



Paul R. LePage
GOVERNOR

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

Eric A. Cioppa
SUPERINTENDENT

May 8, 2014

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

Dear Superintendent:

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

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, 2012

ACCEPTANCE OF REPORT OF EXAMINATION

WHEREAS a verified report of examination of Maine Employers' Mutual Insurance Company dated May 8, 2014, was delivered to that insurer on May 22, 2014, 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.A. §226 (3).

Dated: 5/22/14

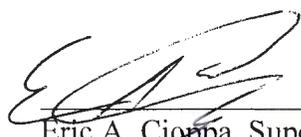

Eric A. Cioppa, Superintendent

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SCOPE OF EXAMINATION

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

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

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

SUMMARY OF SIGNIFICANT FINDINGS

PRIOR EXAMINATION

None noted.

CURRENT EXAMINATION

None noted.

SUBSEQUENT EVENTS

Subsequent to December 31, 2012, all Assistant Vice Presidents were promoted to Vice Presidents.

Subsequent to December 31, 2012, MEMIC appointed a third VP of Underwriting.

Subsequent to December 31, 2012, the Company increased their reinsurance coverage from \$75M to \$100M.

On January 17, 2014, the Company commuted a GenRe reinsurance contract. The commutation affected treaty year 2006 excess of loss layers \$5,000,000 excess of \$5,000,000 and \$10,000,000 excess of \$10,000,000. There were no claims specific amounts recoverable recorded for the applicable claims as of December 31, 2013; however, direct and ceded losses for

this accident year were adjusted for this commutation and taken into consideration for year-end direct and ceded loss reserves.

On January 10, 2013, the MBOI granted MEMIC the authority to invest in subsidiaries, within certain limits, without MBOI prior approval.

Subsequent to December 31, 2012, the Company formed subsidiary Casco View Holdings III (hereinafter, "CVHIII"), a limited liability company, for the purpose of purchasing real estate. CVHIII was utilized to purchase a parking lot at the corner of Center Street and Spring Street in Portland, Maine.

Effective January 1, 2013, all MEMIC subsidiary employees became MEMIC employees. This resulted in the termination or restatement of several intercompany management and service agreements.

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 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. (hereinafter, "Services"). During the examination period, Services sold loss control services to MEMIC, MEMIC Indemnity Company (hereinafter, "MIC") and MEMIC Casualty Company (hereinafter, "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 (hereinafter, "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 (hereinafter, "CVHII"). 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.

Upon receiving approval from the Vermont Department of Financial Regulation, MEMIC acquired Granite Manufacturers' Mutual Indemnity Company ("hereinafter, "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. 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.A. §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.A. §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.

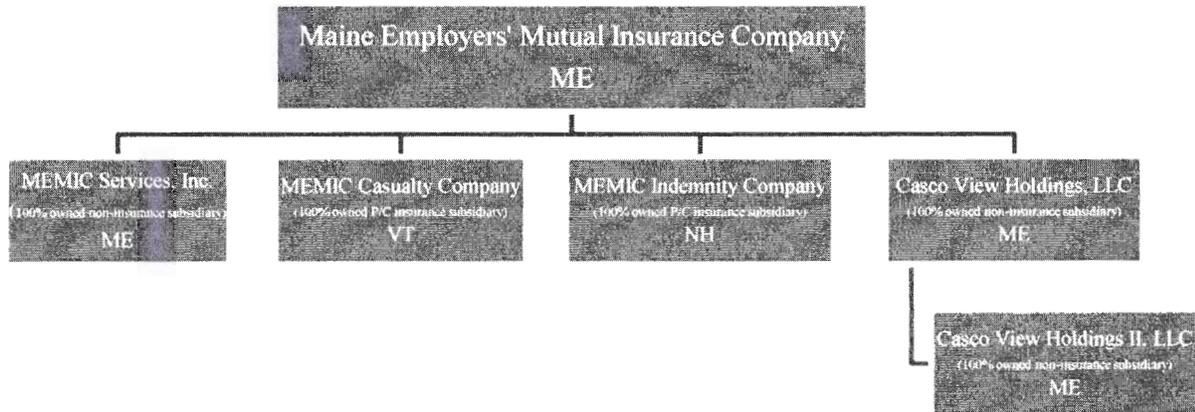
MEMIC has, since 1998, requested and received approval from the MBOI to return capital contributions to the extent authorized by the board of directors and the superintendent. At December 31, 2005, MEMIC had returned all but an immaterial amount of the contributed capital.

