018667 - Philadelphia Insurance Companies

Report Revision Date: 07/15/2013

Rating and Commentary [1]	*Financial* [2]	*General Information* [3]
Best's Credit Rating: N/A	**Time Period:** 2nd Quarter - 2013	**Corporate Structure:** N/A
Rating Rationale: N/A	**Last Updated:** 08/22/2013	**States Licensed:** N/A
Report Commentary: 07/15/2013	**Status:** Quality Cross Checked	**Officers and Directors:** 06/20/2013

Best's Credit Rating Methodology Disclaimer Best's Rating Guide

Additional Online Resources	
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Company Overview	AMB Country Risk Reports - United States

[1]The Rating and Commentary date outlines the most recent updates to the Company's Rating, Rationale, and Report Commentary for key rating and business changes. Report commentary may include significant changes to Business Review, Financial Performance/Earnings, Capitalization, Investment/Liquidity, or Reinsurance sections of the report.

[2]The Financial date reflects the current status of the financial tables found within the body of the Report, including whether the data was loaded as received or had been run through our quality control cross-check process.

[3]The General Information date covers key areas that may have changed such as corporate structure, states licensed or officers and directors.

Associated Parent: Tokio Marine Holdings, Inc.

Philadelphia Insurance Companies

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Tel.: 610-617-7900 **Web:** www.phly.com **Fax:** 610-617-7940

AMB #: 018667 **Associated Parent:** 050962 **NAIC #:** N/A **FEIN #:** N/A

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Rating Rationale

Rating Rationale: The ratings apply to Philadelphia Indemnity Insurance Company and Tokio Marine Specialty Insurance Company, which participate in an intercompany reinsurance pooling agreement, collectively referred to as Philadelphia Insurance Companies. The ratings reflect Philadelphia Insurance Companies' superior operating performance, strong level of capitalization, solid liquidity and excellent market presence within the specialty commercial marketplace. The ratings also recognize the strategic importance of the group to its ultimate parent, Tokio Marine Holdings, Inc. (TMHD), as the group plays an important and strategic role in supporting TMHD's global expansion strategy. Somewhat offsetting these favorable factors are the company's susceptibility to catastrophe losses, and the growth in top-line premium in recent years that is expected to continue over the near term. The outlooks reflect A.M. Best's expectation of continued favorable operating performance and the financial flexibility provided by TMHD.

Results have historically outperformed the commercial casualty industry composite in both underwriting and operating results, driven by a focused niche market strategy, energized marketing style, highly disciplined underwriting and successful risk selection. Long-standing relationships with core producers, including preferred agents that have the opportunity to earn profit sharing with the favorable performance of their portfolio, have played an important role in the success of the group. Adherence to underwriting guidelines, a commitment to pricing integrity and advanced enterprise risk management integration have also helped continue to drive the generation of operating earnings.

The group currently enjoys strong risk-adjusted capitalization driven by organic growth in policyholders' surplus despite dividends paid to the parent in four of the last five years. Going forward, A.M. Best expects further growth in premium and continued earnings production, leading to sustained balance sheet strength. Considering the financial flexibility of TMHD, A.M. Best believes as the group has become more deeply integrated as a strategic member of the organization, it should benefit more readily from TMHD's financial wherewithal, if needed.

A.M. Best believes that the group is well positioned at the current ratings. Looking forward, negative rating action could occur if capitalization and/or operating performance falls markedly short of A.M. Best's expectations primarily as a result of any material increase in frequency and severity of catastrophe losses. The ratings can also be negatively impacted by any negative rating actions on its parent, Tokio Marine & Nichido Fire Insurance Co., Ltd., and/or a change in support from or relationship with TMHD.

Rating Unit Members

Philadelphia Insurance Companies (AMB# 018667)

AMB#	Company	BEST'S FSR	BEST'S ICR	Pool %
003616	Philadelphia Indemnity Ins Co	A++	aa+	95.0
000763	Tokio Marine Specialty Ins Co	A++	aa+	5.0

Key Financial Indicators

Period Ending	Statutory Data ($000) Premiums Written Direct	Premiums Written Net	Pre-tax Operating Income	Net Income	Total Admitted Assets	Policyholder's Surplus
2012	2,390,025	2,236,607	332,350	243,938	6,428,455	2,158,000
2011	2,158,988	2,034,538	188,633	165,027	5,794,756	1,992,715
2010	2,119,286	1,969,363	358,274	262,898	5,298,449	1,922,522
2009	2,011,555	1,877,964	389,691	257,315	4,787,325	1,751,187
2008	1,851,304	1,688,975	285,015	139,580	4,093,688	1,289,133
06/2013	1,272,038	1,187,325	205,551	147,415	6,596,151	2,150,525
06/2012	1,128,402	1,053,050	165,536	116,270	6,095,648	2,119,645

Period Ending	Profitability			Leverage			Liquidity	
	Combined Ratio	Investment Yield (%)	Pre-Tax ROR (%)	Non-Affiliated Investment Leverage	NPW to PHS	Net Leverage	Overall Liquidity (%)	Operating Cash-flow (%)
2012	92.1	3.8	15.6	0.3	1.0	3.0	150.6	134.8
2011	99.5	3.9	9.4	1.0	1.0	2.9	152.5	136.3
2010	89.6	4.0	18.6	0.6	1.0	2.8	157.0	138.8
2009	85.1	4.0	21.7	0.7	1.1	2.8	157.7	149.4
2008	87.7	4.1	18.0	21.9	1.3	3.5	146.0	137.2
5-Yr Avg	91.1	3.9	16.5	...	...	...	...	...
06/2013	90.4	3.7	17.7	4.4	1.1	3.2	148.4	132.1
06/2012	93.0	3.9	16.0	3.7	1.0	2.9	153.4	130.8

(*) Within several financial tables of this report, this company is compared against the Commercial Casualty Composite.
(*) Data reflected within all tables of this report has been compiled through the A.M. Best Consolidation of statutory filings.

Business Profile

Philadelphia Insurance Companies (the "group") consists of Philadelphia Indemnity Insurance Company (PIIC) and Tokio Marine Specialty Insurance Company (TMSIC) (formerly Philadelphia Insurance Company). Both companies are direct subsidiaries of Philadelphia Consolidated Holding Corp. (Philadelphia Consolidated). Effective December 1, 2008, Philadelphia Consolidated was acquired by Tokio Marine Holdings, Inc. (TMHD), through TMHD's wholly owned subsidiary, Tokio Marine & Nichido Fire Insurance Co., Ltd. (TMNF). TMNF was founded in 1879 and is the oldest and largest property and casualty insurer in Japan. On March 31, 2012, TMNF contributed 100% of the outstanding shares of Philadelphia Consolidated to Tokio Marine North America, Inc. (TMNA), an insurance holding company domiciled in the State of Delaware and a wholly owned direct subsidiary of TMNF.

PIIC is a Pennsylvania-domiciled property and casualty insurance company with licenses in 50 states and the District of Columbia. TMSIC is a Delaware-domiciled property and casualty insurance company approved for excess and surplus lines business in 49 states, the District of Columbia and the U.S. Virgin Islands. TMSIC's business plan focuses on underwriting the group's niche products on a surplus lines basis in those jurisdictions in which the products are not offered on an admitted basis. PIIC and TMSIC proportionately share all premium, losses and expenses on a pro rata basis, under the terms of an intercompany reinsurance pooling agreement. The pooling percentages of PIIC and TMSIC are 95% and 5%, respectively.

