EXAMINATION REPORT
on
PENN-PATRIOT INSURANCE COMPANY
Bala Cynwyd, Pennsylvania
as of
December 31, 2007

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

COMMONWEALTH OF VIRGINIA

ALFRED W. GROSS
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

P.O. BOX 1157
RICHMOND, VIRGINIA 23218
TELEPHONE: (804) 371-9741
TDD/VOICE: (804) 371-9206
http://www.scc.virginia.gov/division/boi

I, Alfred W. Gross, 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, 2007, 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 19th day of June, 2009

Alfred W. Gross

Alfred W. Gross
Commissioner of Insurance

(SEAL)

TABLE OF CONTENTS

Richmond, Virginia
May 4, 2009

Honorable Alfred W. Gross
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.

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, 2005. This examination covers the period from January 1, 2006 through December 31, 2007.

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, 2007 were as follows:

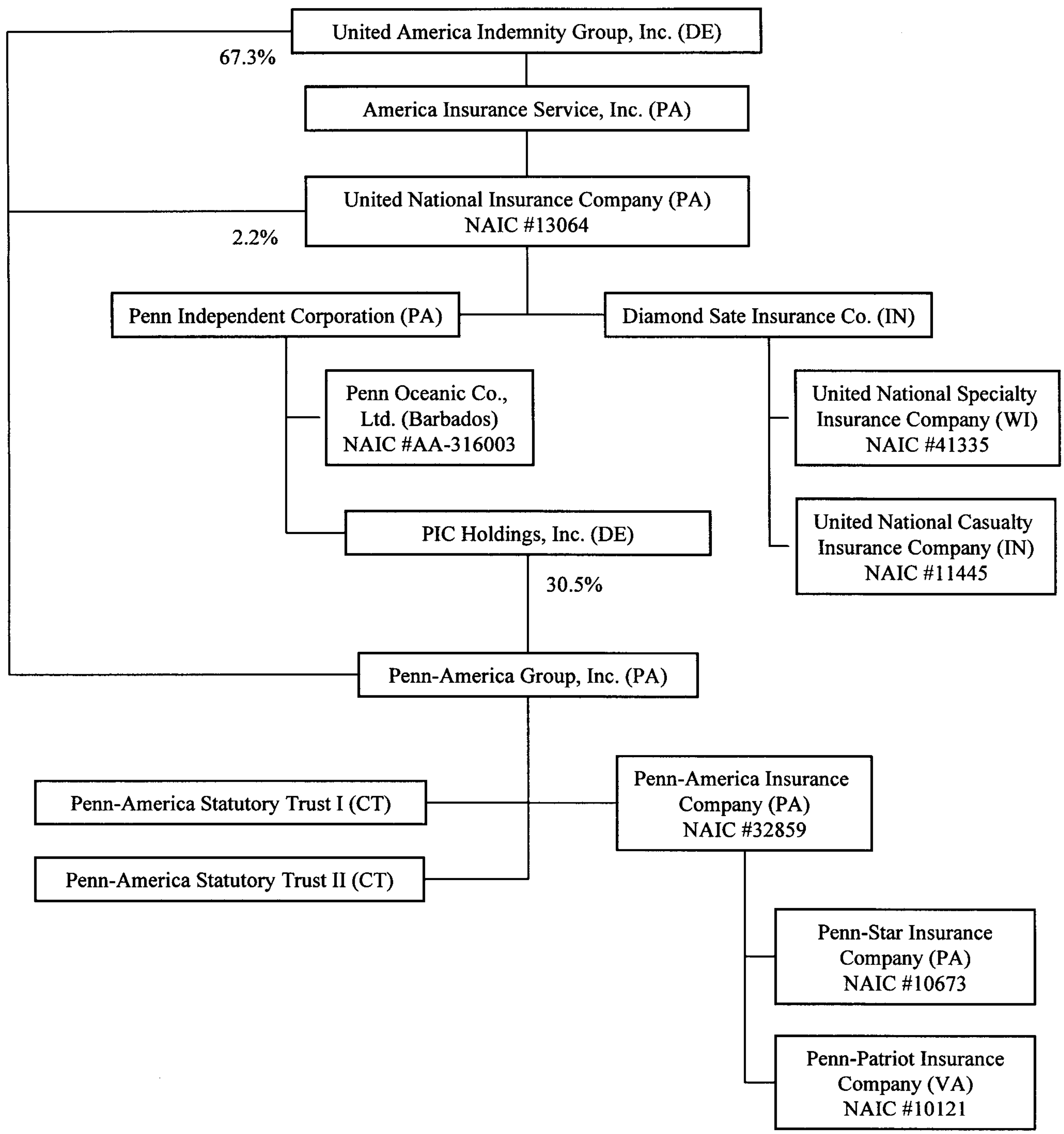
Director:	Principal Business Affiliation:
Stephen A. Cozen	Chairman Cozen O'Connor Philadelphia, Pennsylvania
Richard L. Duszak	Accounting Consultant Self Employed Blue Bell, Pennsylvania
Larry A. Frakes	President and Chief Executive Officer United America Indemnity Group, Inc. West Chester, Pennsylvania
Richard S. March	Senior Vice President, General Counsel and Secretary United National Insurance Company Voorhees, New Jersey
Raymond H. McDowell	President Penn-Patriot Insurance Company Bala Cynwyd, Pennsylvania
Thomas M. McGeehan	Vice President and Corporate Controller United America Indemnity Group, Inc. King of Prussia, Pennsylvania