CORPORATE RECORDS

MEMIC's articles of incorporation, by-laws, and board of directors' meeting minutes held during the period under examination were reviewed to determine if the Company is conducting its affairs in accordance with the statutes of the State of Maine and in accordance with its own charter and by-laws.

CORPORATE OWNERSHIP

The corporate ownership structure follows:



CORPORATE GOVERNANCE

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

At December 31, 2012, the MEMIC Board of Directors consisted of nine individuals. Other than John Leonard, President and Chief Executive Officer, all directors were outside directors. The MEMIC Board of Directors approves the strategic direction of the Company's business and financial objectives, monitors the effectiveness of managements' implementation of policies and plans and provides oversight and support in achieving corporate objectives.

The MEMIC Board of Directors has five standing committees. These committees include executive, audit, investment, compensation, and governance and nominating. Each committee consists of three or more members, and all report to the MEMIC Board of Directors.

Board of directors' meeting minutes and associated committee minutes were reviewed for compliance with MEMIC Articles of Incorporation, and MEMIC Bylaws.

MEMIC directors, as listed in the December 31, 2012, statutory annual statements, are:

<u>Name</u>	<u>Title</u>
John Thomas Leonard	Director
Mary Jane Sheehan	Chairperson
Ward Irving Graffam	Director
Katherine Maxim Greenleaf	Director
Jolan Force Ippolito	Director
David Mark Labbe	Director
Sara Catherine Longley	Audit Committee Chairperson
Lance Avery Smith	Director
Robert Dale Umphrey	Director

MEMIC officers, as listed in the December 31, 2012, statutory annual statements, are:

<u>Name</u>	<u>Title</u>
John Thomas Leonard	President & Chief Executive Officer
Daniel Joseph McGarvey	Senior Vice President, CFO & Treasurer
Michael Peter Bourque	Senior Vice President External Affairs, Secretary
Gary Richard Baxter	Senior Vice President & Chief Information Officer
Donald Vernon Hale	Senior Vice President, Underwriting
Catherine Flaherty Lamson	Senior Vice-President & Chief Administrative Officer
John Francis Marr	Senior Vice President, Claims
Gregory Grant Jamison	Assistant Vice President, Underwriting
Jeffrey David Funk	Assistant Vice President, Underwriting
Karl Van Siegfried	Assistant Vice President, Loss Control
Matthew Howard Harmon	Assistant Vice President, Claims Operations
Daniel Gordon Smith	Assistant Vice President, Claims Operations

CODE OF CONDUCT AND CONFLICT OF INTEREST

Title 24-A M.R.S.A. §3413 identifies potential conflict of interest areas. Additionally, MEMIC has a code of business conduct which includes conflict of interest reporting requirements. MEMIC requires that each director and officer complete a conflict of interest statement, annually, to disclose any material interest or affiliations which are likely to be in conflict with his/her official duties and responsibilities.

FIDELITY BOND AND OTHER INSURANCE

MEMIC is protected by a fidelity bond, and the bond amount was reviewed and was determined to be in compliance with the NAIC recommended levels of coverage. MEMIC maintains other commercial and professional insurance policies

EMPLOYEE BENEFITS

MEMIC offers its employees benefits under medical and other standard benefit programs. MEMIC also offers employees a qualified defined contribution pension plan as well as a 401k plan with both a matching and profit sharing component. MEMIC also offers non-qualified pension and incentive plans for its executives.

TERRITORY & PLAN OF OPERATION

MEMIC is licensed to transact business as a workers' compensation insurer in Maine, Connecticut, Illinois, Massachusetts, Maryland, North Dakota, New Hampshire, New Jersey, New York, Ohio, Pennsylvania, Virginia, Vermont, and Washington. At December 31, 2012, MEMIC reported premiums in Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, and Vermont.

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 employment practices liability insurance 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.