The group designs, markets and underwrites commercial property/casualty and professional liability insurance products tailored for the unique exposures of niche markets, providing competitively priced policies, local service relationships, and differentiated coverage features. The group's products include commercial multi-peril package insurance targeting specialized niches, including among others, non-profit organizations, condominium associations, private, vocational and specialty schools, religious organizations, day-care facilities, recreation and outdoor products industry, and health and fitness centers. Other products include commercial automobile insurance, property insurance for large commercial accounts and inland marine products targeting larger risks such as miscellaneous property floaters. During 2011, the group launched a surety division that began offering surety bonds for contractors, sub-contractors, and others in the construction industry as well as other selective commercial surety bonds. In 2012, the group launched an excess and surplus lines division. New products are developed annually to complement those that are more mature and to take advantage of emerging exposures and developing or changing market niches.

A select group of 320 "preferred agents" and a broader network of approximately 14,000 independent producers complement the group's approximately 110 marketing professionals located in 46 regional and field offices across 13 regions covering the United States. The group's distribution model integrates proactive risk selection into the underwriting process via direct contact with the business prospect and/or policyholder.

Scope of Operations

Total Premium Composition & Growth Analysis

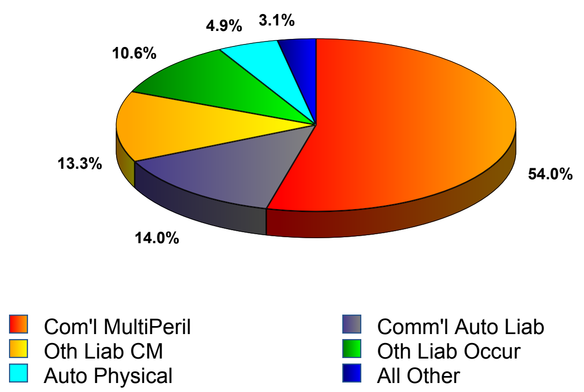
Period Ending	Direct Premiums Written		Reinsurance Premiums Assumed		Reinsurance Premiums Ceded		Net Premiums Written	
	($000)	(%Chg)	($000)	(%Chg)	($000)	(%Chg)	($000)	(%Chg)
2012	2,390,025	10.7	4,563	-50.2	157,981	18.2	2,236,607	9.9
2011	2,158,988	1.9	9,160	204.2	133,611	-12.6	2,034,538	3.3
2010	2,119,286	5.4	3,011	-49.6	152,934	9.6	1,969,363	4.9
2009	2,011,555	8.7	5,973	-28.7	139,563	-18.2	1,877,964	11.2
2008	1,851,304	12.4	8,381	166.1	170,710	-6.8	1,688,975	15.1
5-Yr CAGR	...	7.7	...	7.7	...	-2.9	...	8.8
06/2013	1,272,038	12.7	107,231	48.4	191,945	30.0	1,187,325	12.8
06/2012	1,128,402	9.0	72,268	11.4	147,619	17.5	1,053,050	8.0

Business Trends

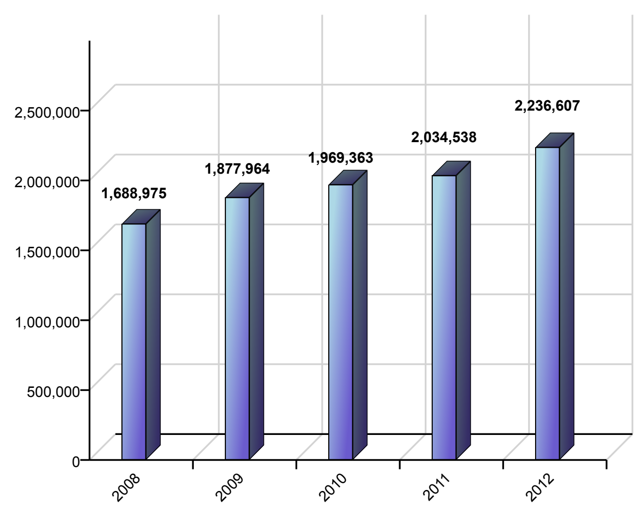
2012 By-Line Business ($000)

Product Line	Direct Premiums Written ($000)	Direct Premiums Written (%)	Reinsurance Premiums Assumed ($000)	Reinsurance Premiums Assumed (%)	Reinsurance Premiums Ceded ($000)	Reinsurance Premiums Ceded (%)	Net Premiums Written ($000)	Net Premiums Written (%)	Business Retention %
Com'l MultiPeril	1,282,401	53.7	5	0.1	74,653	47.3	1,207,753	54.0	94.2
Comm'l Auto Liab	314,584	13.2	3,888	85.2	4,391	2.8	314,080	14.0	98.6
Oth Liab CM	312,146	13.1	...	...	15,328	9.7	296,818	13.3	95.1
Oth Liab Occur	260,840	10.9	6	0.1	23,136	14.6	237,710	10.6	91.1
Auto Physical	112,300	4.7	715	15.7	2,330	1.5	110,685	4.9	97.9
All Other	107,753	4.5	-50	-1.1	38,143	24.1	69,560	3.1	64.6
Total	2,390,025	100.0	4,563	100.0	157,981	100.0	2,236,607	100.0	93.4

2012 Top Product Lines of Business (Net Premiums Written)



5 Years of Net Premiums Written ($000)



By-Line Reserve ($000)

Product Line	2012	2011	2010	2009	2008
Com'l MultiPeril	1,558,353	1,406,978	1,218,725	1,032,216	1,016,503
Comm'l Auto Liab	424,977	377,887	320,809	260,667	89,860
Oth Liab CM	453,063	424,596	367,528	310,500	281,412
Oth Liab Occur	313,006	252,850	190,119	156,629	82,413
Auto Physical	10,180	6,923	6,384	4,860	4,404
All Other	33,234	27,778	18,764	24,006	30,714
Total	2,792,813	2,497,011	2,122,329	1,788,879	1,505,307

Market Share / Market Presence

Geographical Breakdown By Direct Premium Writings ($000)

	2012	2011	2010	2009	2008
New York	321,690	281,844	263,612	243,343	208,842
California	321,587	298,503	287,627	272,953	245,735
Texas	147,069	140,815	141,666	138,984	129,104
Florida	143,988	121,235	110,548	101,634	102,807
Pennsylvania	139,109	126,956	118,753	105,956	96,608
Massachusetts	100,898	91,448	87,421	84,089	84,738
New Jersey	98,451	93,518	94,644	94,296	88,485
Illinois	70,352	62,300	62,538	58,950	55,676
Colorado	58,281	53,479	52,186	48,242	43,863
Missouri	58,147	52,546	51,162	48,611	41,560
All Other	930,454	836,346	849,128	814,497	753,886
Total	2,390,025	2,158,988	2,119,286	2,011,555	1,851,304

Risk Management

The Enterprise Risk Management (ERM) structure in place is extensive and well integrated with key risks identified and the specific committees or teams assigned to monitor and address each key risk including establishment and maintenance of key controls as respects each risk category. The ERM structure is headed up by the executive management team with a specific ERM Committee overseeing both Corporate Governance and Departmental Functions, and reporting directly to the executive management team. The ERM Committee consists of the CEO, CFO, CIO, Chief Actuarial Officer and the director of internal audit. A separate Audit Committee reviews the activities/output of the ERM Committee. Every key risk has a risk-based "dashboard" that is available to management at all times. This dashboard details this risk; denotes the perils or circumstances that could lead to the risk arising; quantifies the risk; and shows work in progress as far as addressing the risk.

