

**ASSOCIATION EXAMINATION REPORT
on
PENN-PATRIOT INSURANCE COMPANY
Bala Cynwyd, Pennsylvania
as of
December 31, 2022**

COMMONWEALTH OF VIRGINIA



SCOTT A. WHITE
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

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I, Scott A. White, 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, 2022, 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 26th day of March 2024

Scott A. White
Commissioner of Insurance



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Richmond, Virginia
January 16, 2024

Honorable Scott A. White
Commissioner of Insurance
Commonwealth of Virginia
Richmond, Virginia

Dear Sir:

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.

SCOPE OF THE EXAMINATION

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, 2018 through December 31, 2022. Assets were verified and liabilities were established at December 31, 2022.

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

The services of Taylor-Walker Consulting 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, 2022. The services of Examination Resources were employed to provide a report on the evaluation of the information systems controls as of December 31, 2022.

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

HISTORY

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.

The Company was incorporated in Virginia on February 20, 2003 and was licensed as a property and casualty insurance company on April 2, 2005. Initial capitalization was provided by the Company's immediate parent, Penn-America Insurance Company (Penn-America), 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. In December 2013, the Company requested and received approval from the Bureau for an extraordinary dividend of \$19,500,000. Of this amount, \$14,000,000 was a return of capital and \$5,500,000 was a reduction in assigned funds. Penn-America contributed additional paid in capital of \$12,000,000 in March 2014 and \$5,000,000 in December 2018. In June 2020, the Company declared and paid a \$226,000,000 dividend to its ultimate parent, Global Indemnity Limited.

On August 28, 2020, Global Indemnity Limited completed certain transactions (the "redomestication") that resulted in the shareholders of Global Indemnity Limited becoming the holders of all the issued and outstanding common shares of Global Indemnity Group, LLC (GIG), a Delaware limited liability company. Global Indemnity Limited was simultaneously dissolved and ceased to exist as a separate legal entity. Additionally, as part of the transaction, Global Indemnity Reinsurance Company was merged with and into the Company.

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.

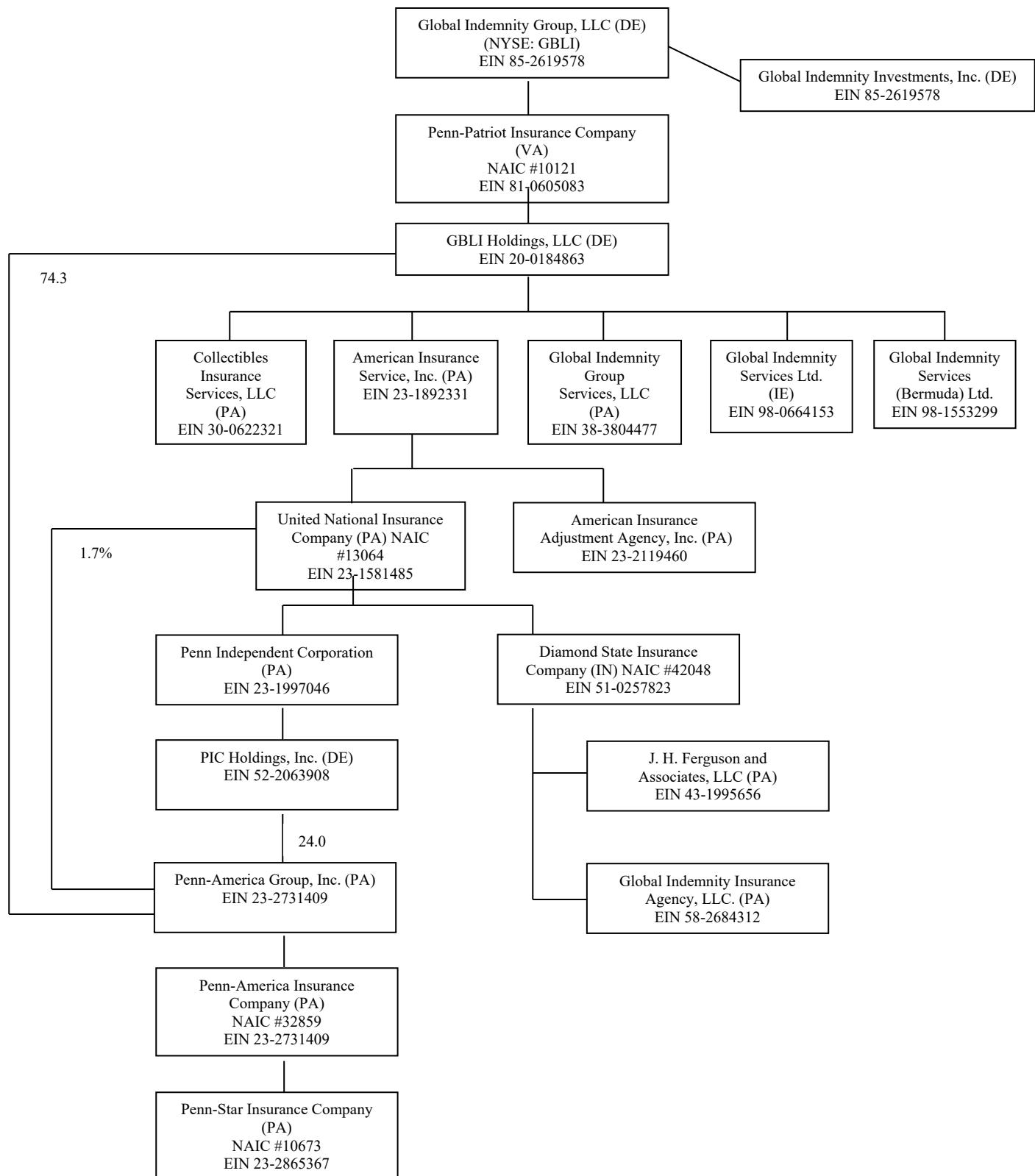
Directors and officers at December 31, 2022 were as follows:

<u>Director:</u>	<u>Principal Business Affiliation:</u>
Joseph W. Brown	Chief Executive Officer Global Indemnity Group, LLC. Bedford Corners, New York
David C. Elliott	Senior Vice President, Claims Penn-Patriot Insurance Company Wenonah, New Jersey
Thomas M. McGeehan	Executive Vice President and Chief Financial Officer Global Indemnity Group, LLC. King of Prussia, Pennsylvania
Jonathan E. Oltman	President Penn-Patriot Insurance Company Center Valley, Pennsylvania
Ginny L. Peterson	Attorney Kightlinger & Gray, LLP Bargersville, Indiana
Stephen W. Ries	Senior Vice President, Senior Counsel Global Indemnity Group, LLC. Wayne, Pennsylvania
Scott J. Sorkin	Attorney Bland & Sorkin, P.C. Glen Allen, Virginia

Officers:

Jonathan E. Oltman	President
Thomas P. Gibbons	Executive Vice President and Chief Actuary
Thomas M. McGeehan	Chief Financial Officer and Treasurer
Stephen W. Ries	Secretary
David C. Elliott	Senior Vice President
Brian J. Riley	Senior Vice President
Nicole F. Reilly	Senior Vice President

The Company is a member of the Global Indemnity Group, LLC. (GIG) insurance holding company, which is comprised of five U.S. insurance companies, the Company, United National Insurance Company (UNIC), Diamond State Insurance Company (DSIC), Penn-America Insurance Company, and Penn-Star Insurance Company. Fox Paine International GP, Ltd., a Cayman exempted company, is named as the ultimate controlling person in the holding company system. However, Fox Paine Capital Fund II International L.P. was formed to be the beneficial owner of the holding company and is named as an intermediate controlling person and the financially responsible person. The following organizational chart illustrates the holding company at December 31, 2022:



RELATED PARTY TRANSACTIONS

Cost Allocation Agreement

The insurers within the GIG holding company, including the Company, participate in a Cost Allocation Agreement amongst themselves and with the non-insurance affiliates of GIG. 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. 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. Effective December 1, 2015, the cost allocation agreement was amended and restated to bring the agreement into compliance with new Pennsylvania and Indiana requirements.

Effective July 11, 2019, the Cost Allocation Agreement was amended to remove U.S. Insurance Services, Inc as a party. Effective November 6, 2019, Global Indemnity Group Holdings, Inc. was added as a party to the agreement and on November 8, 2019 the agreement was amended to reflect the conversion of Global Indemnity Group, Inc. to Global Indemnity Group, LLC.