GROWTH OF COMPANY

Selected financial information is provided in the following table:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Assets	\$ 749,257,408	\$ 716,425,851	\$ 694,328,161
Losses	\$ 287,330,381	\$ 296,440,251	\$ 294,844,482
Liabilities	\$ 413,209,519	\$ 415,308,577	\$ 408,431,221
Surplus	\$ 336,047,889	\$ 301,117,274	\$ 285,896,940
Premiums earned	\$ 126,374,464	\$ 122,698,571	\$ 119,398,247
Losses incurred	\$ 63,318,718	\$ 78,723,277	\$ 63,611,326
Policyholder dividends	\$ 13,000,000	\$ 12,055,419	\$ 10,999,955
Net income	\$ 23,340,592	\$ 18,001,487	\$ 25,933,053
Risk based capital ratio	1523%	1383%	1389%

LOSS EXPERIENCE

The following table describes one and two year loss development.

	<u>Loss Development</u>		
	<u>2012</u>	<u>2011</u>	<u>2010</u>
One Year Loss Development	(21,042,000)	(5,029,000)	(18,233,000)
Two Year Loss Development	(22,833,000)	(22,605,000)	(17,643,000)

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 \$75,000,000. The table below describes the layers of MEMIC's reinsurance agreements in place at December 31, 2012:

<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
Third Layer	\$30M excess of \$20M	7 year sunset/commutation, \$10M maximum any one life 50% participation, 7 year sunset/commutation, \$10M maximum any one life
Fourth Layer	\$25M excess of \$50M	maximum any one life

Employment Practice Liability

Description

85% Quota Share

ACCOUNTS AND RECORDS

Accounts and records were reviewed and tested in order to assess the impact on financial condition and conformity with related laws.

STATUTORY DEPOSITS

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

TRANSACTIONS WITH AFFILIATES

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.

During the examination period, MEMIC provided certain administrative, technical and managerial support pursuant to its subsidiaries under the terms of a written management service agreement. MEMIC received some claims handling services from its insurance subsidiary, MIC, under the terms of a written services agreement. MEMIC and its insurance subsidiaries received loss control services from its non-insurance subsidiary, Services, under written service agreements. MEMIC provided accounting, billing, collection and property management services for its non-insurance subsidiary, CVH. MEMIC leased their home office from its non-insurance subsidiary, CVHII.

LITIGATION

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

CONCLUSION

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

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

FINANCIAL STATEMENTS

MEMIC's financial condition, as reported by management, and audited by MEMIC's external auditors, are reflected in the following statements.

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

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Assets			
Bonds	\$ 465,154,749	\$ 474,467,703	\$ 476,667,467
Common stocks	185,703,857	144,763,438	124,062,018
Cash & cash equivalents	13,407,498	10,520,911	21,131,855
Other invested assets	11,529,661	11,162,386	5,792,488
Aggregate write-ins for invested assets	<u>8,294,790</u>	<u>6,077,872</u>	<u>5,680,177</u>
Cash and Invested Assets	684,090,555	646,992,310	633,334,005
Investment income due and accrued	5,180,869	5,474,101	5,514,227
Premiums in the course of collection	6,312,382	6,574,172	5,447,153
Premiums deferred	34,233,987	32,319,135	30,994,600
Accrued retrospective premiums	50,424	11,152	371
Amounts recoverable from reinsurers	590,379	1,244,633	1,301,293
Current federal income tax recoverable		6,122,963	1,476,051
Net deferred tax asset	16,475,534	16,814,093	14,597,985
Electronic data processing equipment/software	450,551	404,546	290,494
Receivables from subsidiaries and affiliates	1,867,531	463,962	1,367,152
Aggregate write-ins for other than invested assets	<u>5,196</u>	<u>4,784</u>	<u>4,830</u>
Total Assets	<u>\$ 749,257,408</u>	<u>\$ 716,425,851</u>	<u>\$ 694,328,161</u>
Liabilities			
Losses	287,330,381	296,440,251	294,844,482
Loss Adjustment expenses	34,495,446	33,453,824	32,195,606
Commissions payable	6,108,878	5,062,082	3,690,464
Other expenses	17,488,707	13,886,522	12,921,455
Taxes, licenses and fees	1,635,033	1,209,562	932,045
Current federal income taxes	1,197,285	-	-
Unearned premiums	59,887,611	59,738,660	58,434,910
Advance premium	1,382,412	1,213,279	1,216,254
Ceded reinsurance premiums payable	656,393	615,309	695,255
Amounts withheld for the account of others	2,185,335	2,578,209	2,539,703
Aggregate write-ins for liabilities	<u>842,038</u>	<u>1,110,879</u>	<u>961,047</u>
Total Liabilities	413,209,519	415,308,577	408,431,221
Surplus			
Aggregate write-ins special surplus funds	711,539		5,580,518
Gross paid in and contributed surplus	3,196,888	3,207,180	3,222,136
Unassigned funds	<u>332,139,462</u>	<u>297,910,094</u>	<u>277,094,286</u>
Surplus as regards policyholders	<u>336,047,889</u>	<u>301,117,274</u>	<u>285,896,940</u>
Liabilities and Surplus	<u>\$ 749,257,408</u>	<u>\$ 716,425,851</u>	<u>\$ 694,328,161</u>

