



Paul R. LePage
GOVERNOR

STATE OF MAINE
DEPARTMENT OF PROFESSIONAL
AND FINANCIAL REGULATION
BUREAU OF INSURANCE
34 STATE HOUSE STATION
AUGUSTA, MAINE
04333-0034

Eric A. Cioppa
SUPERINTENDENT

May 22, 2014

Eric A. Cioppa, Superintendent
Maine Bureau of Insurance
34 State House Station
Augusta, ME 04333-0034

Dear Acting Superintendent:

Pursuant to the provisions of 24-A M.R.S.A. §221 and in conformity with your instructions, a financial examination has been made of the

PATRIOT INSURANCE COMPANY

The following report is respectfully submitted.



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REPORT OF EXAMINATION
PATRIOT INSURANCE COMPANY
AS OF
DECEMBER 31, 2012

ACCEPTANCE OF REPORT OF EXAMINATION

WHEREAS a verified report of examination of Patriot Insurance Company dated May 22, 2014, was delivered to that insurer on June 4, 2014, and

WHEREAS no hearing with respect to the report of examination has been requested by Patriot Insurance Company

NOW THEREFORE, I accept the report of examination and hereby order it placed on file in the Bureau of Insurance as provided for by 24-A M.R.S.A. §226 (3).

Dated: 6/12/14


Eric A. Cioppa, Superintendent

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SCOPE OF EXAMINATION

This examination of Patriot Insurance Company (hereinafter, "PIC" or "Company") was performed pursuant to the risk-focused approach promulgated by the National Association of Insurance Commissioners (hereinafter, "NAIC"). This examination covered the period of January 1, 2010 through December 31, 2012. The last examination, performed by the Maine Bureau of Insurance (hereinafter, "MBOI") was completed as of December 31, 2009.

This examination consisted of a review of PIC's governance, board of director meeting minutes, claims administration, loss reserving practices, underwriting practices, premium processes, reinsurance accounting, investment reporting, expense accrual reporting, related party transactions, tax accounting, operations, and administrative practices. To the extent deemed necessary, transactions occurring subsequent to the examination date were reviewed. This examination considered statutory accounting principles, NAIC guidelines including the 2013 Financial Condition Examiners Handbook (hereinafter "FCEH"), and the laws, rules, and regulations prescribed or permitted by the State of Maine.

Comments on various balance sheet items, for purposes of this report, may be limited to matters involving clarification, departures from laws, rules and regulations, and/or significant changes in amounts.

SUMMARY OF SIGNIFICANT FINDINGS

PRIOR EXAMINATION

None noted.

CURRENT EXAMINATION

None noted.

SUBSEQUENT EVENTS

None noted.

THE COMPANY

HISTORY

PIC was incorporated in 1966 as a subsidiary of Blue Cross and Blue Shield of Maine (hereinafter, "BCBSME") providing products not offered by BCBSME. PIC became fully independent in 1999 as a result of the acquisition of BCBSME by Anthem Insurance Companies, Inc.

On January 1, 2002, PIC became licensed to write property and casualty personal lines and contracted to acquire substantially all of the Maine, New Hampshire and Vermont property and casualty personal lines business from Acadia Insurance Company.

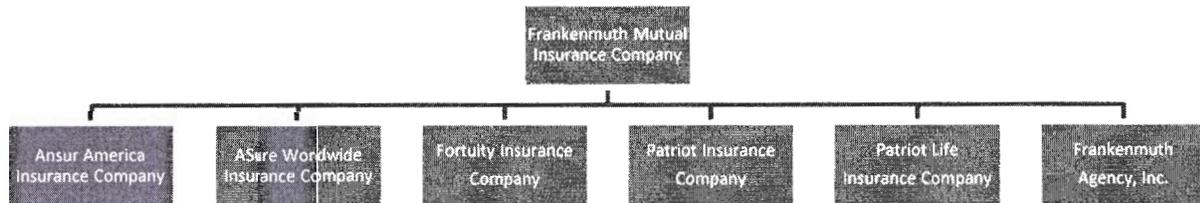
Effective July 1, 2007, Patriot Mutual Holding Company merged into Frankenmuth Mutual Insurance Company (hereinafter, "FMIC"), with the FMIC being the surviving company. Additionally, each membership interest in PIC as of the effective date was converted into a membership interest in FMIC by virtue of the merger and FMIC amended its articles of association accordingly.

