. Wind River indemnifies the Company for 100% of the Company's Ultimate Net Loss in excess of 75% of Net Earned Premium, up to a maximum limit of liability of 95% of Net Earned Premium. The contract excludes Workers Compensation policies and losses arising from Named Catastrophe Storms.

**Wind River Quota Share Reinsurance Contract**

Effective January 1, 2012 the Company renewed its quota share reinsurance contract with Wind River. Under this contract the Company cedes 50% of its net retained business to Wind River. For this contract, "Net Retained Insurance Liability" is defined as that portion of the amount insured which the Company retains net for its own account, after cessions to any other reinsurance agreements including cessions under the Wind River stop loss reinsurance contract. The contract has exclusions for Workers Compensation policies and losses arising from Named Storms.

The Company maintains trust agreements with its affiliated reinsurers in order to secure reinsurance recoverables from these entities.

All of the above reinsurance agreements contain an insolvency clause.

## SCOPE

This is a full scope financial condition examination initiated and conducted under the provisions of Article 4, Chapter 13 of Title 38.2 of the Code of Virginia. The examination covers the period from January 1, 2008 through December 31, 2012. Assets were verified and liabilities were established at December 31, 2012.

This examination was conducted in accordance with the NAIC *Financial Condition Examiners Handbook* (Handbook). The Handbook requires that the Bureau plan and perform the examination to evaluate the Company's financial condition and identify prospective risks of the Company, assess corporate governance, identify and assess inherent risks within the Company and evaluate system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles, and annual statement instructions when applicable to domestic state regulations.

The Examination was conducted by the Pennsylvania Department of Insurance with Pennsylvania acting as the lead state. The examination of the Company was conducted concurrently with the examination of the following insurers:

<u>Insurer</u>	<u>Domiciliary State</u>
United National Insurance Company	Pennsylvania
Penn-America Insurance Company	Pennsylvania
Penn-Star Insurance Company	Pennsylvania
Diamond State Insurance Company	Indiana
United National Casualty Insurance Company	Indiana
United National Specialty Insurance Company	Wisconsin

The services of Merlinos & Associates, Inc. were employed to provide an actuarial report as to the reasonableness of the Company's loss and loss adjustment expense reserves as of December 31, 2012.

The services of The Thomas Consulting Group, Inc. were employed to provide a report on the evaluation of the information systems controls as of December 31, 2012.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

**FINANCIAL STATEMENTS**

There follows a statement of financial condition as of December 31, 2012, a statement of income for the period ending December 31, 2012, a reconciliation of surplus for the period under review, and a statement of cash flow for the period ending December 31, 2012. The financial statements are presented in accordance with Statutory Accounting Principles.

**ASSETS**

	<u>Assets</u>	<u>Nonadmitted Assets</u>	<u>Net Admitted Assets</u>
Bonds	\$39,079,761		\$39,079,761
Cash and short-term investments	460,417		460,417
Investment income due and accrued	328,145		328,145
Uncollected premiums and agents' balances in course of collection	1,575,409	39,580	1,535,829
Amounts recoverable from reinsurers	225,462		225,462
Current federal income tax recoverable and interest thereon	30,375		30,375
Net deferred tax asset	682,650	145,992	536,658
Receivables from parent, subsidiaries and affiliates	3,496,949		3,496,949
Aggregate write-ins for other than invested assets	3,621	0	3,621
Totals	<u>\$45,882,789</u>	<u>\$185,572</u>	<u>\$45,697,217</u>

**LIABILITIES, SURPLUS AND OTHER FUNDS**

Losses		\$9,482,387
Reinsurance payable on paid losses and loss adjustment expenses		1,442,051
Loss adjustment expenses		4,277,767
Commissions payable, contingent commissions and other similar charges		53,000
Taxes, licenses and fees		2,106
Unearned premiums		1,954,823
Ceded reinsurance premiums payable		303,070
Remittances and items not allocated		72,960
Payable to parent, subsidiaries and affiliates		518,270
Aggregate write-ins for liabilities		<u>8,482</u>
 Total liabilities		 \$18,114,916
 Common capital stock	 \$1,000,000	
Gross paid in and contributed surplus	19,000,000	
Unassigned funds (surplus)	<u>7,582,301</u>	
 Surplus as regards policyholders		 <u>27,582,301</u>
 Totals		 <u><u>\$45,697,217</u></u>