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

	<u>2012</u>	<u>2011</u>	<u>2010</u>
		(unexamined)	(unexamined)
Premiums Earned	\$ 126,374,464	\$ 122,698,571	\$ 119,398,247
Deductions:			
Losses incurred	63,318,718	78,723,277	63,611,326
Loss adjustment expenses	13,419,240	12,298,740	4,791,987
Other underwriting expenses	<u>31,039,235</u>	<u>27,238,746</u>	<u>25,433,495</u>
Total underwriting deductions	<u>107,777,193</u>	<u>118,260,763</u>	<u>93,836,808</u>
Total underwriting gain	18,597,271	4,437,808	25,561,439
Investment Income			
Net investment income earned	21,073,992	21,203,217	21,253,928
Net realized capital gains (losses); net of taxes	<u>3,188,512</u>	<u>7,015,131</u>	<u>(333,923)</u>
Net Investment Income	24,262,504	28,218,348	20,920,005
Other Income			
Net loss from premiums charged off	(176,915)	(334,621)	(488,677)
Finance and service charges	196,797	190,164	91,208
Aggregate write-ins for miscellaneous income (charges)	<u>(12,000)</u>	<u>(10,500)</u>	<u>(10,948)</u>
Total Other Income (Loss)	<u>7,882</u>	<u>(154,957)</u>	<u>(408,417)</u>
Net income before dividends and federal income taxes	42,867,657	32,501,199	46,073,027
Dividends to policyholders	<u>13,000,000</u>	<u>12,055,419</u>	<u>10,999,955</u>
Net income before federal income taxes	29,867,657	20,445,780	35,073,072
Federal income taxes	<u>6,527,065</u>	<u>2,444,293</u>	<u>9,140,019</u>
Net Income	<u>\$ 23,340,592</u>	<u>\$ 18,001,487</u>	<u>\$ 25,933,053</u>

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

	<u>2012</u>	<u>2011</u>	<u>2010</u>
		(unexamined)	(unexamined)
Policyholder Surplus December 31 Prior Year	\$ 301,117,274	\$ 285,896,940	\$ 241,117,916
Net Income	23,340,592	18,001,487	25,933,053
Change in unrealized capital gain/(loss) net of tax	9,471,832	(4,627,790)	10,719,858
Change in deferred income tax	(997,352)	(2,779,040)	(189,415)
Change in nonadmitted assets	2,414,296	4,640,633	8,315,528
Change in paid in surplus	(10,292)	(14,956)	
Aggregate write-ins for gains and losses in surplus	711,539		
Change in surplus	<u>34,930,615</u>	<u>15,220,334</u>	<u>44,779,024</u>
Policyholder Surplus December 31 Current Year	<u>\$ 336,047,889</u>	<u>\$ 301,117,274</u>	<u>\$ 285,896,940</u>

COMMENTS ON FINANCIAL STATEMENT ITEMS

RESERVES

The Maine Bureau of Insurance's consulting actuary performed an actuarial review of the losses and loss adjustment expenses reported by MEMIC at December 31, 2012. The summary of the actuarial review and the associated opinion is included in Appendix A attached hereto.

APPENDIX A – STATEMENT OF ACTUARIAL OPINION

Statement of Actuarial Opinion
Annual Statement of
Maine Employers Mutual Insurance Company
For the Year Ended December 31, 2012

IDENTIFICATION

I, Stephen R. DiCenso, am associated with the firm of Milliman, Inc. I am a member of the American Academy of Actuaries and meet its qualification standards for Statements of Actuarial Opinion. I am a member in good standing and a Fellow of the Casualty Actuarial Society. I was retained by the State of Maine Bureau of Insurance ("the Bureau") on July 22, 2013 to render this opinion on the reasonability of the loss and loss adjustment expense reserves of Maine Employers Mutual Insurance Company ("the Company") as of December 31, 2012.