Kevin L. Tate	Chief Financial Officer United America Indemnity, Ltd. Bala Cynwyd, Pennsylvania

Officers:

Raymond H. McDowell	President and Chief Executive Officer
David J. Myers	Executive Vice President
Joseph M. Boyle	Senior Vice President, Chief Financial Officer, Controller and Treasurer
William J. Delvin, Jr.	Senior Vice President
Richard S. March	Senior Vice President
Garland P. Pezzuolo	Vice President, Corporate Secretary and General Counsel
Linda C. Hohn	Vice President
James R. Lennon	Vice President
James B. McCreesh	Vice President
Brian J. Riley	Vice President
Troy W. Santora	Vice President
Caroline M. Tate	Vice President

The Company is a wholly owned subsidiary of the Penn-America Insurance Company (Penn-America). Penn America, Penn-Star Insurance Company (Penn Star) and the Company are all members of the Penn-America Group, Inc. (Penn-America Group) The Penn America Group, along with the United National Group, are the U.S. insurance subsidiaries of United America Indemnity, Ltd., a publicly-traded (NASDAQ: INDM) specialty property and casualty insurance holding company formed under the laws of the Cayman Islands. Fox Paine and Company, LLC, a California based private-equity firm, owns a controlling interest in United America Indemnity, Ltd. 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 United America Indemnity, Ltd. The entity at the top of the organizational chart, United America Indemnity Group, Inc., is an indirect wholly-owned subsidiary of United America Indemnity, Ltd.:


United America Indemnity Group, Inc. (DE)
67.3%
America Insurance Service, Inc. (PA)
United National Insurance Company (PA)
NAIC #13064
2.2%
Penn Independent Corporation (PA)
Diamond Sate Insurance Co. (IN)
Penn Oceanic Co., Ltd. (Barbados)
NAIC #AA-316003
United National Specialty Insurance Company (WI)
NAIC #41335
PIC Holdings, Inc. (DE)
United National Casualty Insurance Company (IN)
NAIC #11445
30.5%
Penn-America Group, Inc. (PA)
Penn-America Statutory Trust I (CT)
Penn-America Insurance Company (PA)
NAIC #32859
Penn-America Statutory Trust II (CT)
Penn-Star Insurance Company (PA)
NAIC #10673
Penn-Patriot Insurance Company (VA)
NAIC #10121

RELATED PARTY TRANSACTIONS

Cost Allocation Agreement

Effective January 25, 2005, the Company entered into a Cost Allocation Agreement by and among United America Indemnity Group, Inc., U.N. Holdings, Inc., Wind River Investment Corporation, American Insurance Service, Inc., United National Insurance Company, Diamond State Insurance Company, United National Specialty Insurance Company, United National Casualty Insurance Company, Penn-America, Penn-Star, and Penn Independent Corporation. The parties to this agreement are members of a group of commonly owned insurance holding companies and insurance operating entities and they desire to cooperate in the performance of certain services and purchase of goods and services from certain third parties and to allocate such expenses in a fair and equitable manner.

