



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

April 17, 2018

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

Dear Superintendent:

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

**MAINE EMPLOYERS' MUTUAL INSURANCE COMPANY**

at its home office in Portland, Maine. The following report is respectfully submitted.



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**REPORT OF EXAMINATION**  
**MAINE EMPLOYERS' MUTUAL INSURANCE COMPANY**  
**AS OF**  
**DECEMBER 31, 2016**

**ACCEPTANCE OF REPORT OF EXAMINATION**

WHEREAS a verified Report of Examination of Maine Employers' Mutual Insurance Company dated April 17, 2018, was delivered to that insurer on June 5, 2018, and;

WHEREAS Maine Employers' Mutual Insurance Company and Bureau of Insurance staff have agreed to certain modifications with respect to the Report of Examination, and

WHEREAS I find such modifications proper, and

WHEREAS no hearing with respect to the Report of Examination has been requested by Maine Employers' Mutual 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. §226 (3).

Dated: 6-27-18

  
Eric A. Cioppa, Superintendent

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## **SCOPE OF EXAMINATION**

Maine Employers' Mutual Insurance Company (MEMIC or the "Company") was last examined as of December 31, 2012, by the State of Maine Bureau of Insurance (MBOI). This examination covered the period from January 1, 2013, to December 31, 2016.

This examination was performed pursuant to the risk-focused approach promulgated by the National Association of Insurance Commissioners (NAIC), in conformity with statutory accounting practices, NAIC guidelines, the 2017 Financial Condition Examiners Handbook (FCEH) and the laws, rules, and regulations prescribed or permitted by the State of Maine. The examination consisted of a review of the Company's operations, controls, and corporate governance, valuation of assets, and determination of liabilities at December 31, 2016. The examination also included the identification and evaluation of significant risks that could cause the Company's surplus to be materially misstated both currently and prospectively.

This examination was coordinated with the State of New Hampshire Insurance Department (NHID), which concurrently examined MEMIC Indemnity Company (MIC) and MEMIC Casualty Company (MCC), both New Hampshire domestic insurance companies. These companies, along with MEMIC, are members of the MEMIC Group. The examination was conducted at the MEMIC offices in Portland, Maine, which are the primary locations of books and records. Johnson Lambert LLP (JL) performed the 2016 external audit of MEMIC and all insurance affiliates. JL work papers were utilized for this examination to the extent deemed appropriate. The MBOI's examination work papers were shared with the NHID in order to enhance the effectiveness and efficiency of this examination.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. The examination does not attest to the fair presentation of the financial statements included herein. 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. To the extent deemed necessary, transactions occurring subsequent to the examination date were reviewed.

This examination report includes significant findings of fact, pursuant to 24-A M.R.S. §225 (1), and general information about the Company and its financial condition. There may be other items identified during the examination that, due to their nature, are not included herein, and are instead separately reported to other regulators and/or the Company.

## **SUMMARY OF SIGNIFICANT FINDINGS**

### **PRIOR EXAMINATION**

None noted.

### **CURRENT EXAMINATION**

None noted.

## THE COMPANY

### HISTORY

MEMIC was established through legislative action as an assessable mutual insurance company by the State of Maine on November 13, 1992. MEMIC commenced business effective January 1, 1993. MEMIC was established to replace the State of Maine Workers' Compensation Residual Market Pool and to stabilize the Maine worker's compensation insurance market. MEMIC writes workers' compensation insurance, and employers' liability insurance. Employment practices liability insurance (EPLI) is written incidental to and in conjunction with workers' compensation coverage. The three lines of insurance are primarily written for employers in the State of Maine.

In 1996, MEMIC established a wholly owned, non-insurance subsidiary, MEMIC Services, Inc. (MSI). During the examination period, MSI provided agency services to MEMIC, MIC and MCC.

In 1999, MEMIC obtained approval from the New Hampshire Insurance Department to form a New Hampshire domestic subsidiary, MIC, to write workers' compensation insurance in New Hampshire. On May 1, 2000, the State of New Hampshire authorized MIC to write workers' compensation insurance. MEMIC's current strategy is to use MIC as a vehicle to provide workers' compensation coverage to employers with principal operations outside of the State of Maine.