CORPORATE RECORDS

PIC's articles of incorporation, bylaws, and minutes of the board of directors' meetings held during the period under examination were reviewed.

CORPORATE OWNERSHIP

The Company is owned 100% by its parent, FMIC. The organizational chart follows:



CORPORATE GOVERNANCE

PIC is governed and overseen by its board of directors and the Company's management team.

As of December 31, 2012, PIC's board of directors consisted of twelve individuals. PIC's board of directors approves the strategic direction of the Company's business and financial objectives, monitors the effectiveness of management's implementation of policies, and plans and provides oversight and support in achieving corporate objectives.

As of December 31, 2012, PIC's board of directors consisted of the following members:

<u>Name</u>	<u>Title</u>
John Stewart Benson	Chairman
Frederick Allen Edmond, Jr.	Director
Brian Scott McLeod	Director
Jack Robert Rummel	Director
Morrall Manuel Claramunt	Director
David Frederick Honold	Director
Lincoln Jerry Merrill, Jr.	Director
James Edward Wilds	Director
Lyle Gerald Davis, Jr.	Director
David Richard Johnston	Director
David Allen Pendleton	Director
Drew Randall Zehnder	Director

As of December 31, 2012, PIC's officers consisted of the following individuals:

<u>Name</u>	<u>Title</u>
Lincoln Jerry Merrill, Jr.	President & CEO
Charles Dilworth Brakeley, Jr.	Vice President
Brian Scott McLeod	Vice President, Treasurer & Secretary
Cynthia Otis DeLong	Vice President
Alan Robert Small	Vice President

CODE OF CONDUCT AND CONFLICT OF INTEREST

Title 24-A M.R.S.A. §3413 identifies potential conflict of interest areas. As such, PIC requires that each director and officer complete a conflict of interest statement annually. The conflict of interest statement discloses any material interest or affiliation(s) which are likely to be in conflict with his/her official duties and responsibilities to PIC.

The conflict of interest guidelines are included in PIC's code of business conduct and ethics. All directors, officers and employees are required to sign a compliance certificate when hired/appointed that certifies that they have read, understand, and will adhere to the code of business conduct and ethics, and the conflict of interest policy. All directors and officers are also required to sign a compliance certificate annually.

TERRITORY & PLAN OF OPERATION

PIC is licensed to transact business as a property and casualty insurer in the states of Maine, Massachusetts, Michigan, New Hampshire, and Vermont. PIC reported premiums written in Maine, New Hampshire, and Vermont. PIC's primary lines of business are homeowners multiple peril, auto physical damage, private passenger auto liability, commercial multiple peril, commercial auto liability, other liability, and workers' compensation.

GROWTH OF COMPANY

Selected financial information is provided in the following table:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Assets	\$ 96,132,571	\$ 93,338,758	\$ 87,359,687
Losses	\$ 28,169,316	\$ 27,163,937	\$ 23,360,965
Liabilities	\$ 71,260,344	\$ 70,410,901	\$ 63,454,993
Surplus	\$ 24,872,227	\$ 22,927,857	\$ 23,904,694
Direct premiums written	\$ 47,697,593	\$ 49,025,833	\$ 43,659,216
Direct losses incurred	\$ 24,230,537	\$ 21,545,580	\$ 15,654,854
Net income	\$ 1,971,558	\$ (1,443,636)	\$ (6,364,761)

LOSS EXPERIENCE

The following table describes one and two year (favorable)/unfavorable loss development.

	<u>2012</u>	<u>2011</u>	<u>2010</u>
One Year Loss Development	\$(2,835,000)	\$ (550,000)	\$(1,680,000)
Two Year Loss Development	\$(1,466,000)	\$(2,686,000)	\$(3,923,000)

TRANSACTIONS WITH AFFILIATES

PIC is a party to a written tax sharing agreement with FMIC and other affiliates. The agreement provides that the portion of the consolidated tax liability allocated to the Company is based on its separate tax return liability.

PIC has a management service agreement for the allocation of certain administrative costs with FMIC.