The agreement provides that each party will make its facilities available to any affiliate as reasonably necessary in the conduct of such affiliate's operations. The agreement also provides that the parties may provide services to any affiliate, including, but not limited to, accounting, tax and auditing, underwriting, reinsurance placement, telecommunication services and electronic data processing services, legal services, purchasing, payroll and employee relations services, marketing services, actuarial services, claims services, and other services.

In consideration of the services provided under this agreement, direct and allocated costs will be determined and reimbursed on a monthly basis. The balances payable or receivable between affiliates will be paid within 60 days after the end of each calendar month reporting.

This agreement was approved by the Commission.

Tax Allocation Agreement

On January 24, 2005, the Company entered into a Tax Allocation Agreement with its parent and affiliates. Under this agreement, which began with the 2005 tax year, United America Indemnity Group, Inc. files a consolidated federal income tax return. The current federal tax expense or benefit is allocated based on calculated liability or benefit generated by the operation of each as if a separate entity. Allocation is based upon a separate return calculation with current credit for net losses. Intercompany tax balances are settled within ninety days of the consolidated, estimated and final tax payments.

Dividends

In 2007, the Company paid dividends of $2,200,000 to Penn-America. The Company paid no dividends in 2006.

FIDELITY BOND AND OTHER INSURANCE

At December 31, 2007, 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, 2007.

TERRITORY AND PLAN OF OPERATION

The Company is domiciled and licensed only in the Commonwealth of Virginia. As of December 31, 2007, 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 (4) stories, restaurants with forty (40%) percent or less liquor sales, main street retail stores, and garden apartments less than 25 years old with maximum height of four (4) 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, 2007:

Year	Admitted Assets	Liabilities	Common Capital Stock	Gross Paid In and Contributed Surplus	Unassigned Funds
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

Year	Premiums Earned	Losses and Loss Adjustment Expenses Incurred	Other Underwriting Expenses	Net Underwriting Gain or (Loss)
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

REINSURANCE

The Company had the following reinsurance coverage in force at December 31, 2007:

Ceded to Non-Affiliated Reinsurers

Type of Agreement	Class of Business	Company Retention	Reinsurer's Limits
Excess of Loss	Casualty	$500,000 per occurrence	$2,500,000 excess of $500,000 per occurrence
Excess of Loss	Property	$1,000,000 each and every risk	$4,000,000 excess of $1,000,000 each occurrence
Excess of Loss	Casualty Clash	First Layer: $3,000,000 per occurrence	$2,000,000 excess of $3,000,000 per occurrence
		Second Layer: $5,000,000 per occurrence	$5,000,000 excess of $5,000,000 per occurrence
Quota Share	General Liability Commercial Umbrella Liability		Varies based on policy type and limits
Excess of Loss	Property (Auto-Facultative)	$2,000,000 per occurrence	1.5 times the Company's retention subject to maximum limit of 3,000,000 each occurrence

Type of Agreement	Class of Business	Company Retention	Reinsurer's Limits
Excess of Loss	Property Catastrophe	First Layer $10,000,000 per occurrence	$5,000,000 excess of $10,000,000 per occurrence
		Second Layer $15,000,000 per occurrence	$15,000,000 excess of $15,000,000
		Third Layer $30,000,000 per occurrence	$30,000,000 excess of $30,000,000 per occurrence
		Fourth Layer $60,000,000 per occurrence	$60,000,000 excess of $60,000,000 per occurrence
Quota Share	Equipment Breakdown		$50,000,000 per accident

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

Reinsurance-Related Parties

Penn-America, Penn-Star and the Company participate in an intercompany pooling agreement in which Penn-America acts as the lead company with its wholly owned subsidiary, Penn-Star and, beginning April 1, 2005, the Company. Penn-Star and Penn-Patriot cede 100% of their net insurance business (after cessions to unaffiliated reinsurers) to Penn-America. Penn-America retains 50% of the net business and 35% is ceded to Penn-Star and 15% is ceded to the Company. All lines of business and all accident years are included in the pooling arrangement. Each pool participant has a contractual right of direct recovery from its non-affiliated reinsurers.