In 2009, MEMIC formed Casco View Holdings, LLC (CVH), a Maine limited liability company for the management and ownership of current and future investments in real estate. In 2010, MEMIC transferred its entire interest in certain income producing property to CVH along with a capital contribution. In 2011, MEMIC formed Casco View Holdings II, LLC (CVHII), a subsidiary of CVH. MEMIC's contributed capital was used by CVHII to purchase MEMIC's home office building which had previously been under a long-term lease with an unrelated party. In 2013, MEMIC formed Casco View Holdings III, LLC (CVHIII), a subsidiary of CVH, for the purpose of purchasing commercial real estate property located in Portland, ME.

Upon receiving approval from the Vermont Department of Financial Regulation, in 2011, MEMIC acquired Granite Manufacturers' Mutual Indemnity Company (GMMIC), domiciled in Vermont. GMMIC was a property/casualty insurance company licensed to write workers' compensation insurance. Subsequent to the acquisition GMMIC was renamed MCC. In 2015, MCC re-domiciled to New Hampshire. MEMIC's current strategy is to use MCC as a strategic multi-tier rating vehicle to provide workers' compensation coverage to entities with principal operations in MIC's target markets, other than Maine.

### CONTRIBUTED CAPITAL

As authorized by state law, MEMIC was formed as a special purpose mono-line workers' compensation insurer without any initial capital or surplus. To provide capital, each policyholder was required to make a capital contribution equal to a percentage of final audited premium; 15% for policies issued in 1993 and 10% for policies issued in 1994 and 1995. Capital contributions were suspended for policies effective January 1, 1996, and later.

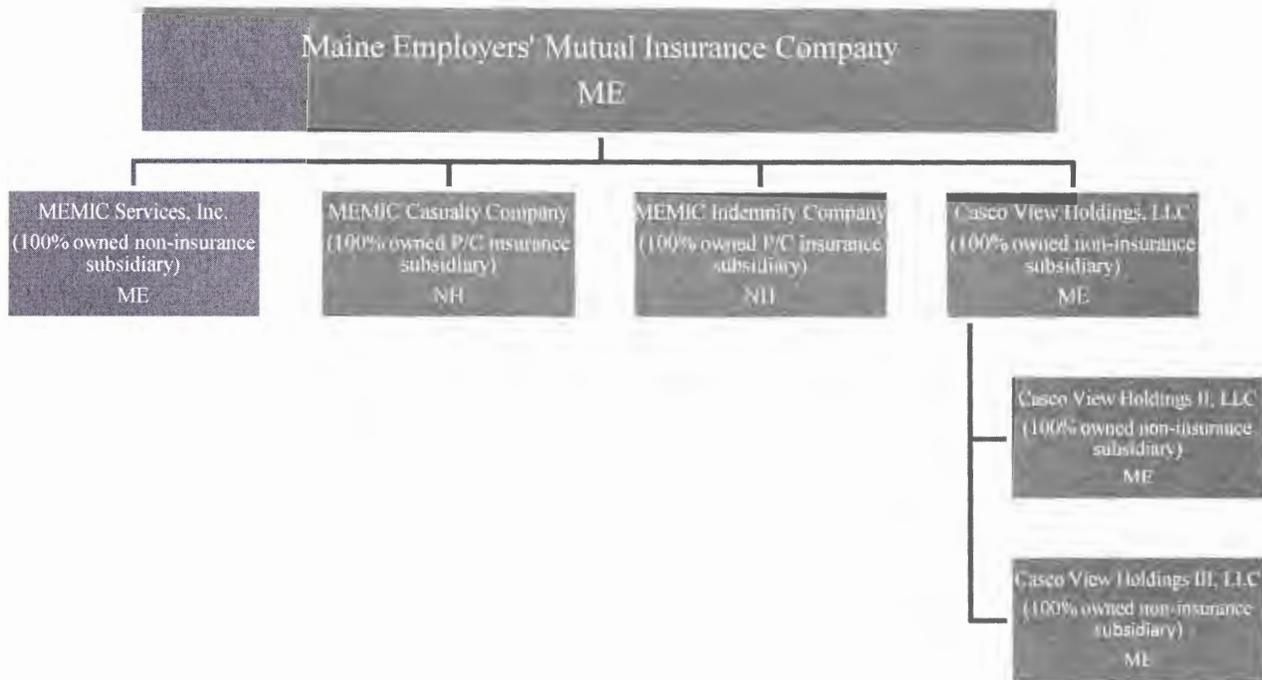
In 1998, MEMIC requested, in accordance with 24-A M.R.S. §3710 (3)(E) (repealed in 2001), that the superintendent of insurance review and certify that their surplus reached the levels required by