**UNDERWRITING AND INVESTMENT EXHIBIT**  
**STATEMENT OF INCOME**

UNDERWRITING INCOME

Premiums earned	\$4,278,961
Deductions:	
Losses incurred	\$2,275,191
Loss adjustment expenses incurred	957,960
Other underwriting expenses incurred	1,791,876
Aggregate write-ins for underwriting deductions	(82,851)
Total underwriting deductions	\$4,942,176
Net underwriting gain	(\$663,215)

INVESTMENT INCOME

Net investment income earned	\$1,191,584
Net realized capital losses	80,023
Net investment gain	\$1,271,607

OTHER INCOME

Net gain	(\$9,176)
Total other income	(\$9,176)
Net income before federal income taxes	\$599,217
Federal income taxes incurred	(73,464)
Net income	\$672,681

**RECONCILIATION OF CAPITAL AND SURPLUS**  
**FOR PERIOD UNDER REVIEW**

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Surplus as regards policyholders, December 31, previous year	\$27,236,954	\$29,479,798	\$29,459,208	\$29,197,105	\$27,722,808
Net income	\$2,935,415	\$2,789,818	\$2,678,670	\$783,109	\$672,681
Change in net unrealized capital gains or (losses)	3,464				
Change in net deferred income tax	(207,538)	(885,837)	(240,832)	(8,612)	(161,180)
Change in nonadmitted assets	(38,478)	878,313	200,059	(33,794)	65,660
Change in provision for reinsurance	(19)	19			
Dividends to stockholders	(450,000)	(2,947,000)	(2,900,000)	(2,215,000)	(717,668)
Aggregate write-ins for gains and losses in surplus		144,097			
Change in surplus as regards policyholders for the year	<u>\$2,242,844</u>	<u>(\$20,590)</u>	<u>(\$262,103)</u>	<u>(\$1,474,297)</u>	<u>(\$140,507)</u>
Surplus as regards policyholders, December 31, current year	<u>\$29,479,798</u>	<u>\$29,459,208</u>	<u>\$29,197,105</u>	<u>\$27,722,808</u>	<u>\$27,582,301</u>

**CASH FLOW****Cash From Operations**

Premiums collected net of reinsurance	\$4,125,840
Net investment income	1,597,641
Miscellaneous income	(9,176)
Total	<u>\$5,714,305</u>
Benefit and loss related payments	\$2,868,496
Commissions, expenses paid and aggregate write-ins for deductions	3,118,440
Federal income taxes paid	(69,701)
Total	<u>\$5,917,235</u>
Net cash from operations	<u>(\$202,930)</u>

**Cash From Investments**

Proceeds from investments sold, matured or repaid:	
Bonds	\$11,435,899
Miscellaneous proceeds	15,000
Total investment proceeds	<u>\$11,450,899</u>
Cost of investments acquired (long-term only):	
Bonds	<u>\$5,999,414</u>
Total investments acquired	<u>\$5,999,414</u>
Net cash from investments	<u>\$5,451,485</u>

**Cash From Financing and Miscellaneous Sources**

Cash provided (applied):	
Dividends to stockholders	(\$717,668)
Other cash applied	(4,201,199)
Net cash from financing and miscellaneous sources	<u>(\$4,918,867)</u>
Net change in cash and short-term investments	<u>\$329,688</u>

**RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS**

Cash and short-term investments:	
Beginning of year	\$130,729
End of year	460,417
Net change in cash and short-term investments	<u>\$329,688</u>

**RECOMMENDATIONS FOR CORRECTIVE ACTION**

1. The NAIC *Annual Statement Instructions* state that the appointed actuary must present a report to the Board of Directors (Board) each year on the items within the scope of the Actuarial Opinion (Opinion). The minutes of the Board should also indicate that the appointed actuary presented a report to the Board or the Audit Committee and that the Opinion and Actuarial Report (Report) were made available. The Examiners' review of the Board minutes did not indicate that the Opinion or Report were presented to the Board or made available to the stockholder.