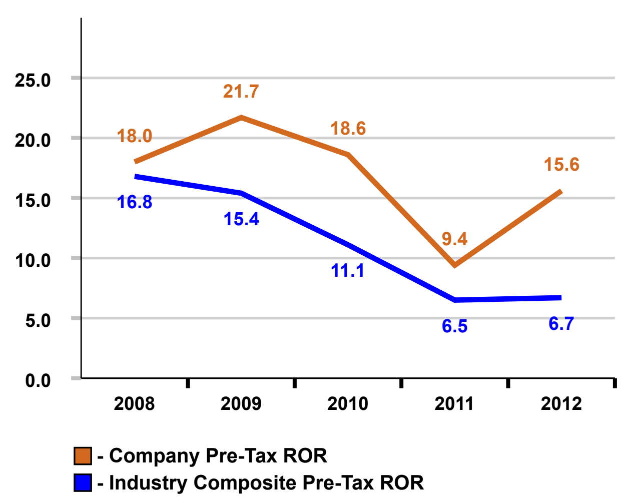
Operating Performance

Operating Results: Excellent underwriting results and considerable investment income have produced consistently strong earnings over the past five years, generating pre-tax returns on revenue and surplus that consistently outpace those of the commercial casualty composite. An increasing earned premium base, driven by the expansion of the group's marketing efforts on chosen niche classes of business and the introduction of new products, has led to annual underwriting income generation. Steady underwriting and operating cash flows have facilitated growth in the invested asset base, providing the impetus for greater net investment income generation. After-tax net income declined by 53% in 2008 compared to the prior year, due to the impact of realized capital losses associated with the group's equity portfolio. In the years 2009 and 2010, results improved significantly as net income returned to pre-2008 levels. However, 2011 and 2012 income production was somewhat dampened by higher than normal catastrophe losses. A.M. Best expects the group to continue judiciously employing a strategy emphasizing growth in targeted niche areas. New product implementation and an organized, committed approach to prospecting should enable the group to further capitalize on its leadership position in the specialty commercial lines marketplace.

Profitability Analysis

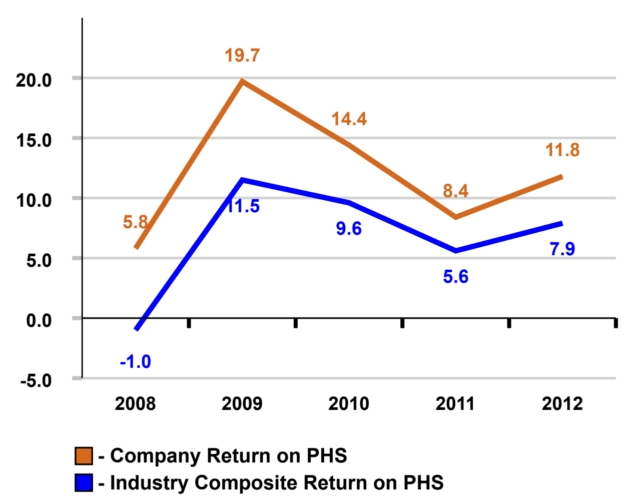
	Company							Industry Composite		
Period Ending	Pre-tax Operating Income	After-tax Operating Income	Net Income	Total Return	Pre-Tax ROR	Return on PHS	Operating Ratio	Pre-Tax ROR	Return on PHS	Operating Ratio
2012	332,350	234,067	243,938	244,176	15.6	11.8	82.8	6.7	7.9	92.4
2011	188,633	143,306	165,027	164,980	9.4	8.4	90.3	6.5	5.6	93.1
2010	358,274	251,226	262,898	265,346	18.6	14.4	80.7	11.1	9.6	88.2
2009	389,691	258,716	257,315	299,614	21.7	19.7	77.0	15.4	11.5	84.6
2008	285,015	193,122	139,580	73,929	18.0	5.8	79.7	16.8	-1.0	83.6
5-Yr Avg/Tot	1,553,962	1,080,437	1,068,757	1,048,045	16.5	12.1	82.4	11.3	6.8	88.4
06/2013	205,551	146,685	147,415	147,445	17.7	12.9	81.6	XX	XX	XX
06/2012	165,536	115,220	116,270	116,413	16.0	11.9	83.4	XX	XX	XX

Pre-Tax ROR Comparison with Industry Composite



* Industry Composite - Commercial Casualty Composite

Return on PHS Comparison with Industry Composite



* Industry Composite - Commercial Casualty Composite

Underwriting Results

Underwriting Results: The group has posted excellent underwriting results over the past five years, with a loss ratio over that time that is far superior to that of the composite. However, in 2011 the group posted its highest loss ratio in over a decade as a result of a significant increase in catastrophe losses, and to a lesser extent smaller reserve releases than in previous years. Underwriting results in 2012 were also dampened by increased catastrophe losses, including Superstorm Sandy. Strictly defined niches, product innovation and individual account underwriting are the operational hallmarks that have led to the historically favorable results. The group's consistent underwriting performance has been achieved despite some adverse loss reserve development on prior accident years, most recently on accident years 2010 and 2007. The group's expense ratio remains on par with the composite, which also helps lead to a five-year combined ratio that is more than 10 percentage points less than the composite average. A.M. Best believes the strong underwriting fundamentals will continue to provide opportunities to generate underwriting profits in the future.

The long-held philosophy of Philadelphia Insurance Companies is for the group to generate an underwriting profit on each line of business written. Individual account underwriting techniques have been established and strong risk management acumen helps bring about the consistency in underwriting results. Another factor influencing the favorable results in recent years is the group's focused and disciplined market expansion. Additionally, the group's marketing strategy has successfully utilized product differentiation and the maintenance of close customer contact with agents and insureds to cultivate long-term relationships.

Underwriting Experience

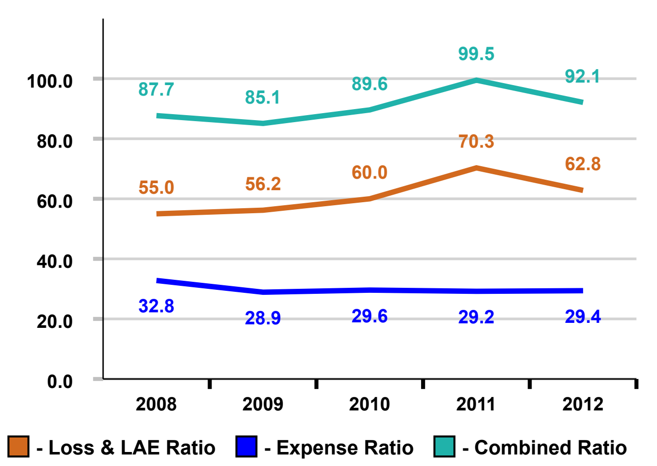
		Loss Ratios			Expense Ratios				
Year	Net Undrw Income ($000)	Pure Loss	LAE	Loss & LAE	Net Comm	Other Exp.	Total Exp.	Div. Pol.	Comb. Ratio
2012	133,744	52.3	10.5	62.8	16.5	12.9	29.4	...	92.1
2011	4,543	58.2	12.0	70.3	15.9	13.3	29.2	...	99.5
2010	187,211	49.5	10.5	60.0	16.3	13.3	29.6	...	89.6
2009	244,048	46.1	10.1	56.2	15.7	13.1	28.9	...	85.1
2008	157,909	44.9	10.1	55.0	16.4	16.4	32.8	...	87.7
5-Yr Avg	727,454	50.6	10.7	61.2	16.2	13.7	29.9	...	91.1
06/2013	102,856	49.5	11.9	61.3	XX	XX	29.1	...	90.4
06/2012	66,378	53.9	9.7	63.6	XX	XX	29.3	...	93.0