Effective August 26, 2020, the Cost Allocation Agreement was amended to reflect Global Indemnity Group, LLC changing its name to GBLI Holdings, LLC, delete Global Indemnity Group, Holdings, Inc as a party, and add Global Indemnity Services (Bermuda) Limited as a party. Effective December 31, 2022, American Reliable Insurance Company was removed as a party.

This agreement was approved by the Commission.

Tax Sharing 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 GIG. 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. Effective December 1, 2015, the tax sharing agreement was amended and restated to bring the agreement into compliance with new Pennsylvania and Indiana requirements.

Effective December 31, 2018, an amended and restated tax sharing agreement was entered into by and among the affiliates of GIG. Effective July 11, 2019, the agreement was amended to delete U.S. Insurance Services, Inc. as a party. Effective November 6, 2019, Global Indemnity Group Holdings, Inc. was added as a party to the agreement and on November 8, 2019, the agreement was amended to reflect the conversion of Global Indemnity Group, Inc. to Global Indemnity Group, LLC. Effective November 15, 2019, the agreement was amended to reflect Global Indemnity Group Holdings, Inc. as the company to file consolidated tax returns on behalf of the parties.

Effective August 26, 2020, the tax sharing agreement was amended to remove Global Indemnity Group Holdings, Inc., to reflect Global Indemnity Group, LLC changing its name to GBLI Holdings, LLC, and to reflect the Company as the company to file consolidated tax returns on behalf of the parties. Effective December 31, 2022, American Reliable Insurance Company was removed as a party.

This agreement was approved by the Commission.

TERRITORY AND PLAN OF OPERATION

The Company is domiciled and licensed only in the Commonwealth of Virginia. As of December 31, 2022, 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 eligible surplus lines company in Pennsylvania. In Virginia, the Company writes standard lines such as preferred dwellings, apartments less than 25 years old with a 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 a 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, 2022:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Common Capital Stock</u>	<u>Paid In and Contributed Surplus</u>	<u>Gross Unassigned Funds</u>
2013	\$41,820,419	\$37,138,685	\$1,000,000	\$5,000,000	\$(1,318,266)
2014	37,494,467	16,879,698	1,000,000	17,000,000	2,614,769
2015	21,554,217	507,168	1,000,000	17,000,000	3,047,049
2016	51,268,587	32,700,427	1,000,000	17,000,000	568,160
2017	49,955,952	33,317,039	1,000,000	17,000,000	(1,361,087)
2018	60,856,033	42,800,967	1,000,000	22,000,000	(4,944,934)
2019	900,216,000	338,215,000	1,000,000	22,000,000	539,001,000
2020*	453,029,609	110,042,659	1,000,000	22,000,000	319,986,950
2021	449,052,980	89,582,117	1,000,000	22,000,000	336,470,863
2022*	577,497,163	217,676,105	1,000,000	22,000,000	336,821,058

*In 2020, Global Indemnity Reinsurance Company was merged into the Company and prior year financial statements were restated. In 2022, the current and deferred taxes were amended, and the year-end financial statements were restated.

<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>
2013	\$4,686,730	\$3,383,290	\$2,004,199	\$(700,759)
2014	4,988,779	3,727,546	2,009,746	(748,513)
2015**	0	0	0	0
2016	8,759,560	5,964,264	6,885,888	(4,090,592)
2017	16,580,727	13,556,908	6,578,950	(3,555,131)
2018	23,236,402	17,041,319	11,982,028	(5,786,945)
2019	107,411,436	53,158,734	38,243,557	16,009,145
2020	89,385,714	35,253,882	30,545,375	23,586,457
2021	41,692,722	26,945,637	15,131,649	(384,564)
2022	46,500,608	27,949,666	18,301,786	249,156

**See Reinsurance section; changes in the Company's retrocession percentages in the Reinsurance Pooling Agreement impacted financial statement presentation.