24-A M.R.S. §410. In response, the superintendent certified that MEMIC possessed an adequate surplus level for a domestic insurance company writing workers' compensation. Presently, MEMIC is subject to all regulations applicable to a mutual casualty insurer that writes workers' compensation insurance in Maine.

MEMIC has, since 1998, requested and received approval from the MBOI to return capital contributions to the extent authorized by the board of directors and the superintendent. At December 31, 2016, MEMIC had returned all but an immaterial amount of the contributed capital.

**CORPORATE OWNERSHIP**

The corporate ownership structure follows:



**CORPORATE RECORDS**

MEMIC's articles of incorporation, by-laws, and minutes of the board of directors meetings held during the period under examination were reviewed.

**CORPORATE GOVERNANCE**

MEMIC is governed and overseen by its board of directors and its management team.

As of December 31, 2016, the MEMIC board of directors consisted of the following members:

<u>Name</u>	<u>Title</u>
John Thomas Leonard*	Director
David Mark Labbe	Chairperson
Gregory William Boulos	Director
Meredith Nancy Strang Burgess	Director
Craig Norman Denekas	Director
Barry Dana McCrum	Director
Hilary Ann Rapkin	Director
Lance Avery Smith	Director
Robert Dale Umphrey	Director

MEMIC officers, as listed in the December 31, 2016, statutory annual statements, are:

<u>Name</u>	<u>Title</u>
John Thomas Leonard*	President & Chief Executive Officer
Daniel Joseph McGarvey*	Senior Vice President, Chief Operating Officer & Treasurer
Michael Peter Bourque*	Senior Vice President External Affairs, Secretary
Catherine Flaherty Lamson	Senior Vice President & Chief Administrative Officer
Gregory Grant Jamison	Senior Vice President, Underwriting Operations
Jeffrey David Funk	President, Northeast Region
Edward Lucas Austin III	President, Atlantic Region
Karl Van Siegfried	Senior Vice President, Loss Control & Safety Services
Matthew Howard Harmon	Senior Vice President, Claims
John Robert Yao	Senior Vice President, Chief Information Officer

\*In September 2017, Michael Peter Bourque replaced John Thomas Leonard as President & Chief Executive Officer and Director, Anthony Morris Payne replaced Michael Peter Bourque as Senior Vice President, External Affairs & Secretary, and Daniel Joseph McGarvey's title changed from Chief Operating Officer to Chief Financial Officer.

#### **TRANSACTIONS WITH AFFILIATES**

Beginning on January 1, 2013, all MEMIC subsidiary employees became MEMIC employees. This resulted in the termination or restatement of several intercompany management and services agreements. During the examination period, MEMIC provided certain administrative and management services, including charges for underwriting, claims, loss control, managed care, and investment management fees to MIC and MCC under the terms of written management service agreements. MEMIC pays fees to MIC for premium audit and claims services. Certain other direct costs are paid by MEMIC, charged back to its subsidiaries and settled within the terms of written cost sharing agreements.

MEMIC, MIC, and MCC receive agency services from MEMIC Services, Inc. under the terms of a written services agreement effective January 1, 2013. MEMIC also provides administrative and management services to CVH. MEMIC leases office space from CVH and CVHII.

MEMIC is a party to a written tax sharing agreement with its subsidiaries. The agreement provides that the portion of the consolidated tax liability allocated to MEMIC is based on its separate tax return liability.