Loss Ratio By Line

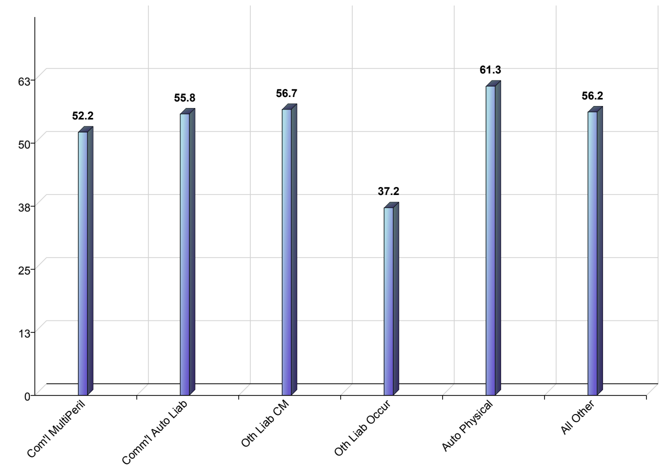
Product Line	2012	2011	2010	2009	2008	5-Yr. Avg.
Com'l MultiPeril	52.2	63.5	53.0	40.9	53.6	52.8
Comm'l Auto Liab	55.8	55.5	52.1	79.7	36.0	56.1
Oth Liab CM	56.7	57.1	49.7	40.2	35.2	48.7
Oth Liab Occur	37.2	39.1	27.6	39.0	17.1	33.2
Auto Physical	61.3	52.0	49.9	44.0	45.2	51.0
All Other	56.2	65.2	38.9	38.4	51.7	50.3
Total	52.3	58.2	49.5	46.1	44.9	50.6

Underwriting Results (Continued ...)

Combined Ratio



2012 Pure Loss Ratio by Product Line



Direct Loss Ratios By State

	2012	2011	2010	2009	2008	5-Yr. Avg.
New York	79.1	59.9	47.9	46.9	41.5	56.8
California	48.9	63.8	46.0	39.3	50.6	50.0
Texas	45.9	55.3	35.8	44.1	123.4	59.0
Florida	58.8	42.7	40.4	35.8	49.1	46.0
Pennsylvania	47.7	51.6	45.1	47.5	50.4	48.4
Massachusetts	28.2	58.7	35.7	46.2	34.3	40.5
New Jersey	76.6	59.6	42.8	45.9	46.0	54.5
Illinois	63.1	55.2	31.5	66.8	36.8	51.1
Colorado	61.7	56.2	37.6	62.8	51.8	54.2
Missouri	90.2	56.8	55.6	53.7	39.1	60.6
All Other	42.1	57.4	56.1	43.8	46.5	49.3
Total	52.6	57.4	48.3	44.9	51.1	51.0

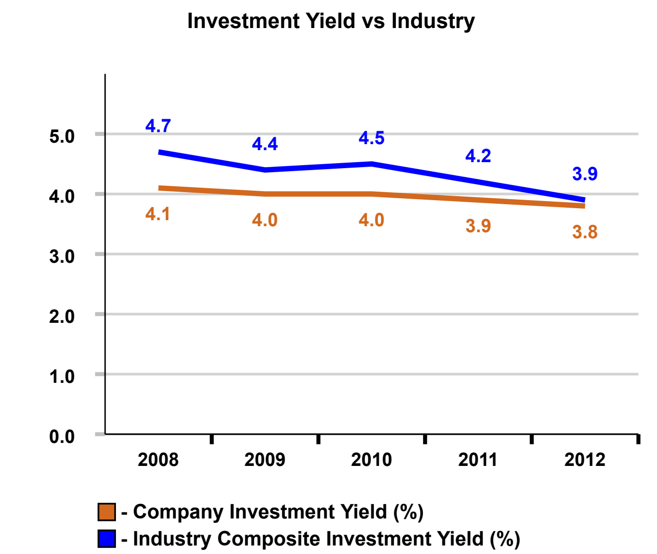
Investment Results

Investment Results: Net investment income has grown consistently over the past five years, as the group's increasing invested asset base has been strongly influenced by the growth in written premium. Generation of substantial operating cash flow has specifically led to the increased investment income. The increased concentration of invested assets in a portfolio emphasizing tax-exempt state and municipal bonds has resulted in a pre-tax investment yield below the composite average.

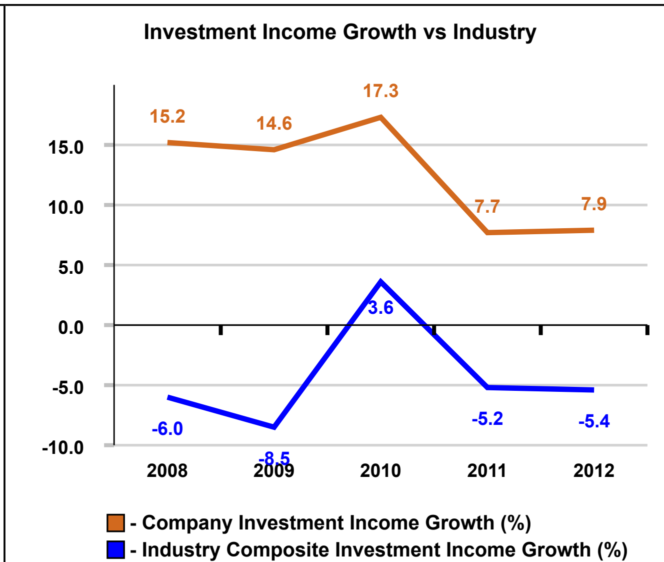
Investment Results (Continued ...)

Investment Gains ($000)

	Company							Industry Composite	
Year	Net Investment Income ($000)	Realized Capital Gains ($000)	Unrealized Capital Gains ($000)	Investment Income Growth (%)	Investment Yield (%)	Return on Invested Assets (%)	Total Return (%)	Investment Income Growth (%)	Investment Yield (%)
2012	198,555	9,871	238	7.9	3.8	4.0	4.0	-5.4	3.9
2011	183,980	21,721	-47	7.7	3.9	4.3	4.3	-5.2	4.2
2010	170,856	11,672	2,448	17.3	4.0	4.3	4.3	3.6	4.5
2009	145,644	-1,401	42,300	14.6	4.0	4.0	5.2	-8.5	4.4
2008	127,108	-53,542	-65,651	15.2	4.1	2.4	0.3	-6.0	4.7
5-Yr Avg/Tot	826,143	-11,680	-20,712	12.0	3.9	3.9	3.8	-4.4	4.4
06/2013	102,670	730	30	3.6	3.7	3.9	3.9	XX	XX
06/2012	99,108	1,050	143	10.4	3.9	4.1	4.1	XX	XX



* Industry Composite - Commercial Casualty Composite



* Industry Composite - Commercial Casualty Composite

Balance Sheet Strength

Capitalization

Capitalization: Annual generation of retained earnings has been the driver of the group's considerable surplus appreciation over the last decade. Recent growth in surplus has been constrained by shareholder dividends in four of the last five years as well as increased catastrophe losses. The $80.0 million dividend paid in 2008 was made in conjunction with the acquisition of Philadelphia Consolidated by TMHD. Subsequently, annual dividends of $100.0 million have been paid from 2010 through 2012. Both underwriting and investment activities have contributed materially to the group's organic earnings production.