REINSURANCE

PIC, FMIC and FMIC's wholly owned property and casualty insurance subsidiaries are party to an intercompany pooling reinsurance agreement under which all property and casualty lines of business are pooled. Under terms of the pooling agreement, the participants will cede to FMIC (lead insurer) all of their insurance business, net of inuring reinsurance, and assume from the lead insurer an amount equal to their respective participation percentages as follows: FMIC, 78%; PIC, 8%; Ansur America Insurance Company, 8%; ASure Worldwide Insurance Company, 3%; and Fortuity Insurance Company, 3%.

PIC has several layers of property coverage. The first layer is a property excess of loss agreement limited at \$5,000,000 excess of \$1,000,000 per retained risk. The second layer covers \$10,000,000 in excess of \$5,000,000. Excess capacity of \$35,000,000 excess of \$15,000,000 is provided by an automatic property facultative agreement with various subscribing reinsurers.

PIC has property catastrophe excess of loss coverage. Coverage terms are \$165,000,000 excess of a \$10,000,000 retention.

PIC has an umbrella quota share for personal umbrella and an excess of loss for commercial umbrella liability and casualty business. The personal umbrella quota share contract has retention of 25% of the first \$1,000,000 per loss, with limits of \$4,000,000 in excess of retention per loss. The commercial umbrella and casualty contract provides coverage of \$8,750,000 excess of \$1,250,000. A second layer of coverage provides limits of \$25,000,000 excess of \$10,000,000.

PIC has two layers of workers' compensation reinsurance. The first layer has limits at \$10,000,000 excess of \$1,250,000. The second layer of coverage is a per occurrence excess of loss contract limited at \$25,000,000 above a \$10,000,000 per occurrence retention. Additionally, there is excess coverage for losses above the \$25,000,000 retention, up to \$60,000,000. This contract is subject to a maximum of \$10,000,000 for any one employee.

PIC has employment practices liability reinsurance with a \$1,000,000 aggregate limit on any one policy above a 20% retention.

PIC has systems/equipment breakdown exposure 100% reinsured up to a \$30,000,000 limit.

PIC's professional liability exposure is 100% reinsured up to a \$1,000,000 limit.

PIC participates in a mandatory workers' compensation reinsurance pool in which hazardous workers compensation risks assigned to insurers under various insurance plans are reinsured into a pool in which all companies participate proportionately, distributing losses so that undue loss to any one company may be avoided.

FIDELITY BOND INSURANCE

PIC is protected by a fidelity bond. The terms and the amount of the fidelity bond were reviewed for compliance with NAIC guidelines.

ACCOUNTS AND RECORDS

Included in scope was the review of internal controls. Management and organization controls, logical and physical security controls, changes to applications, system and program development, contingency planning, and operations and processing controls were reviewed.

Accounts and records were reviewed and tested in order to assess the impact on financial condition and conformity with related laws. Interviews with PIC staff were conducted to gather supplemental information and to corroborate responses.

STATUTORY DEPOSITS

As required by 24-A M.R.S.A. §412, PIC has maintained the required security deposit with the Treasurer of Maine.

LITIGATION

PIC is not aware of potential lawsuits or other legal action beyond the ordinary course of business which would be considered material in relation to the financial position of the Company.

CONCLUSION

The examination procedures, described, herein, revealed no material findings.

Acknowledgment of cooperation and assistance extended to the examiners by all PIC personnel is hereby expressed.

FINANCIAL STATEMENTS

PIC's financial condition, as reported by management, and audited by the Company's external auditors, is reflected in the following statements.