**TERRITORY & PLAN OF OPERATION**

MEMIC is licensed to transact business as a workers' compensation insurer in Maine, Connecticut, Illinois, Maryland, Massachusetts, New Hampshire, New Jersey, New York, North Dakota, Ohio, Pennsylvania, South Carolina, Vermont, Virginia, and Washington. At December 31, 2016, MEMIC reported premiums in Connecticut, Illinois, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, South Carolina, Vermont, and Virginia.

MEMIC writes workers' compensation insurance and employers' liability insurance for businesses located in Maine including businesses located in Maine with operations in other states where MEMIC is licensed. In 2008, MEMIC began writing EPLI as an endorsement to its workers' compensation policies. Products are marketed using the brand name "MEMIC". Distribution is primarily through a network of independent agents.

**REINSURANCE**

MEMIC assumes some minimal reinsurance from various state run and national workers' compensation pools.

MEMIC has excess of loss agreements with various reinsurers wherein MEMIC's net retention is \$5,000,000 with coverage up to \$100,000,000. The table below describes the layers of MEMIC's reinsurance agreements in place at December 31, 2016:

<u>Workers' Compensation and Employers' Liability</u>		
<u>Description</u>	<u>Excess Terms</u>	<u>Notes</u>
First Layer	\$5M excess of \$5M	7 year sunset/commutation
Second Layer	\$10M excess of \$10M	7 year sunset/commutation, \$15M maximum any one life
Third Layer	\$30M excess of \$20M	7 year sunset/commutation, \$15M maximum any one life
Fourth Layer	\$50M excess of \$50M	7 year sunset/commutation, \$15M maximum any one life

During the examination period, MEMIC ceded its EPLI line of business through an 85% quota share reinsurance agreement.

**FINANCIAL STATEMENTS**

The Statement of Admitted Assets, Liabilities and Surplus, the Statement of Operations, and the Statement of Capital and Surplus are as presented by management and audited by the Company's external auditors. It should be noted that these financial statements have not been audited by the Maine Bureau of Insurance and thus the Maine Bureau of Insurance does not express an opinion on the financial statements as a whole.

**STATEMENT OF ADMITTED ASSETS, LIABILITIES AND SURPLUS  
AS OF DECEMBER 31, 2016**

Assets

Bonds	\$ 471,669,316
Common stocks	308,446,059
Cash	9,104,944
Other invested assets	20,952,649
Investment income due and accrued	4,225,526
Uncollected premiums in the course of collection	6,006,500
Deferred premiums, agents' balances and installments	45,932,001
Amounts recoverable from reinsurers	590,927
Current federal and foreign income tax recoverable	3,198,350
Net deferred tax asset	8,959,675
EDP equipment and software	3,989,578
Receivables from parent and affiliates	<u>3,679,103</u>
Total assets	<u>\$ 886,754,628</u>

Liabilities

Losses	\$ 325,113,958
Loss adjustment expenses	31,539,447
Commissions payable	7,086,774
Other expenses	27,162,239
Taxes, licenses and fees	1,695,344
Unearned premiums	74,173,862
Advance premiums	1,777,263
Ceded reinsurance premiums payable	1,124,339
Amounts withheld or retained for account of others	1,736,938
Aggregate write-ins for liabilities	<u>329,395</u>
Total liabilities	<u>471,739,559</u>

Capital and Surplus

Aggregate write-ins for other-than-special surplus funds	937,720
Gross paid in and contributed surplus	3,180,808
Unassigned funds	<u>410,896,541</u>
Surplus as regards policyholders	<u>415,015,069</u>
Total liabilities, capital and surplus	<u>\$ 886,754,628</u>

**STATEMENT OF OPERATIONS**  
**YEAR ENDED DECEMBER 31, 2016**

Premiums earned	\$ 151,804,322
Deductions:	
Losses incurred	110,315,938
Loss adjustment expenses	3,823,684
Other underwriting expenses	33,152,243
Total underwriting deductions	<u>147,291,865</u>
Total underwriting gain	<u>4,512,457</u>
Net investment income earned	18,882,352
Net realized capital gains net of capital gains taxes	6,203,588
Net investment income	<u>25,085,940</u>
Net loss from premiums charged off	(102,722)
Finance and service charges	180,996
Aggregate write-ins for miscellaneous income	(5,000)
Total other income	<u>73,274</u>
Net income before dividends and federal income taxes	29,671,671
Dividends to policyholders	20,000,000
Net income before federal income taxes	<u>9,671,671</u>
Federal income taxes	(844,367)
Net income	<u><u>\$ 10,516,038</u></u>