The intended purpose of this opinion is to satisfy the requirement for such an opinion under the scope of a contract with the Bureau to assist in the financial examination of the Company. I have no direct relationship with the Company. The loss and loss adjustment expense reserves are the responsibility of the Company's management; my responsibility is to express an opinion on those reserves based on my review.

SCOPE

I have examined the reserves listed in Exhibit A, as shown in the Annual Statement of the Company as prepared for filing with state regulatory officials, as of December 31, 2012. The items upon which I am expressing an opinion, as shown in Exhibit A, reflect the disclosures shown in Exhibit B. The Annual Statement was prepared in accordance with Statutory Accounting Principles.

In forming my opinion on the loss and loss adjustment expense reserves, I relied upon data evaluated as of December 31, 2012 and reviewed information provided to me by the Company through November 21, 2013. In this regard, I relied on Daniel McGarvey, Senior Vice President and Chief Financial Officer of the Company, as to the accuracy and completeness of the data. The Bureau tested the integrity of the data and notified me that the testing indicated that the data is valid for loss reserve analysis. I evaluated the data used directly in my analysis for reasonableness and consistency. In performing this evaluation, I have assumed that the Company (a) used its best efforts to supply accurate and complete data and (b) did not knowingly provide any inaccurate data.

The Maine Bureau of Insurance has reconciled the paid loss and loss adjustment expense amounts and case reserve amounts as of December 31, 2012 used in my analysis against Schedule P - Part 1 of the Company's 2012 Annual Statement. I have reviewed this reconciliation and find it to be reasonable. I also reconciled the data used in my analysis to the data in the Appointed Actuary's analysis. In other respects, the analysis underlying

Statement of Actuarial Opinion
Annual Statement of
Maine Employers Mutual Insurance Company
For the Year Ended December 31, 2012

my opinion included the use of such actuarial assumptions and methods and such tests of calculations as I considered necessary.

My review was limited to the items included in Exhibit A, and did not include an analysis of any income statement items or other balance sheet items. My opinion on the reserves is based upon the assumption that all reserves are backed by valid assets that have suitably scheduled maturities or adequate liquidity to meet cash flow requirements.

OPINION

In my opinion, the sum of the amounts carried on account of items (1) and (2), the sum of the amounts carried on account of items (3) and (4), and the amount carried on account of item (5), all as shown in Exhibit A:

- A. Meet the requirements of the insurance laws of the State of Maine;
- B. Are consistent with reserves computed in accordance with Standards of Practice issued by the Actuarial Standards Board (including the Casualty Actuarial Society's Statement of Principles Regarding Property and Casualty Loss and Loss Adjustment Expense Reserves); and
- C. Make a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its contracts and agreements.

RELEVANT COMMENTS

Risk of Material Adverse Deviation

There are a variety of risk factors that expose the Company's reserves to significant variability. I have identified the major risk factors as: exposure to large, fortuitous losses; exposure to workers compensation coverage; changes in key diagnostics; and concentration of reserves in a single line of business and state. The potential impact of these risk factors is described in more detail in the following paragraphs and in the report supporting this opinion. The absence of other risk factors from this listing does not imply that additional risk factors will not be identified in the future as being a significant influence on the Company's reserves.

The variability associated with my estimates of net reserves for unpaid losses and loss adjustment expenses is magnified by the Company's exposure to large, fortuitous losses within its net retained limits. The emergence of individual large losses (or changes in

Statement of Actuarial Opinion
Annual Statement of
Maine Employers Mutual Insurance Company
For the Year Ended December 31, 2012

reserves on existing open claims) could materially change my results. The potential for large losses increases the variability inherent in the estimates.

Historically, workers compensation coverage has been subject to higher levels of variability due to the long-tailed nature of the coverage. The payment of losses and loss adjustment expenses will likely be made over a long period of time and is subject to a number of uncertainties, such as inflation, the legal environment, and improvements in medical research/technology many years in the future. Exposure to workers compensation coverage increases the variability inherent in the estimates.