Overall risk-adjusted capitalization more than adequately supports the group's underwriting, investment and credit risks, as measured by Best's Capital Adequacy Ratio (BCAR). Growth in surplus has kept pace with the increase in premium and loss reserves in recent years, resulting in consistent net underwriting leverage measures that are in line with those of the composite. Going forward, A.M. Best expects the group to pursue additional top-line growth resulting from expanded marketing efforts, the continued maturation of recently introduced products, along with the addition of new products. Other opportunities may be created by market dislocation where the group can utilize its ample and diverse distribution force to pursue these new business opportunities. A.M. Best expects the group's capitalization to remain strong and comfortably supportive of the ratings.

Capital Generation Analysis ($000)

	Source of Surplus Growth							
Year	Pre-tax Operating Income	Realized Capital Gains	Income Taxes	Unrealized Capital Gains	Net Contributed Capital	Other Changes	Change in PHS	% Change in PHS
2012	332,350	9,871	98,283	238	-100,000	21,109	165,285	8.3
2011	188,633	21,721	45,327	-47	-100,000	5,214	70,194	3.7
2010	358,274	11,672	107,048	2,448	-100,000	5,989	171,334	9.8
2009	389,691	-1,401	130,976	42,300	95,000	67,440	462,054	35.8
2008	285,015	-53,542	91,892	-65,651	-9,801	-23,041	41,088	3.3
5-Yr Total	1,553,962	-11,680	473,526	-20,712	-214,801	76,711	909,955	11.6
06/2013	205,551	730	58,866	30	-158,000	3,080	-7,475	-0.3
06/2012	165,536	1,050	50,316	143	...	10,517	126,930	6.4

Quality of Surplus ($000)

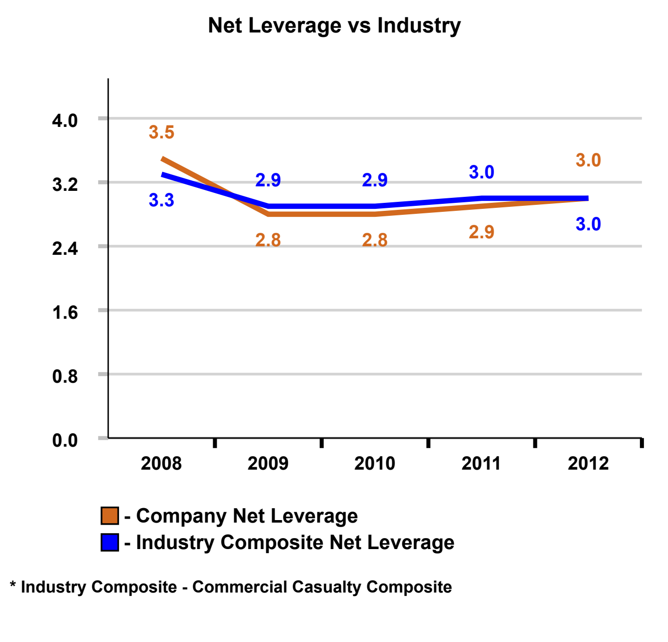
Year	Surplus Notes	Other Debt	Contributed Capital	Unassigned Surplus	Year End Policyholders Surplus	Conditional Reserves	Adjusted Policyholders Surplus
2012	...	...	413,488	1,744,512	2,158,000	1,513	2,159,513
2011	...	...	457,351	1,535,365	1,992,715	2,793	1,995,508
2010	...	...	452,134	1,470,387	1,922,522	524	1,923,046
2009	...	...	446,533	1,304,654	1,751,187	703	1,751,890
2008	...	...	318,488	970,645	1,289,133	606	1,289,739
06/2013	...	...	413,488	1,737,037	2,150,525	1,513	2,152,038
06/2012	...	...	413,488	1,706,157	2,119,645	2,793	2,122,438

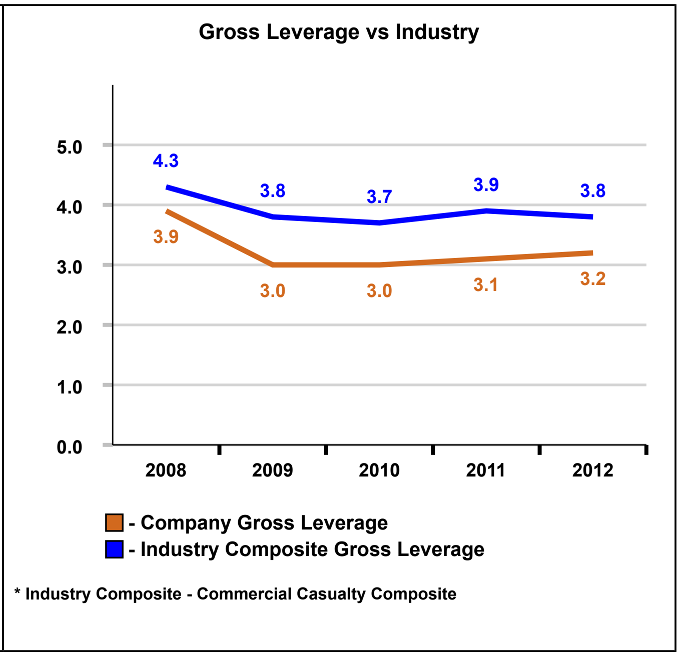
Underwriting Leverage

Leverage Analysis

Year	Company NPW to PHS	Company Reserves to PHS	Company Net Leverage	Company Gross Leverage	Industry Composite NPW to PHS	Industry Composite Reserves to PHS	Industry Composite Net Leverage	Industry Composite Gross Leverage
2012	1.0	1.3	3.0	3.2	0.8	1.5	3.0	3.8
2011	1.0	1.3	2.9	3.1	0.8	1.5	3.0	3.9
2010	1.0	1.1	2.8	3.0	0.7	1.5	2.9	3.7
2009	1.1	1.0	2.8	3.0	0.7	1.5	2.9	3.8
2008	1.3	1.2	3.5	3.9	0.9	1.6	3.3	4.3
06/2013	1.1	1.4	3.2	XX	XX	XX	XX	XX
06/2012	1.0	1.3	2.9	XX	XX	XX	XX	XX

Current BCAR: 260.5





Underwriting Leverage (Continued ...)

Ceded Reinsurance Analysis ($000)

	Company				Industry Composite		
Year	Ceded Reinsurance Total	Business Retention (%)	Reinsurance Recoverables to PHS (%)	Ceded Reinsurance to PHS (%)	Business Retention (%)	Reinsurance Recoverables to PHS (%)	Ceded Reinsurance to PHS (%)
2012	415,615	93.4	11.9	19.3	82.6	59.1	84.5
2011	350,918	93.8	10.9	17.6	81.6	59.4	84.5
2010	381,470	92.8	11.9	19.8	81.2	57.6	80.4
2009	393,859	93.1	14.5	22.5	82.6	61.2	84.8
2008	539,382	90.8	28.6	41.8	84.6	70.6	97.6

2012 Reinsurance Recoverables ($000)

	Paid & Unpaid Losses	Incurred But Not Reported (IBNR) Losses	Unearned Premiums	Other Recoverables *	Total Reinsurance Recoverables
US Affiliates	118,806	98,893	82,991	...	300,690
Foreign Affiliates	562	5,344	6,168	211	12,285
US Insurers	48,873	67,773	30,534	...	147,180
Pools/Associations	38,673	9,286	18,533	...	66,492
Other Non-Us	9,673	17,859	3,916	...	31,448
Total(ex Us Affils)	97,781	100,262	59,151	211	257,405
Grand Total	216,587	199,155	142,142	211	558,095

* Includes Commissions less Funds Withheld

Loss Reserves

Loss Reserves: Loss reserve development has been favorable for most recent accident years, with the exception of 2010 and 2007. The adverse development experienced in the 2010 accident year was primarily attributable to worse than expected case incurred development mainly for the commercial multi-peril line of business, and to a lesser degree, the general liability occurrence line. The increase in estimated unpaid loss and loss adjustment expenses for the 2007 accident year was primarily attributable to worse than expected case incurred development for the commercial automobile line of business, and to a lesser extent, the commercial multi-peril and general liability claims-made lines. The overall loss reserve level has increased in recent years due to the continued growth in premium.