**STATEMENT OF ADMITTED ASSETS, LIABILITIES, AND SURPLUS
AS OF DECEMBER 31, 2012, 2011, AND 2010**

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Assets		(unexamined)	(unexamined)
Bonds	\$ 59,914,385	\$ 58,646,131	\$ 56,109,165
Cash, cash equivalents, & short-term investments	4,637,641	3,735,171	5,803,016
Investment income due and accrued	571,480	532,300	511,426
Premiums - uncollected and agents' balances	9,408,724	8,913,483	8,697,301
Premiums - deferred	12,249,062	11,612,787	10,397,614
Reinsurance - recoverable	7,136,902	7,067,267	4,136,951
Current federal and foreign income tax	-	452,000	-
Net deferred tax asset	2,168,800	2,207,948	1,676,794
EDP equipment and software	16,387	25,984	21,714
Receivables from parent and affiliates	1,563	-	-
Aggregate write-Ins	27,627	145,687	5,706
Total assets	<u>96,132,571</u>	<u>93,338,758</u>	<u>87,359,687</u>
Liabilities			
Losses	28,169,316	27,163,937	23,360,965
Reinsurance payable	7,205,856	8,079,111	7,340,853
Loss adjustment expenses	4,177,194	3,841,150	3,498,038
Commissions payable	2,530,573	2,322,506	1,896,023
Other expenses	1,297,387	1,130,093	1,070,657
Taxes, licenses and fees	172,342	250,453	178,202
Current federal and foreign taxes	374,000	-	10,000
Unearned premiums	19,587,694	19,908,313	18,762,301
Advance premiums	158,436	427,785	420,310
Ceded reinsurance premiums payable	7,395,353	7,044,043	6,578,523
Amounts withheld for account of others	8,015	17,731	19,579
Remittances not allocated	-	-	34,077
Payable to parent, subsidiaries and affiliates	184,178	225,779	279,847
Aggregate write-ins	-	-	5,618
Total liabilities	<u>71,260,344</u>	<u>70,410,901</u>	<u>63,454,993</u>
Surplus			
Aggregate write-ins	-	1,167,029	-
Common capital stock	7,500,000	7,500,000	7,500,000
Gross paid in surplus	5,000,000	5,000,000	5,000,000
Unassigned funds	12,372,227	9,260,828	11,404,694
Surplus	<u>24,872,227</u>	<u>22,927,857</u>	<u>23,904,694</u>
Liabilities and surplus	<u>\$ 96,132,571</u>	<u>\$ 93,338,758</u>	<u>\$ 87,359,687</u>

STATEMENT OF OPERATIONS
YEARS ENDED DECEMBER 31, 2012, 2011, AND 2010

	<u>2012</u>	<u>2011</u>	<u>2010</u>
		(unexamined)	(unexamined)
Premiums earned	\$ 41,117,417	\$ 39,834,633	\$ 35,079,725
Losses incurred	25,435,450	30,594,513	22,835,328
Loss adjustment expense incurred	3,412,562	3,033,901	2,521,574
Other underwriting deductions	<u>11,375,063</u>	<u>10,924,543</u>	<u>16,012,903</u>
Net underwriting gain/(loss)	894,342	(4,718,324)	(6,290,080)
Net investment income earned	1,878,951	1,829,452	1,471,374
Net realized capital gains (losses); net of taxes	<u>13,879</u>	<u>(3,306)</u>	<u>(154,330)</u>
Net investment income	1,892,830	1,826,146	1,317,044
Premium balances charged-off	(90,232)	(93,240)	(89,110)
Finance and service charges	258,353	293,874	280,224
Aggregate write-ins for other income	<u>251,690</u>	<u>(24,055)</u>	<u>25,332</u>
Total other income	419,811	176,579	216,446
Net income before policyholder dividends	3,206,983	(2,715,599)	(4,756,590)
Dividends to policyholders	<u>377,425</u>	<u>273,037</u>	<u>319,171</u>
Net income before federal income taxes	2,829,558	(2,988,636)	(5,075,761)
Federal income taxes	<u>858,000</u>	<u>(1,545,000)</u>	<u>1,289,000</u>
Net income	<u>\$ 1,971,558</u>	<u>\$ (1,443,636)</u>	<u>\$ (6,364,761)</u>

STATEMENT OF CAPITAL AND SURPLUS
YEARS ENDED DECEMBER 31, 2012, 2011, AND 2010

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Surplus, December 31 prior year	\$ 22,927,857	\$ 23,904,694 (unexamined)	\$ 22,578,533 (unexamined)
Net income (loss)	1,971,558	(1,443,636)	(6,364,761)
Change in net unrealized capital gains/(losses)	-	-	(1,359,016)
Change in net deferred income tax	(101,734)	(457,505)	3,238,922
Change in nonadmitted assets	74,546	924,304	(1,688,984)
Change in paid in capital	-	-	2,500,000
Change in paid in surplus	-	-	5,000,000
Change in surplus for the year	<u>1,944,370</u>	<u>(976,837)</u>	<u>1,326,161</u>
Surplus, December 31 current year	<u>\$ 24,872,227</u>	<u>\$ 22,927,857</u>	<u>\$ 23,904,694</u>

COMMENTS ON THE FINANCIAL STATEMENTS

RESERVES

The MBOI relied upon the Michigan Department of Insurance and Financial Service's contracted property and casualty actuary to review the FMIC pool, of which PIC is a participant. The summary of the actuarial review and the associated opinion is included in Appendix A attached, hereto.