The loss and claim count data indicate changes in key diagnostic measures, including claim closure ratios and average case reserves. Shifts in these statistics may be indicative of changes in claims handling procedures. The Company did not identify factors that fully accounted for changes to these statistics. Changes in claims handling procedures increase the uncertainty of the estimates.

The vast majority of the Company's net reserves are concentrated in a single line of business (workers compensation) and state (Maine). As a result, the Company is exposed to any sudden changes in the legislative, legal and/or economic environment that may affect the claims resolution process for workers compensation, particularly in the state of Maine. This increases the uncertainty of the estimates.

In my opinion, the risk of material adverse deviation from the carried net reserve amounts is remote. My determination is based on a materiality standard of 20% of the Company's statutory surplus of \$336,047,889, or \$67,209,578, as shown in item (5) of Exhibit B, and my belief that the probability of adverse reserve development of this magnitude is remote. I selected the materiality standard based on the fact that I prepared this opinion for the regulatory review of the Company and factors such as the Company's leverage ratio, the Company's history of reserve development, the policy limits and coverages written by the Company, and the amount of adverse deviation that would cause the Company to fall to the next risk-based capital action level. Other measures of materiality might be used for reserves that are being evaluated in a different context.

Although I believe the probability of material adverse deviation with respect to the net reserves to be remote, it should not be inferred from this statement that there is no risk of material adverse deviation.

Statement of Actuarial Opinion
Annual Statement of
Maine Employers Mutual Insurance Company
For the Year Ended December 31, 2012

Uncertainty

In evaluating whether the reserves make a reasonable provision for unpaid losses and loss adjustment expenses, it is necessary to project future loss and loss adjustment expense payments. Actual future losses and loss adjustment expenses will not develop exactly as projected and may, in fact, vary significantly from the projections. Further, my projections make no provision for extraordinary future emergence of new classes or types of losses not sufficiently represented in the Company's historical database or that are not yet quantifiable.

Reinsurance

During the course of my review, I was provided with a summary of the Company's ceded reinsurance that is or could be material to the Company's ceded loss and loss adjustment expense reserves as of December 31, 2012. The Company has represented that the summary is materially accurate and complete, and that the Company has determined that these contracts should be accounted for as reinsurance. The assessment of whether a reinsurance contract meets the requirements for reinsurance accounting is a management and accounting decision. We have reviewed the risk transfer provisions in the Company's reinsurance agreements and found no provisions that would preclude accounting for the transactions as reinsurance.

Based on representations made by Company management and the Company's description of its ceded reinsurance, I am not aware of any reinsurance transaction that either has been or should have been accounted for as retroactive reinsurance or as financial reinsurance (defined as contractual arrangements that do not include transfer of both timing and underwriting risk).

I reviewed the Company's ceded reinsurance balances as shown in Schedule F of the Company's Annual Statement. There are no material reinsurance recoverables on paid losses that are classified as over 90 days past due.

Further, the Company has represented that it knows of no uncollectable reinsurance cessions and no disputed reinsurance balances. I have relied on the Company's assessment of the potential for uncollectable reinsurance as the Company has more extensive knowledge of and a closer relationship with its reinsurers.

There are no material reinsurance recoverables with assuming companies that were rated vulnerable (B or lower) by A.M. Best or that were reported to be in liquidation, conservation, or receivership. I am not aware of any reinsurance that the Company treated as collectable but should have treated as uncollectable.

Statement of Actuarial Opinion

Annual Statement of Maine Employers Mutual Insurance Company For the Year Ended December 31, 2012

Based on the information cited above, my opinion on the loss and loss adjustment expense reserves net of ceded reinsurance assumes that all ceded reinsurance is valid and collectable. I have performed no additional review of the collectability of the Company's reinsurance and am expressing no opinion on the financial condition of its reinsurers. I am not able to further assess the potential for uncollectable reinsurance without performing a substantial amount of additional work beyond the scope of my review. I have not anticipated any contingent liabilities that could arise if the reinsurers do not meet their obligations to the Company as reflected in the data and other information provided to me.

IRIS Ratios

The booked reserves do not create exceptional values in the IRIS tests One-Year Reserve Development to Surplus, Two-Year Reserve Development to Surplus, or Estimated Current Reserve Deficiency to Surplus.