Loss Reserves (Continued ...)

Loss and ALAE Reserve Development: Calendar Year ($000)

Calendar Year	Original Loss Reserves	Developed Reserves Thru 2012	Development to Original (%)	Development to PHS (%)	Development to NPE (%)	Unpaid Reserves @ 12/2012	Unpaid Reserves to Development (%)
2012	2,650,597	2,650,597	...	...	124.8	2,650,597	100.0
2011	2,367,935	2,318,489	-2.1	-2.5	115.1	1,652,038	71.3
2010	2,027,127	1,954,347	-3.6	-3.8	101.6	965,450	49.4
2009	1,697,695	1,547,075	-8.9	-8.6	86.2	536,631	34.7
2008	1,418,267	1,252,161	-11.7	-12.9	79.3	258,824	20.7
2007	1,183,327	1,042,467	-11.9	-11.3	76.4	142,792	13.7

Loss and ALAE Reserve Development: Accident Year ($000)

Accident Year	Original Loss Reserves	Developed Reserves Thru 2012	Development to Original (%)	Unpaid Reserves @ 12/2012	Accident Year Loss Ratio	Accident Year Comb. Ratio
2012	998,559	998,559	...	998,559	66.0	95.4
2011	951,286	938,720	-1.3	686,588	71.1	100.3
2010	817,897	859,218	5.1	428,819	64.7	94.3
2009	708,039	693,312	-2.1	277,807	57.6	86.5
2008	595,833	548,235	-8.0	116,032	53.0	85.8
2007	482,146	497,812	3.2	69,061	50.7	79.4

Asbestos And Environmental Reserves Analysis

	Company						Industry Composite		
Year	Net A&E Reserves ($000)	Reserve Retention (%)	Net Incurred But Not Reported (IBNR) Mix (%)	Survival Ratio (3 Yr)	Comb. Ratio Impact (1 Yr)	Comb. Ratio Impact (3 Yr)	Survival Ratio (3 Yr)	Comb. Ratio Impact (1 Yr)	Comb. Ratio Impact (3 Yr)
2012	...	...	...	...	...	...	9.1	0.6	0.6
2011	...	...	...	...	...	0.0	9.1	0.5	0.6
2010	...	...	...	...	...	0.0	7.2	0.7	0.5
2009	93	31.5	100.0	...	0.0	...	...	0.6	...
2008	...	...	...	...	...	...	...	0.3	...

Liquidity

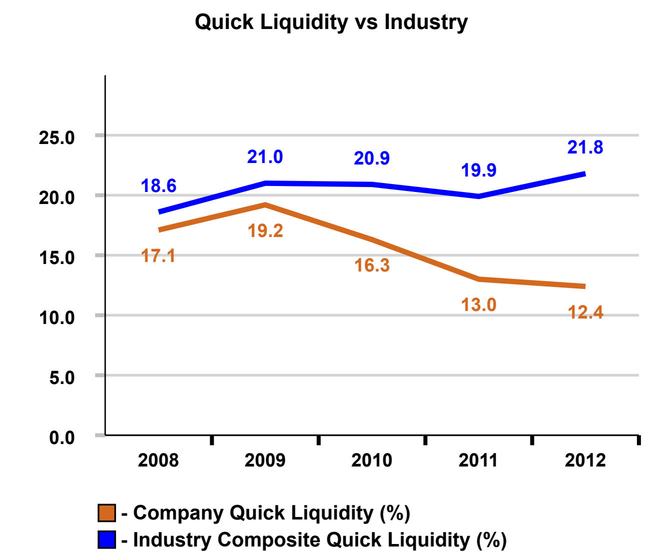
Liquidity: Solid current and overall liquidity has been maintained at levels that exceed the industry composite averages. The group's liquidity reflects increased premium collections and considerable operating cash flow generated annually. The membership of the group's two operating companies with the Federal Home Loan Bank of Pittsburgh (FHLB) provides an additional source of liquidity. The companies are able to utilize established borrowing capacity, based on their FHLB-eligible level of collateral. As of December 31, 2012, the unused borrowing capacity was $745.5 million, which provides an immediately available line of credit. As of the same date, there were no borrowings outstanding with the FHLB.

Liquidity (Continued ...)

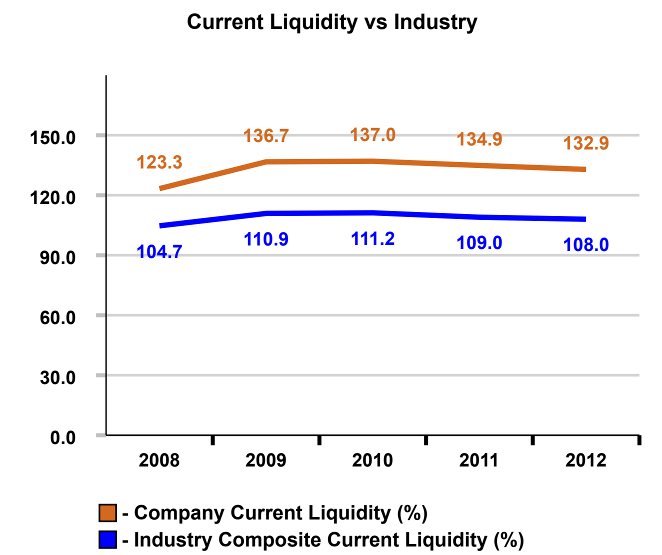
Invested assets represent over 85% of total admitted assets. Non-invested assets are primarily comprised of uncollected agent's premium balances generated by the increase in premiums. During 2009, the group liquidated its common stock portfolio with the only equities remaining being those that are in concert with its FHLB investment. With the liquidation of the equity portfolio, long-term fixed income holdings comprise more than 95% of invested assets, underscoring the traditionally conservative investment strategy of the group.

Liquidity Analysis

	Company				Industry Composite			
Year	Quick Liquidity (%)	Current Liquidity (%)	Overall Liquidity (%)	Gross Agents Balances to PHS(%)	Quick Liquidity (%)	Current Liquidity (%)	Overall Liquidity (%)	Gross Agents Balances to PHS (%)
2012	12.4	132.9	150.6	3.3	21.8	108.0	144.9	10.9
2011	13.0	134.9	152.5	4.1	19.9	109.0	144.5	10.3
2010	16.3	137.0	157.0	4.4	20.9	111.2	146.2	9.0
2009	19.2	136.7	157.7	6.5	21.0	110.9	146.0	9.1
2008	17.1	123.3	146.0	10.4	18.6	104.7	140.8	11.9
06/2013	XX	129.8	148.4	3.7	XX	XX	XX	XX
06/2012	XX	134.8	153.4	4.9	XX	XX	XX	XX



* Industry Composite - Commercial Casualty Composite



* Industry Composite - Commercial Casualty Composite

Liquidity (Continued ...)