Effective January 1, 2007, the Company entered into a quota share reinsurance agreement with an affiliate, Wind River Reinsurance Company, Ltd. (Wind River), as respects losses occurring and/or claims made on or after January 1, 2007 under policies in force at the inception of this agreement, or written or renewed during the term of this agreement. Pursuant to this agreement, the Company shall cede to Wind River 50% of the Company's net retained insurance liability each and every loss occurring and/or claim made.

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, 2006 through December 31, 2007. Assets were verified and liabilities were established at December 31, 2007. A review of income and disbursements for the period was made to the extent deemed necessary.

The items comprising the Balance Sheet for which Specific Risk Analyses (SRA) were required had medium or low risk assessments as determined from the *National Association of Insurance Commissioners Examiners Handbook.* Analytical review procedures were applied for non-SRA items.

In addition, the following items were reviewed, several of which are discussed separately under their respective captions in this report.

History
Company Records
Management and Control
Fidelity Bond and Other Insurance
Related Party Transactions
Territory and Plan of Operation
Conflict of Interest
Growth of the Company
Reinsurance
Welfare and Pension Plans
Accounts and Records
Financial Statements

FINANCIAL STATEMENTS

There follows a statement of financial condition as of December 31, 2007, a statement of income for the period ending December 31, 2007, a reconciliation of surplus for the period under review, and a statement of cash flow for the period ending December 31, 2007. The financial statements are presented in accordance with Statutory Accounting Principles.

ASSETS

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$66,934,437		$66,934,437
Cash and short-term investments	473,966		473,966
Investment income due and accrued	755,959		755,959
Uncollected premiums and agents' balances in course of collection	1,163,838	30,843	1,132,995
Amounts recoverable from reinsurers	16,925		16,925
Net deferred tax asset	2,266,107	1,215,635	1,050,472
Receivables from parent, subsidiaries and affiliates	1,481,600		1,481,600
Aggregate write-ins for other than invested assets	10,854	10,854	0
Totals	$73,103,686	$1,257,332	$71,846,354

LIABILITIES, SURPLUS AND OTHER FUNDS

Losses		$23,313,507
Reinsurance payable on paid losses and loss adjustment expenses		942,545
Loss adjustment expenses		12,036,157
Commissions payable, contingent commissions and other similar charges		41,826
Other expenses		4,900
Taxes, licenses and fees		7,572
Current federal income taxes		719,093
Unearned premiums		7,224,714
Ceded reinsurance premiums payable		276,785
Remittances and items not allocated		34
Payable to parent, subsidiaries and affiliates		42,267
Total liabilities		$44,609,400
Common capital stock	$1,000,000	
Gross paid in and contributed surplus	19,000,000	
Unassigned funds (surplus)	7,236,954	
Surplus as regards policyholders		27,236,954
Totals		$71,846,354

UNDERWRITING AND INVESTMENT EXHIBIT
STATEMENT OF INCOME

UNDERWRITING INCOME

Premiums earned	$17,490,984
Deductions:	
Losses incurred	$7,196,849
Loss expenses incurred	2,830,530
Other underwriting expenses incurred	4,146,749
Total underwriting deductions	$14,174,128
Net underwriting gain	$3,316,856

INVESTMENT INCOME

Net investment income earned	$3,356,926
Net realized capital losses	(10,539)
Net investment gain	$3,346,387
Net income before federal income taxes	$6,663,243
Federal income taxes incurred	2,056,243
Net income	$4,607,000