REINSURANCE

The Company had the following reinsurance coverage in force at December 31, 2022:

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	Property Catastrophe	<u>First Layer:</u> \$10,000,000 plus 60% of \$10,000,000 excess of \$10,000,000 each occurrence <u>Second Layer:</u> \$20,000,000 each occurrence <u>Third Layer:</u> \$50,000,000 each occurrence	40% of \$10,000,000 excess of \$10,000,000 each occurrence; \$20,000,000 aggregate limit \$30,000,000 excess of \$20,000,000 each occurrence; \$60,000,000 aggregate limit \$75,000,000 excess of \$50,000,000 each occurrence; \$150,000,000 aggregate limit
Excess of Loss	Property Per Risk	<u>First Layer:</u> \$2,000,000 each occurrence, each risk <u>Second Layer:</u> \$5,000,000 each occurrence, each risk	\$3,000,000 excess of \$2,000,000 each occurrence, each risk \$10,000,000 excess of \$5,000,000 each occurrence, each risk
Excess of Loss	Casualty	\$2,500,000 each occurrence	\$10,000,000 excess of \$2,500,000 each occurrence; \$20,000,000 aggregate limit

Assumed Reinsurance

The Company was a participant on an assumed reinsurance contract with certain companies affiliated with RenaissanceRe Holdings, Ltd. The Company retained 100% of the insurance liabilities on a portion of the cedants' business (3% for the 2019 and 2020 treaty years and 4% for the 2021 and 2022 treaty years). This contract was terminated effective December 31, 2022 and all treaty years are in run-off.

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 GIG 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	43%
Penn-Star Insurance Company	23%
Diamond State Insurance Company	17%
Penn-America Insurance Company	7%
Penn-Patriot Insurance Company	<u>10%</u>
Total	<u>100%</u>

For the 2015 year, the Company's intercompany pooling percentage participation was reduced from 5% to 0%. The percentage was reset at 7% in 2016. In 2022, American Reliable Insurance Company was removed, and the Company's pooling percentage participation was increased to 10%. This agreement was approved by the Commission.

All of the above reinsurance agreements contain an insolvency clause.

FINANCIAL STATEMENTS

The following statutory financial statements present the financial condition of the Company for the period ending December 31, 2022. No examination adjustments were made to the statutory financial statements filed by the Company with the Bureau for the period ending December 31, 2022.

ASSETS

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$234,777,195		\$234,777,195
Common stocks	264,322,461		264,322,461
Cash, cash equivalents and short-term investments	27,687,061		27,687,061
Investment income due and accrued	1,789,973		1,789,973
Uncollected premiums and agents' balances in course of collection	13,029,398	5,768	13,023,630
Deferred premiums, agents' balances and installments booked but deferred and not yet due	2,760,360	88,660	2,671,700
Amounts recoverable from reinsurers	1,270,008		1,270,008
Funds held by or deposited with reinsured companies	1,919,144		1,919,144
Net deferred tax asset	2,333,087	460,070	1,873,017
Receivables from parent, subsidiaries and affiliates	16,183,791		16,183,791
Aggregate write-ins for other than invested assets	11,979,183		11,979,183
Totals	<u>\$578,051,661</u>	<u>\$554,498</u>	<u>\$577,497,163</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

Losses	\$60,815,334
Loss adjustment expenses	14,315,446
Commissions payable, contingent commissions and other similar charges	1,748,245
Other expenses	52,542
Current federal income taxes	928,172
Unearned premiums	25,193,209
Ceded reinsurance premiums payable	1,724,083
Funds held by company under reinsurance treaties	112,725,798
Remittances and items not allocated	90,688
Provision for reinsurance	7,000
Aggregate write-ins for liabilities	<u>75,588</u>
 Total liabilities	 <u>\$217,676,105</u>
 Common capital stock	 \$1,000,000
Gross paid in and contributed surplus	22,000,000
Unassigned funds (surplus)	<u>336,821,058</u>
 Surplus as regards policyholders	 <u>359,821,058</u>
 Totals	 <u>\$577,497,163</u>

UNDERWRITING AND INVESTMENT EXHIBIT
STATEMENT OF INCOME

UNDERWRITING INCOME

Premiums earned	<u>\$46,500,608</u>
Deductions:	
Losses incurred	\$23,131,358
Loss adjustment expenses incurred	4,818,308
Other underwriting expenses incurred	<u>18,301,786</u>
Total underwriting deductions	<u>\$46,251,452</u>
Net underwriting gain	<u>\$249,156</u>