**STATEMENT OF CAPITAL AND SURPLUS  
YEARS ENDED DECEMBER 31, 2016**

Capital and surplus, December 31, 2015	\$ 393,359,317
Net income	10,516,038
Change in net unrealized capital gains (losses), net of capital gains tax	15,012,685
Change in net deferred income tax	988,716
Change in nonadmitted assets	(4,376,695)
Aggregate write-ins for gains and losses in surplus	<u>(484,992)</u>
Net change in capital and surplus	<u>21,655,752</u>
Capital and surplus, December 31, 2016	<u>\$ 415,015,069</u>

## COMMENTS ON THE FINANCIAL STATEMENTS

### NOTE 1 – RESERVES

Lewis & Ellis, Inc. (“Consulting Actuary”) was engaged to provide actuarial assistance with the financial examination of the Company as of December 31, 2016. The reserves as reported by the Company were determined to be reasonable based on the review performed by the Consulting Actuary.

### NOTE 2 – CAPITAL AND SURPLUS

The following table describes the capital and surplus changes for the four year period since the Maine Bureau of Insurance's last examination of the Company, dated December 31, 2012:

Capital and surplus, December 31, 2012	\$ 336,047,889
Net income	47,269,714
Change in net unrealized capital gains or (losses), net of capital gains tax	40,342,691
Change in net deferred income tax	(1,167,397)
Change in nonadmitted assets	(7,687,929)
Surplus adjustments: Paid in	(16,080)
Aggregate write-ins for gains and losses in surplus	<u>226,181</u>
Capital and surplus, December 31, 2016	<u>\$ 415,015,069</u>

## SUBSEQUENT EVENTS

In February 2017, MEMIC formed Casco View Solutions, LLC, a wholly owned subsidiary of MSI, for the purpose of operating a premium financing program.

In September 2017, the Company contributed additional capital of \$23,000,000 in the form of fixed income securities and cash to MIC and MCC.

In November 2017, the Company issued \$21,000,000 in policyholder dividends for policies issued in 2014.

In February 2018, the Company became licensed to transact business in the state of Rhode Island.

## SUMMARY OF RECOMMENDATIONS

There are no report level recommendations.

**STATE OF MAINE  
COUNTY OF KENNEBEC, SS**

Vanessa J. Sullivan, being duly sworn according to law deposes and says that, in accordance with authority vested in her by Eric A. Cioppa, Superintendent of Insurance, pursuant to the Insurance Laws of the State of Maine, she has made an examination of the condition and affairs of the

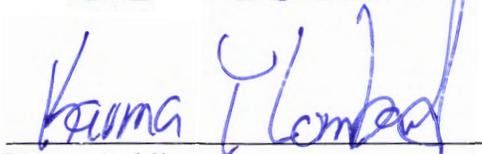
**MAINE EMPLOYERS' MUTUAL INSURANCE COMPANY**

located in Portland, Maine as of December 31, 2016, and that the foregoing report of examination subscribed to by her is true to the best of her knowledge and belief. The following examiners from the Bureau of Insurance assisted:

Arias Wan, CPA, CFE  
Audrey L. Wade, CFE, CISA  
Sarah A. Hyde  
Erin L. Gaddis

  
Vanessa J. Sullivan, CFE

Subscribed and sworn to before me  
This 27 day of June, 2018



Notary Public

My Commission Expires:

**KARMA LOMBARD**  
Notary Public, Maine  
My Commission Expires June 12, 2023

**APPENDIX A – STATEMENT OF ACTUARIAL OPINION**

## APPENDIX

### MAINE EMPLOYERS' MUTUAL INSURANCE COMPANY Statement of Actuarial Opinion as of December 31, 2016

I, Patrick Glenn 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 an Associate of the Casualty Actuarial Society. I was retained by the Maine Bureau of Insurance ("MBOI") to render this Opinion on the liabilities of Maine Employers' Mutual Insurance Company ("Company").