APPENDIX A – STATEMENT OF ACTUARIAL OPINION

Appendix

Patriot Insurance Company Statement of Actuarial Opinion as of December 31, 2012

I, Gregory S. Wilson, am Vice President of the firm of Lewis & Ellis, Inc. ("L&E"). I am a Member of the American Academy of Actuaries and meet its qualification standards and I am a Fellow of the Casualty Actuarial Society. I was retained by the Michigan Department of Insurance & Financial Services to render this Opinion on the liabilities of the companies constituting the Frankenmuth Group ("Pool"). The Pool consists of Ansur America Insurance Company, ASure Worldwide Insurance Company, Fortuity Insurance Company, Frankenmuth Mutual Insurance Company and Patriot Insurance Company.

In forming my opinion on the loss and loss adjustment expense reserves, I relied upon data prepared by the Companies in the Pool and the data contained in the actuarial report prepared by Christopher Walker, FCAS, MAAA, of PricewaterhouseCoopers LLP, the appointed actuary for the Companies in the Pool. We conclude that the aforementioned reserves carried by Patriot Insurance Company make a reasonable provision for the associated liabilities through December 31, 2012.

We believe the calculations were performed in accordance with commonly accepted reserving methods and are based on appropriate actuarial factors given the risk exposures under the policy provisions. Our estimates of the reserves make no provision for the extraordinary future emergence of either new classes of losses or post-contractual expansions of policy coverages.

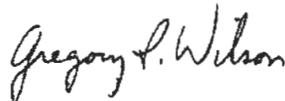
With respect to ceded losses and loss adjustment expenses and unearned premiums, I have relied on the Pool's assertion that all ceded reinsurance is valid and collectible.

I have examined the reserves as of December 31, 2012 held by Patriot Insurance Company as listed in Exhibit A. The items in the SCOPE, on which I am issuing an opinion, reflect the Loss Reserve Disclosure items (8 thru 13) in Exhibit B.

In my opinion, the amounts carried in Exhibit A on account of the items identified:

- (i) are consistent with reserves amounts computed in accordance with generally accepted actuarial standards and principles;
- (ii) meet the requirements of the insurance laws of Maine; and,
- (iii) make a reasonable provision for all unpaid loss and loss adjustment expense obligations of Patriot Insurance Company under the terms of its policies and agreements.

LEWIS & ELLIS, INC.



Gregory S. Wilson, F.C.A.S., M.A.A.A.
Vice President & Consulting Actuary

April 22, 2014

Appendix (continued)

Patriot Insurance Company

STATEMENT OF ACTUARIAL OPINION

Exhibit A: SCOPE

LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES:	<u>Amount</u>
1. Reserve for Unpaid Losses (Liabilities, Surplus and Other Funds page Col. 1, Line 1)	\$28,169,316
2. Reserve for Unpaid Loss Adjustment Expenses (Liabilities, Surplus and Other Funds page, Col 1, Line 3)	\$4,177,194
3. Reserve for Unpaid Losses – Direct and Assumed (Schedule P, Part 1, Summary Totals from Columns 13 and 15, Line 12 x 1000)	\$35,803,000
4. Reserve for Unpaid Loss Adjustment Expenses – Direct and Assumed (Schedule P, Part 1, Summary Totals from Columns 17, 19 and 21, Line 12 x 1000)	\$4,552,000
5. The Page 3 write-in item reserve, “Retroactive Reinsurance Reserve Assumed”	\$0
6. Other items on which the Appointed Actuary is expressing an Opinion (list separately)	\$0
PREMIUM RESERVES:	<u>Amount</u>
7. Reserve for Direct and Assumed Unearned Premiums for Long Duration Contracts	\$0
8. Reserve for Net Unearned Premiums for Long Duration Contracts	\$0
9. Other Premium Reserve items on which the Appointed Actuary is expressing an Opinion (list separately)	\$0

Appendix (continued)