INVESTMENT INCOME

Net investment income earned	\$3,291,019
Net realized capital losses	<u>(3,864,433)</u>
Net investment loss	<u>(\$573,414)</u>

OTHER INCOME

Net gain from agents' or premium balances charged off	<u>\$480</u>
Total other income	<u>\$480</u>
Net income before federal income taxes	(\$323,778)
Federal income taxes incurred	<u>876,225</u>
Net income	<u>(\$1,200,003)</u>

RECONCILIATION OF CAPITAL AND SURPLUS
FOR PERIOD UNDER REVIEW

	2018	2019	2020	2021	2022
Surplus as regards policyholders, December 31, previous year	\$16,638,913	\$18,055,066	\$20,459,953	\$342,986,950	\$359,470,863
Prior year adjustment	<u> </u>	<u> </u>	<u>541,541,047</u>	<u> </u>	<u> </u>
Net income	(\$3,836,122)	\$2,567,811	\$45,625,995	\$2,951,218	(\$1,200,003)
Change in net unrealized capital gains or (losses)	2,087	(6,820)	(34,612,527)	13,554,521	838,221
Change in net deferred income tax	257,309	119,545	(4,484,792)	39,127	866,486
Change in nonadmitted assets	(7,121)	(275,649)	457,274	(60,953)	(147,509)
Change in provision for reinsurance	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u>(7,000)</u>
Surplus adjustments:	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Paid in	5,000,000	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Dividends to stockholders	<u> </u>	<u> </u>	<u>(226,000,000)</u>	<u> </u>	<u> </u>
Change in surplus as regards policyholders for the year	<u>\$1,416,153</u>	<u>\$2,404,887</u>	<u>(\$219,014,050)</u>	<u>\$16,483,913</u>	<u>\$350,195</u>
Surplus as regards policyholders, December 31, current year	<u>\$18,055,066</u>	<u>\$20,459,953</u>	<u>\$342,986,950</u>	<u>\$359,470,863</u>	<u>\$359,821,058</u>

CASH FLOW

Cash From Operations

Premiums collected net of reinsurance	\$30,551,481
Net investment income	2,544,989
Miscellaneous income	480
Total	<u>\$33,096,950</u>
Benefit and loss related payments	\$731,647
Commissions, expenses paid and aggregate write-ins	
for deductions	16,613,482
Federal income taxes paid	2,504,057
Total	<u>\$19,849,186</u>
Net cash from operations	<u>\$13,247,764</u>

Cash From Investments

Proceeds from investments sold, matured or repaid:	
Bonds	\$112,576,626
Total investment proceeds	<u>\$112,576,626</u>
Cost of investments acquired (long-term only):	
Bonds	\$212,585,912
Total investments acquired	<u>\$212,585,912</u>
Net cash from investments	<u>(\$100,009,286)</u>

Cash From Financing and Miscellaneous Sources

Cash provided:	
Other cash provided	<u>\$100,725,006</u>
Net cash from financing and miscellaneous sources	<u>\$100,725,006</u>
Net change in cash and short-term investments	<u>\$13,963,484</u>

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

Cash and short-term investments:	
Beginning of year	\$13,723,577
End of year	<u>27,687,061</u>
Net change in cash and short-term investments	<u>\$13,963,484</u>

ACKNOWLEDGMENT

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, Mario A. Cuellar, CFE, AAPIR and Danielle T. Ellis, AAPIR of the Bureau participated in the work of the examination.

Respectfully submitted,



Jennifer K. Blizzard, CFE, AIAF, AAPIR
BOI Manager
Commonwealth of Virginia



March 12, 2024

David H. Smith, CFE, CPCU
Chief Examiner
1300 E. Main Street
Richmond, Virginia 23219
(804) 371-9061

Dear Mr. Smith,

We have received the Association Examination Report on Penn-Patriot Insurance Company as of December 31, 2022. Please accept this letter as confirmation of receipt.

Sincerely,

A handwritten signature in blue ink that reads "Joseph W. Brown".

Joseph W. Brown
Chief Executive Officer

Cc: Brian J. Riley
Senior Vice President