In forming my opinion on the loss and loss adjustment expense reserves, I relied upon data prepared by the Company and the data contained in the actuarial report prepared by Yi Jing, FCAS, MAAA, of Willis Towers Watson, a consulting actuary. We conclude that the aforementioned reserves carried by the Company make a reasonable provision for the associated liabilities through December 31, 2016.

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 Company's assertion that all ceded reinsurance is valid and collectible.

I have examined the reserves listed in Exhibit A, as shown in the Company's Annual Statement as prepared for filing with state regulatory officials as of December 31, 2016. 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 the Company, in the aggregate, under the terms of its policies and agreements.

LEWIS & ELLIS, INC.



Patrick Glenn, A.C.A.S., A.S.A., M.A.A.A.  
Vice President & Consulting Actuary

December 14, 2017

Appendix (continued)

STATEMENT OF ACTUARIAL OPINION

MAINE EMPLOYERS' MUTUAL INSURANCE COMPANY

Exhibit A: SCOPE

<u>Loss and Loss Adjustment Expense Reserves:</u>	<u>Amount:</u>
(1) Reserve for Unpaid Losses (Liabilities, Surplus, and Other Funds page, Line 1)	<u>\$325,113,958</u>
(2) Reserve for Unpaid Loss Adjustment Expenses (Liabilities, Surplus, and Other Funds page, Line 3)	<u>\$ 31,539,447</u>
(3) Reserve for Unpaid Losses - Direct and Assumed (Schedule P, Part 1, Totals from Cols. 13 and 15)	<u>\$343,813,000</u>
(4) Reserve for Unpaid Loss Adjustment Expenses - Direct & Assumed (Schedule P, Part 1, Totals from Cols. 17, 19, and 21)	<u>\$ 31,767,000</u>
(5) The Page 3 write-in item reserve, "Retroactive Reinsurance Reserve Assumed"	<u>\$ 0</u>
(6) Other Loss Reserve items on which the Appointed Actuary is expressing an Opinion (list separately)	<u>\$ 0</u>
 <u>Premium Reserves:</u>	
(7) Reserve for Direct and Assumed Unearned Premiums for Long Duration Contracts	<u>\$ 0</u>
(8) Reserve for Net Unearned Premiums for Long Duration Contracts	<u>\$ 0</u>
(9) Other Premium Reserve items on which the Appointed Actuary is expressing an Opinion	<u>\$ 0</u>

**Appendix (continued)**

**MAINE EMPLOYERS' MUTUAL INSURANCE COMPANY**

**Exhibit B: DISCLOSURES**

	Column 1	Column 2	Column 3	Column 4
1. Name of the Appointed Actuary		Glenn	Patrick	D.
2. The Appointed Actuary's Relationship to the Company. Enter E or C based upon the following: E if an Employee C if a Consultant			<u>C</u>	
3. The Appointed Actuary is a Qualified Actuary based upon what qualification? Enter F, A, M, or O based upon the following: 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>A</u>	
4. Type of Opinion, as identified in the OPINION paragraph. Enter R, I, E, Q, or N based upon the following: R if Reasonable I if Inadequate or Deficient Provision E if Excessive or Redundant Provision Q if Qualified. Use Q 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>\$ 83,003,000</u>			
6. Is there a Significant Risk of Material Adverse Deviation?			Yes [ ]	No [X ]
7. Statutory Surplus	<u>\$415,015,069</u>			
8. Anticipated net salvage and subrogation included as a reduction to loss reserves as reported in Schedule P	<u>\$ 3,245,000</u>			
9. Discount included as a reduction to loss reserves and loss expense reserves as reported in Schedule P				
9.1 Nontabular Discount	<u>\$ 0</u>			
9.2 Tabular Discount	<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>\$ 1,211,520</u>			
11. The net reserves for losses and loss adjustment expenses that 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>\$ 0</u>			
11.2 Environmental, as disclosed in the Notes to Financial Statements	<u>\$ 0</u>			
12. The total claims made extended loss and expense reserve (Schedule P Interrogatories)				
12.1 Amount reported as loss reserves	<u>\$ 0</u>			
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>			