RECONCILIATION OF CAPITAL AND SURPLUS FOR PERIOD UNDER REVIEW

	2006	2007
Surplus as regards policyholders, December 31, previous year	$21,363,250	$25,023,291
Net income	$3,593,588	$4,607,000
Change in net unrealized capital gains or (losses)		(3,410)
Change in net deferred income tax	360,734	(269,352)
Change in nonadmitted assets	(294,281)	79,425
Capital changes:		
Paid in		
Surplus adjustments:		
Paid in		
Dividends to stockholders		(2,200,000)
Change in surplus as regards policyholders for the year	$3,660,041	$2,213,663
Surplus as regards policyholders, December 31, current year	$25,023,291	$27,236,954

CASH FLOW

Cash From Operations

Premiums collected net of reinsurance	$15,166,923
Net investment income	3,605,162
Total	$18,772,085
Benefit and loss related payments	$7,962,249
Commissions, expenses paid and aggregate write-ins for deductions	6,812,780
Federal income taxes paid	2,319,027
Total	$17,094,056
Net cash from operations	$1,678,029

Cash From Investments

Proceeds from investments sold, matured or repaid:	
Bonds	$9,686,075
Net losses on cash, cash equivalents and short-term investments	(4)
Total investment proceeds	$9,686,071
Cost of investments acquired (long-term only):	
Bonds	$9,079,020
Total investments acquired	$9,079,020
Net cash from investments	$607,051

Cash From Financing and Miscellaneous Sources

Cash provided (applied):	
Dividends to stockholders	($2,200,000)
Other cash applied	(2,624,060)
Net cash from financing and miscellaneous sources	($4,824,060)
Net change in cash and short-term investments	($2,538,980)

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

Cash and short-term investments:	
Beginning of year	$3,012,946
End of year	473,966
Net change in cash and short-term investments	($2,538,980)

RECOMMENDATIONS FOR CORRECTIVE ACTION

Management and Control

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 second consecutive examination in which this recommendation appears.

SUBSEQUENT EVENTS

1. Effective January 1, 2009, the Company entered into a new intercompany reinsurance pooling agreement. This agreement replaces the current intercompany reinsurance agreement between the Company, Penn-America and Penn-Star. Under the terms of the new agreement, the pool members will be the Company, Penn-America, Penn-Star, United National Specialty Insurance Company, United National Casualty Insurance Company, United National Casualty Insurance Company and Diamond State Insurance Company. The pool members will cede to United National Insurance Company (UNIC), 100% of the net retained liabilities incepting on or after January 1, 2009. UNIC will then cede to the pool members an amount equal to their participation percentage of the combined paid and unpaid net retained liabilities of the pool. The Company's retention under this agreement has been set at 5%.

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. Crawley, CFE, Mario A. Cuellar, CFE, and Theresa C. Lewis, CFE of the Bureau participated in the work of the examination.

Respectfully submitted,

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

Penn-Patriot
Insurance Company®

BUREAU OF INSURANCE
09 JUN 18 AM 9:50

June 16, 2009

David H. Smith, CFE, CPA, CPCU
Commissioner of Insurance
State Corporation Commission
Bureau of Insurance
Commonwealth of Virginia
1300 East Main Street
Richmond, Virginia 23219

Dear Mr. Smith,

We are responding to the Examination Report of Penn-Patriot Insurance Company dated May 4, 2009. We are pleased with the results of your examination and would like to thank the Bureau for their courtesy during the examination process. We have reviewed the Examination Report and accept the results of the examination. We do not wish to request a hearing before the Commission.

The following is our response to the one Recommendation for Corrective Action noted in the Report on Management and Control (page 17). **"Effective with the second quarter of 2009, the Company will take action to ensure that our Independent Actuary's quarterly presentations to the Board of Directors are reflected in the insurance companies' minutes. In addition, we will add the Actuarial Opinion to the agenda of the insurance companies' quarterly board meeting. Since the Actuarial Opinion is only presented annually, the insurance companies' minutes will reflect that the Actuarial Opinion and the Actuarial Report were presented annually to the Board of Directors and will also reflect the insurance companies' Directors comments relative to the Actuarial Opinion. This will address the Virginia Bureau of Insurance' issue."**

We are available to discuss these issues or any others at your convenience. Thank you for your consideration in this matter.

Sincerely,

Matthew B. Scott
President
Penn-Patriot Insurance Company