Methods and Assumptions

The required annual NAIC Statement of Actuarial Opinion for the Company as of December 31, 2012, was signed by another actuary. I have reviewed the analysis underlying this prior opinion and believe that certain assumptions differ between my analysis and the analysis of the prior opining actuary. The impact of these differences does not result in a difference in the conclusions regarding the reasonableness of the carried reserves of the Company.

Other Disclosures

Discounting

I evaluated the loss and loss adjustment expense reserves on an undiscounted basis with regard to the time value of money. The Company has represented that it does not reduce reserves to reflect discounting.

Risk Margin

The Company has represented that the carried reserves do not include an explicit risk margin.

Statement of Actuarial Opinion
Annual Statement of
Maine Employers Mutual Insurance Company
For the Year Ended December 31, 2012

Salvage and Subrogation

The Company has represented that its total carried reserves are net of anticipated salvage and subrogation recoveries.

Underwriting Pools and Associations

The Company participates in a small number of involuntary pooling arrangements. Company practice is to record the loss and loss adjustment expense reserves reported to it by the pools, with an accrual for reporting lag.

The reserve exposure for pools and association is deemed to be immaterial to the total loss and loss adjustment expense reserves recorded by the Company.

Asbestos and Environmental Exposure

I have reviewed the Company's exposure to asbestos and environmental claims. In my opinion, there is a remote chance of material liability, since the Company has represented that claim activity levels are minimal and the Company writes only workers compensation and a small amount of employers' liability.

Long Duration Contracts

The Company has represented that it does not write long duration contracts, defined as policies or contracts related to single or fixed premium policies, with coverage period of thirteen months or greater that are non-cancelable and not subject to premium increase (excluding financial guaranty contracts, mortgage guaranty contracts, and surety contracts).

Extended Loss and Expense Reserves

The Company has represented that it does not provide extended loss and expense coverage within professional liability claims-made contracts and therefore carries no extended loss and expense reserves.

Contractual Liability for Service Contracts

The Company has represented that it does not provide contractual liability coverage for service contracts (vehicles, appliances, etc.).

Statement of Actuarial Opinion
Annual Statement of
Maine Employers Mutual Insurance Company
For the Year Ended December 31, 2012

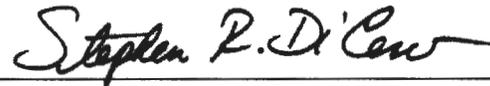
Loss Adjustment Expenses

The loss adjustment expense reserves carried by the Company include provisions for all loss adjustment expenses, such as coverage dispute costs, defense and investigation costs, and claims administration expenses.

SUPPORTING DOCUMENTS AND USAGE

An actuarial report, including underlying actuarial work papers supporting the findings expressed in this Statement of Actuarial Opinion, has been provided to the Bureau.

This Statement of Actuarial Opinion is intended solely for the use of, and is only to be relied upon by, the Bureau and other applicable state regulators.



Stephen R. DiCenso, FCAS, MAAA
Milliman, Inc.
289 Edgewater Drive
Wakefield, MA 01880-6215
(781) 213-6200
stephen.dicenso@milliman.com

March 13, 2014

Statement of Actuarial Opinion
Annual Statement of
Maine Employers Mutual Insurance Company
For the Year Ended December 31, 2012

Exhibit A: SCOPE

Loss Reserves:	Amount
1. Reserve for Unpaid Losses (Liabilities, Surplus and Other Funds page, Col. 1, Line 1)	\$287,330,381
2. Reserve for Unpaid Loss Adjustment Expenses (Liabilities, Surplus and Other Funds page, Col. 1, Line 3)	\$34,495,446
3. Reserve for Unpaid Losses – Direct and Assumed (should equal Schedule P, Part 1, Totals from Cols. 13 and 15 x 1,000)	\$308,739,000
4. Reserve for Unpaid Loss Adjustment Expenses – Direct and Assumed (should equal Schedule P, Part 1, Totals from Cols. 17, 19 and 21 x 1,000)	\$34,720,000
5. The Page 3 write-in item reserve, "Retroactive Reinsurance Reserve Assumed"	\$0
6. Other Loss Reserve items on which the Appointed Actuary is expressing an Opinion (list separately)	\$0
Premium Reserves:	
7. Reserve for Direct and Assumed Unearned Premiums for Long Duration Contracts	\$0
8. Reserve for Net Unearned Premiums for Long Duration Contracts	\$0
9. Other Premium Reserve items on which the Appointed Actuary is expressing an Opinion (list separately)	\$0