Patriot Insurance Company

Exhibit B: DISCLOSURES

	Column 1	Column 2	Column 3	Column 4
1. Name of the Appointed Actuary		<u>Wilson</u>	<u>Gregory</u>	<u>S</u>
2. The Appointed Actuary's Relationship to the Company. E if an Employee of the Company C if a Consultant			<u>C</u>	
3. The Appointed Actuary has the following designation: F if a Fellow of the Casualty Actuarial Society (FCAS) A if an Associate of the Casualty Actuarial Society (ACAS) M if not a member of the Casualty Actuarial Society, but a Member of the American Academy of Actuaries (MAAA) approved by the Casualty Practice Council, as documented with the attached approval letter. O for Other			<u>F</u>	
4. Type of Opinion, as identified in the OPINION paragraph. R if Reasonable I if Inadequate or Deficient Provision E if Excessive or Redundant Provision O if Qualified. Use O when part of the OPINION is qualified. N if No Opinion			<u>R</u>	
5. Materiality Standard expressed in US dollars (Used to answer question #6)	<u>\$4,852,000</u>			
6. Are there significant risks that could result in of Material Adverse Deviation? (Yes, No or NA is an acceptable answer)			Yes []	No [x]
7. Statutory Surplus (Liabilities, Col 1, Line 37)	<u>\$24,872,227</u>			
8. Anticipated net salvage and subrogation included as a reduction to loss reserves as reported in Schedule P (should equal Part 1 Summary, Col 23, Line 12 * 1000)	<u>\$511,000</u>			
9. Discount included as a reduction to loss reserves and loss expense reserves as reported in Schedule P				
9.1 Nontabular Discount [Notes, Lin e32B23, (Amounts 1, 2, 3.& 4)], Electronic Filing Cols 7, 8, 9 & 10	<u>\$0</u>			
9.2 Tabular Discount [Notes, Line 32A23, (Amounts 1 & 2)], Electronic Filing Cols 7 & 8	<u>\$0</u>			
10. The net reserves for losses and expenses for the Company's share of voluntary and involuntary underwriting pools' and associations' unpaid losses and expenses that are included in reserves shown on the Liabilities, Surplus and Other Funds page, Losses and Loss Adjustment Expenses lines	<u>\$1,779,000</u>			
11. The net reserves for losses and expenses for the Company carries for the following liabilities included on the Liabilities, Surplus and Other Funds page, Losses and Loss Adjustment Expenses lines.				
11.1 Asbestos, as disclosed in the Notes to Financial Statements	<u>\$144,000</u>			
11.2 Environmental, as disclosed in the Notes to Financial Statements	<u>\$601,000</u>			
12. The total claims made extended loss and expense reserve (Greater than or equal to Schedule P Interrogatories)				
12.1 Amount reported as loss reserves	\$ 0			
12.2 Amount reported as unearned premium reserves	<u>\$ 0</u>			
13. Other items on which the Appointed Actuary is providing Relevant Comment (list separately)	<u>\$ 0</u>			

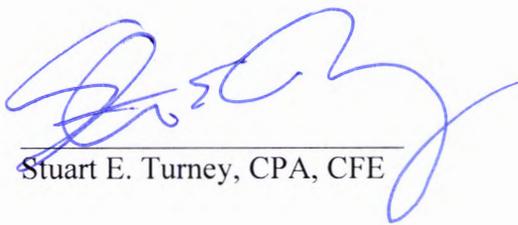
STATE OF MAINE
COUNTY OF KENNEBEC, SS

Stuart E. Turney, being duly sworn according to law deposes and says that, in accordance with authority vested in him by Eric A. Cioppa, Acting Superintendent of Insurance, pursuant to the Insurance Laws of the State of Maine, he has made an examination of the condition and affairs of the

PATRIOT INSURANCE COMPANY

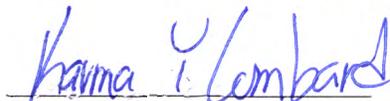
located in Yarmouth, Maine as of December 31, 2012, and that the foregoing report of examination subscribed to by him is true to the best of his knowledge and belief. The following examiners from the Bureau of Insurance assisted:

Graham S. Payne



Stuart E. Turney, CPA, CFE

Subscribed and sworn to before me
This 12 day of June, 2014



Notary Public
My Commission Expires:

KARMA Y. LOMBARD
Notary Public, Maine
My Commission Expires June 12, 2016