Cash Flow Analysis ($000)

	Company					Industry Composite	
Year	Underwriting Cash Flow	Operating Cash Flow	Net Cash Flow	Underwriting Cash Flow (%)	Operating Cash Flow (%)	Underwriting Cash Flow (%)	Operating Cash Flow (%)
2012	542,498	629,369	105,908	132.7	134.8	98.2	110.7
2011	403,322	593,931	-35,837	124.9	136.3	96.5	107.6
2010	555,913	598,841	17,343	139.8	138.8	96.6	108.6
2009	595,874	660,290	1,697	148.0	149.4	98.4	109.5
2008	445,216	467,965	-51,359	138.7	137.2	101.2	112.6
5-Yr Total	2,542,824	2,950,397	37,752	...	...	...	...
06/2013	248,994	315,433	-70,251	126.8	132.1	XX	XX
06/2012	216,950	263,507	53,320	127.5	130.8	XX	XX

Investments

Investment Leverage Analysis (% of PHS)

	Company						Industry Composite	
Year	Class 3-6 Bonds	Real Estate / Mortgages	Other Invested Assets	Common Stock	Non - Affiliated Investment Leverage	Affiliated Investments	Class 3-6 Bonds	Common Stock
2012	...	...	...	0.3	0.3	...	7.1	10.3
2011	0.5	...	...	0.5	1.0	...	7.4	9.5
2010	...	...	...	0.6	0.6	...	7.2	9.0
2009	...	...	...	0.7	0.7	...	6.0	8.2
2008	0.1	...	0.1	21.8	21.9	...	5.4	9.1

Investments - Bond Portfolio

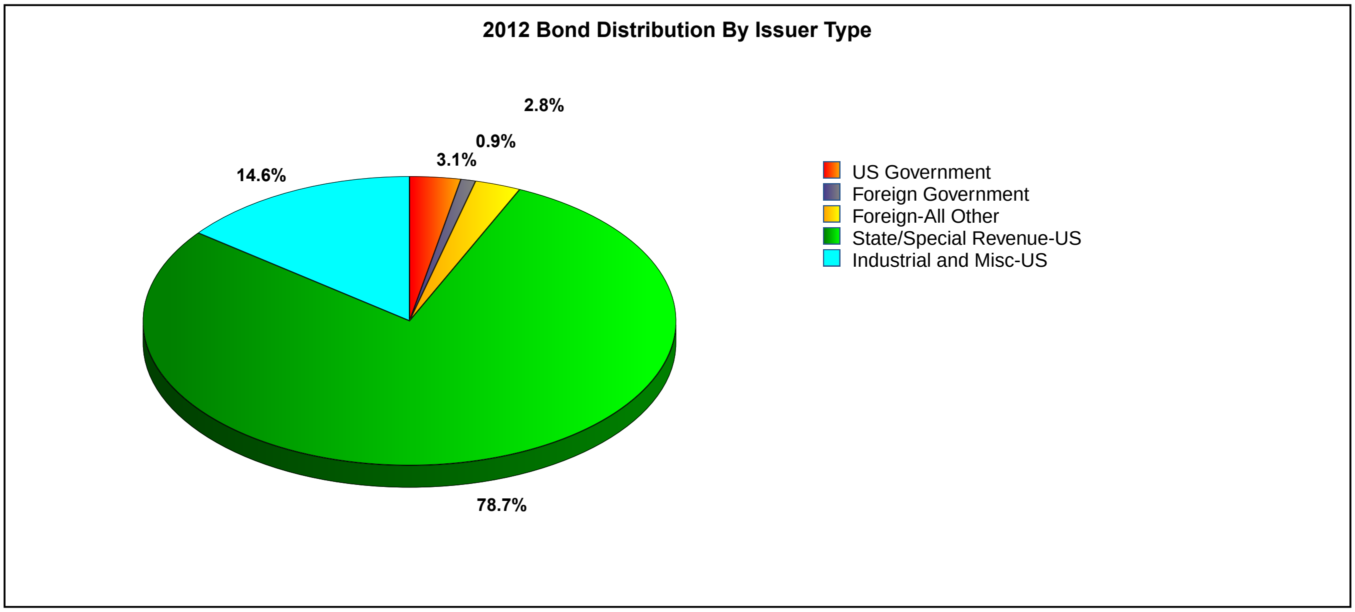
2012 Distribution By Maturity

	Years					
	0-1	1-5	5-10	10-20	20+	Years Average Maturity
Government	2.8	1.9	1.3	0.2	...	3.2
Government Agencies & Muni.	4.7	22.4	33.7	9.2	6.8	8.2
Industrial & Misc.	1.0	7.9	8.0	...	...	5.0
Total	8.5	32.2	43.0	9.4	6.9	7.4

Investments - Bond Portfolio (Continued ...)

Bond Distribution By Issuer Type

	2012	2011	2010	2009	2008
Bonds (000)	5,460,932	5,032,804	4,504,060	4,044,803	3,115,150
US Government	3.1	4.0	8.0	9.2	7.9
Foreign Government	0.9	1.0	1.2	1.3	...
Foreign-All Other	2.8	2.0	2.4	1.2	0.9
State/Special Revenue-US	78.7	80.6	76.9	78.7	76.6
Industrial and Misc-US	14.6	12.3	11.5	9.6	14.6



Bond Percent Private vs Public

	2012	2011	2010	2009	2008
Private Issues	2.8	2.0	1.5	1.4	1.3
Public Issues	97.2	98.0	98.5	98.6	98.7

Bond Quality Percent

	2012	2011	2010	2009	2008
Class 1	96.7	97.2	97.1	98.7	97.3
Class 2	3.3	2.6	2.8	1.3	2.7
Class 3	...	...	...	...	...
Class 4	...	...	...	...	...
Class 5	...	0.2	...	...	...
Class 6	...	...	...	...	...

Investments - Equity Portfolio

	2012	2011	2010	2009	2008
Total Stocks(000)	6,461	9,068	11,134	11,742	280,553
Unaffiliated Common	100.0	100.0	100.0	100.0	100.0

Investments - Other Invested Assets

	2012	2011	2010	2009	2008
Other Invested Assets(000)	96,334	-8,974	26,937	9,469	12,483
Cash	18.9	936.8	-54.5	-99.9	-99.9
Short-Term	81.0	-99.9	151.6	658.0	381.8
Schedule BA Assets	...	...	...	...	5.6
All Other	0.1	-8.1	3.0	7.1	37.5

Officers And Directors

Officers

Chairman of the Board James J. Maguire, Jr.
President and CEO Sean S. Sweeney
President and COO Christopher J. Maguire
EVP, Treasurer and CFO Karen A. Gilmer-Pauciello

Reinsurance

Under its casualty treaty, the group retains the first $3.0 million primary layer of liability on each occurrence and maintains reinsurance coverage up to $21.0 million provided in two layers -- $13.0 million in excess of $3.0 million and $5.0 million in excess of $16.0 million. This coverage is placed with a 30% co-participation being retained. Facultative reinsurance coverage (on an individual risk basis) is purchased for casualty risks in excess of $21.0 million. An excess clash casualty reinsurance agreement provides an additional $17.0 million of coverage in excess of a $3.0 million retention for protection from exposures such as extra-contractual obligations and judgments in excess of policy limits.