The Examiners recommend the Company take the necessary steps to ensure both the Opinion and Report are presented to the Board and made available for review. This is the third consecutive examination in which this recommendation appears.

2. The Company was not able to provide certain conflict of interest questionnaires for the Company's officers and directors during the period under review. The questionnaires are necessary to demonstrate compliance with §§ 38.2-210 through 213 of the Code of Virginia. The Examiners recommend the Company implement a system to maintain and track the completion of these questionnaires.

**SUBSEQUENT EVENTS**

1. In December 2013, the Company declared an extraordinary dividend of \$19,500,000 to Penn-America. The Company paid the dividend on January 23, 2014. The Commission approved this extraordinary dividend. Of the extraordinary dividend declared in 2013, \$14,000,000 was recorded as a return of capital reducing gross paid in capital.
2. Effective December 31, 2013, the Company's insurer affiliate, UNCIC, was sold to CGB Enterprises, Inc., a Louisiana corporation, and its affiliates. The transaction was approved by the Indiana Department of Insurance on December 13, 2013.

As a result of the proposed sale of UNCIC, the Company amended its intercompany agreements effective January 1, 2013, to remove UNCIC as a party to these intercompany agreements which included: Stop Loss Reinsurance Contract with Wind River, Quota Share Reinsurance Contract with Wind River, Reinsurance Pooling Agreement (the Company's percentage remains at 5%), Cost Allocation Agreement, and the Tax Sharing Agreement.

3. On March 31, 2014, Penn-America contributed \$12 million to the Company. The Company recorded the contribution to gross paid-in-capital. The Commission approved this contribution.

**CONCLUSION**

The courteous cooperation extended by the Company's officers and employees during the course of the examination is hereby gratefully acknowledged.

In addition to the undersigned, Jennifer K. Blizzard, CFE, Allison Bohrer, and Mario A. Cuellar, CFE, of the Bureau participated in the work of the examination.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "T. Bradford Earley, Jr.", written in a cursive style.

T. Bradford Earley, Jr., AIAF, CFE, CPCU  
Insurance Principal Financial Analyst  
Commonwealth of Virginia



**GLOBAL INDEMNITY**  
GROUP, INC.

June 20, 2014

David H. Smith  
Chief Examiner  
Commonwealth of Virginia  
State Corporation Commission  
Bureau of Insurance  
1300 East Main Street  
Richmond, VA 23219

**RE: Penn-Patriot Insurance Company Report of Examination**

Dear Mr. Smith:

This letter acknowledges the company's acceptance of the Report of Examination of Penn-Patriot Insurance Company ("the Report"), made of the close of business December 31, 2012.

The following summarizes our corrective action plan regarding the Virginia State Corporation Commission's Report recommendations:

- **Recommendation 1** - The NAIC *Annual Statement Instructions* state that the appointed actuary must present a report to the Board of Directors (Board) each year on the items within the scope of the Actuarial Opinion (Opinion). The minutes of the Board should also indicate that the appointed actuary presented a report to the Board or the Audit Committee and that the Opinion and Actuarial Report (Report) were made available. The Examiners' review of the Board minutes did not indicate that the Opinion or Report were presented to the Board or made available to the stockholder.

The Examiners recommend the Company take the necessary steps to ensure both the Opinion and Report are presented to the Board and made available for review. This is the third consecutive examination in which this recommendation appears.

The Company has provided the Opinion to the Board during the first quarter of every year since and including 2010. The Company plans to provide the Board with the 2013 Report in the third quarter of 2014 and, on an ongoing forward basis, the Company plan to provide to the Board and stockholder the Opinion and Report during the first quarter of each calendar year.

- **Recommendation 2** - The Company was not able to provide certain conflict of interest questionnaires for the Company's officers and directors during the period under review. The questionnaires are necessary to demonstrate compliance with §§ 38.2-210 through 213 of the Code of Virginia. The Examiners recommend the Company implement a system to maintain and track the completion of these questionnaires.

The Company implemented a system to maintain and track the completion of questionnaires in 2013.

PENN-PATRIOT INSURANCE COMPANY

  
\_\_\_\_\_  
Brian Riley  
Vice President

Date 6-20-14