Statement of Actuarial Opinion
Annual Statement of
Maine Employers Mutual Insurance Company
For the Year Ended December 31, 2012

Exhibit B: DISCLOSURES

- | | | | | | |
|---|---------------|--|---------|---------|---|
| 1. Name of the Appointed Actuary | | | DiCenso | Stephen | R. |
| 2. The Appointed Actuary's Relationship to the Company
Enter E or C based upon the following:
E if an Employee of the Company or Group; or
C if a Consultant | | | | | C |
| 3. The Appointed Actuary has the following designation;
F if an FCAS;
A if an ACAS;
M if not a member of the CAS, but a Member of the American Academy of Actuaries approved by the Casualty Practice Council (and attach approval letter as documentation); or
O for Other | | | | | F |
| 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); or
N if No Opinion | | | | | R |
| 5. Materiality Standard expressed in US dollars (used to answer Question #6) | \$67,209,578 | | | | |
| 6. Are there significant risks that could result in Material Adverse Deviation? | | | | | Yes [<input type="checkbox"/>] No [X] Not Applicable [<input type="checkbox"/>] |
| 7. Statutory Surplus (Liabilities, Col. 1, Line 37) | \$336,047,889 | | | | |
| 8. Anticipated net salvage and subrogation included as a reduction to loss reserves as reported in Schedule P (Part 1 Summary, Col 23, Line 12 * 1000) | \$3,170,000 | | | | |
| 9. Discount included as a reduction to loss reserves and loss expense reserves as reported in Schedule P | | | | | |
| 9.1 Nontabular Discount [Notes, Line 32B23, (amounts 1, 2, 3 &4)], Electronic Filing Cols 1,2,3 & 4 | \$0 | | | | |
| 9.2 Tabular Discount [Notes, Line 32A23, (amounts 1&2)], Electronic Filing Cols 1 & 2. | \$0 | | | | |

Statement of Actuarial Opinion

Annual Statement of
Maine Employers Mutual Insurance Company
For the Year Ended December 31, 2012

Exhibit B: DISCLOSURES (continued)

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.	\$392,302
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 (Notes, Line 33A03D, ending asbestos reserve for current year) Electronic Filing Col 5	\$0
	11.2 Environmental, as disclosed in the Notes to Financial Statements (Notes, Line 33D03D, ending net environmental reserve for current year) Electronic Filing Col 5	\$0
12.	The total claims made extended loss and expense reserve (Greater than or equal to Schedule P Interrogatories).	
	12.1 Amount reported as loss reserves	\$0
	12.2 Amount reported as unearned premium reserves	\$0
13.	Other items on which the Appointed Actuary is providing Relevant Comment (list separately)	\$0

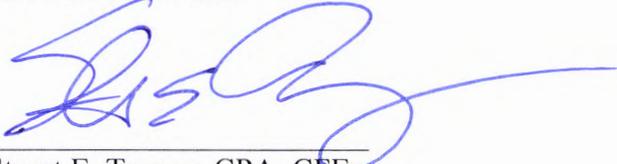
STATE OF MAINE
COUNTY OF KENNEBEC, SS

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

MAINE EMPLOYERS' MUTUAL INSURANCE COMPANY

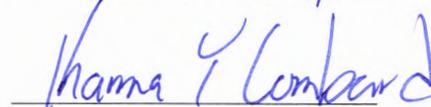
of Portland, Maine as of December 31, 2012, and that the foregoing report of examination subscribed to by him is true to the best of his knowledge and belief. The following examiners from the Bureau of Insurance assisted:

Vanessa J. Leon, CFE
Arias Wan, CPA, CFE
Audrey L. Wade, CFE, CISA
Margaret S. Chaput
Jason M. Freedman



Stuart E. Turney, CPA, CFE

Subscribed and sworn to before me
This 22 day of May, 2014



Notary Public
My Commission Expires:

KARMA Y. LOMBARD
Notary Public, Maine
My Commission Expires June 12, 2018