The group retains the first $5.0 million layer on its commercial property risks with its reinsurers bearing the remaining liability up to $100.0 million. The group has a 46.75% co-participation on the first excess layer of the per risk treaty subject to a $5.0 million annual aggregate deductible. Automatic facultative reinsurance coverage is provided on each commercial property risk with limits in excess of $100.0 million up to $150.0 million, except for risks located in Florida, Hawaii or Harris County, Texas, where coverage is provided for property losses in excess of $100.0 million up to $130.0 million. Facultative reinsurance coverage is purchased for property risks in excess of $150.0 million except for risks located in Florida, Hawaii or Harris County, Texas, where coverage is provided for property losses in excess of $130.0 million. The property per risk excess of loss treaties also provide a $95.0 million aggregate policy limit for terrorism exposure in excess of a $5.0 million retention.

Catastrophe reinsurance is maintained in excess of a $80.0 million per occurrence retention up to $450.0 million. On the first excess layer of the catastrophe contract ($120.0 million in excess of $80.0 million), the group retains a 15% co-participation, and on the second excess layer of the catastrophe contract ($100.0 million in excess of $200.0 million), the group retains a 10% co-participation. The top layer of the catastrophe program ($150.0 million excess of $300.0 million), which is 100% placed, is applicable to losses occurring in the Northeast US and certain Canadian provinces.

Consolidated Balance Sheet ($000)

Admitted Assets	12/31/2012	12/31/2011	2012 %	2011 %
Bonds	5,460,932	5,032,804	84.9	86.9
Preferred Stock	...	...	...	...
Common Stock	6,461	9,068	0.1	0.2
Cash & Short-Term Invest	96,208	-9,701	1.5	-0.2
Real estate, investment	...	...	...	...
Derivatives	...	...	...	...
Other Non-Affil Inv Asset	127	726	...	...
Investments in Affiliates	...	...	...	...
Real Estate, Offices	...	...	...	...
Total Invested Assets	5,563,727	5,032,897	86.5	86.9
Premium Balances	559,188	506,316	8.7	8.7
Accrued Interest	60,612	56,887	0.9	1.0
Life department	...	...	...	...
All Other Assets	244,929	198,657	3.8	3.4
Total Assets	6,428,455	5,794,756	100.0	100.0

Liabilities & Surplus	12/31/2012	12/31/2011	2012 %	2011 %
Loss & LAE Reserves	2,792,813	2,497,011	43.4	43.1
Unearned Premiums	1,134,315	1,021,705	17.6	17.6
Conditional Reserve Funds	1,513	2,793	...	...
Derivatives	...	...	...	...
Life department	...	...	...	...
All Other Liabilities	341,814	280,532	5.3	4.8
Total Liabilities	4,270,455	3,802,041	66.4	65.6
Surplus notes	...	...	...	...
Capital & Assigned Surplus	413,488	457,351	6.4	7.9
Unassigned Surplus	1,744,512	1,535,365	27.1	26.5
Total Policyholders' Surplus	2,158,000	1,992,715	33.6	34.4
Total Liabilities & Surplus	6,428,455	5,794,756	100.0	100.0

Interim Balance Sheet ($000)

Admitted Assets	03/31/2013	06/30/2013
Bonds	5,668,606	5,646,379
Common Stock	5,545	3,948
Cash & Short-Term Invest	67,186	25,956
Other Investments	...	27,535
Total Invested Assets	5,741,337	5,703,818
Premium Balances	570,104	584,766
Accrued Interest	60,935	63,408
Reinsurance Funds	44,424	39,190
All Other Assets	174,500	204,969
Total Assets	6,591,300	6,596,151

Liabilities & Surplus	03/31/2013	06/30/2013
Loss & LAE Reserves	2,846,414	2,913,107
Unearned Premiums	1,152,555	1,161,731
Conditional Reserve Funds	1,513	1,513
All Other Liabilities	343,264	369,275
Total Liabilities	4,343,746	4,445,625
Capital & Assigned Surp	413,488	413,488
Unassigned Surplus	1,834,066	1,737,037
Total Policyholders' Surplus	2,247,554	2,150,525
Total Liabilities & Surplus	6,591,300	6,596,151

Consolidated Summary Of 2012 Operations ($000)

Statement of Income	12/31/2012	Funds Provided from Operations	12/31/2012
Premiums earned	2,123,997	Premiums collected	2,203,453
Losses incurred	1,111,036	Benefit & loss-related pmts	847,776
LAE incurred	221,974		
Undwr expenses incurred	657,242	LAE & undwr expenses paid	813,179
Other expenses incurred	...	Other income / expense	...
Dividends to policyholders	...	Dividends to policyholders	...
Net underwriting income	133,744	Underwriting cash flow	542,498
		Net transfer	...
Net investment income	198,555	Investment income	231,809
Other income/expense	50	Other income/expense	50
Pre-tax operating income	332,350	Pre-tax cash operations	774,358
Realized capital gains	9,871		
Income taxes incurred	98,283	Income taxes pd (recov)	144,989
Net income	243,938	Net oper cash flow	629,369

Interim Income Statement ($000)

	Period Ended 06/30/2013	Period Ended 06/30/2012	Increase / Decrease
Premiums earned	1,159,909	1,031,904	128,005
Losses incurred	573,744	556,466	17,278
LAE incurred	137,769	100,300	37,469
Undwr expenses incurred	345,420	308,760	36,661
Other expenses incurred	...	...	...
Dividends to policyholders	120	...	120
Net underwriting income	102,856	66,378	36,477
Net investment income	102,670	99,108	3,562
Other income/expense	25	50	-25
Pre-tax operating income	205,551	165,536	40,015
Realized capital gains	730	1,050	-320
Income taxes incurred	58,866	50,316	8,550
Net income	147,415	116,270	31,145

Interim Cash Flow ($000)

	Period Ended 06/30/2013	Period Ended 06/30/2012	Increase / Decrease
Premiums collected	1,177,326	1,005,863	171,463
Benefit & loss-related pmts	495,468	400,528	94,940
LAE & undwr expenses paid	432,862	388,385	44,477
Dividends to policyholders	1	...	1
Underwriting cash flow	248,994	216,950	32,045
Net transfer	...	...	...
Investment income	120,316	113,315	7,001
Other income/expense	25	50	-25
Pre-tax cash operations	369,336	330,315	39,021
Income taxes pd (recov)	53,903	66,808	-12,905
Net oper cash flow	315,433	263,507	51,926

A Best's Financial Strength Rating opinion addresses the relative ability of an insurer to meet its ongoing insurance obligations. The ratings are not assigned to specific insurance policies or contracts and do not address any other risk, including, but not limited to, an insurer's claims-payment policies or procedures; the ability of the insurer to dispute or deny claims payment on grounds of misrepresentation or fraud; or any specific liability contractually borne by the policy or contract holder. A Financial Strength Rating is not a recommendation to purchase, hold or terminate any insurance policy, contract or any other financial obligation issued by an insurer, nor does it address the suitability of any particular policy or contract for a specific purpose or purchaser.

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Credit risk is the risk that an entity may not meet its contractual, financial obligations as they come due. These credit ratings do not address any other risk, including but not limited to liquidity risk, market value risk or price volatility of rated securities. The rating is not a recommendation to buy, sell or hold any securities, insurance policies, contracts or any other financial obligations, nor does it address the suitability of any particular financial obligation for a specific purpose or purchaser.

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