

EXAMINATION REPORT

OF

CONTINENTAL HERITAGE INSURANCE COMPANY

BOCA RATON, FLORIDA

AS OF

DECEMBER 31, 2014

BY THE

FLORIDA OFFICE OF INSURANCE REGULATION

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April 29, 2016

David Altmaier
Commissioner
Office of Insurance Regulation
State of Florida
Tallahassee, Florida 32399-0326

Dear Sir:

Pursuant to your instructions, in compliance with Section 624.316, Florida Statutes, Rule 690-138.005, Florida Administrative Code, and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted an examination as of December 31, 2014, of the financial condition and corporate affairs of

Continental Heritage Insurance Company
21218 St. Andrews Blvd, Suite 400
Boca Raton, Florida 33433

hereinafter referred to as the "Company." Such report of examination is herewith respectfully submitted.

SCOPE OF EXAMINATION

This examination covered the period of January 1, 2010 through December 31, 2014. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) covered the period of November 20, 2008 through December 31, 2009. This examination commenced with planning at the Office on December 7, 2015 to December 11, 2015. The fieldwork commenced on December 14, 2015 and concluded as of April 29, 2016.

The examination was a multi-state examination conducted in accordance with the NAIC Financial Condition Examiners Handbook. The Handbook requires that the examination is planned and performed to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the company and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles.

This examination report includes significant findings of fact, as mentioned in Section 624.319, Florida Statutes and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Company.

SUMMARY OF SIGNIFICANT FINDINGS

Current Examination Findings

The following is a summary of material adverse findings, significant non-compliance findings or material changes in the financial statements.

Change in Directors and Officers

The Company failed to timely file written notification of its change in Directors & Officers with the Office pursuant to per Section 628.261, Florida Statutes.

Agents Balances

The Company was not in compliance with Rule 69O-138.024(2), Florida Administrative Code which requires that all agents' balances must be aged on a separate policy by policy basis.

Bail Bond Premiums

The Company was not in compliance with Section 624.4094(1), Florida Statutes, as the direct written premiums for bail bonds were less than 6.5% of the total consideration received by the agent for all bail bonds written by the agent.

Prior Examination Findings

There were no findings, exceptions or corrective action to be taken by the company for the examination as of December 31, 2009.

COMPANY HISTORY

General

The Company was incorporated in Florida on March 11, 1980, and commenced business on May 12, 1980. On July 1, 2011, Evergreen National Insurance Company sold the Company to various parties including the current majority owner, Continental Heritage Holding Company.

The Company was authorized to transact insurance coverage in Florida on May 10, 1989 and continued to be authorized for the following coverage(s) as of December 31, 2014:

- Inland Marine
- Other Liability
- Fidelity
- Surety
- Bail Bonds
- Miscellaneous Casualty

The Company did not write any premiums in inland marine, other liability, miscellaneous casualty and fidelity during the exam period. As such, these lines shall be removed from the Company's certificate of authority as required by Section 624.430, Florida Statutes.

Subsequent Event: The Company requested the Office to remove the lines of business from the Company's Certificate of Authority on May 9, 2016, the request is currently under review as of May 31, 2016.

Dividends

On June 28, 2011, in accordance with Section 628.371, Florida Statutes, the Company declared two dividends totaling \$935,849. Of the total amount, \$635,483 was classified as an ordinary dividend and \$300,366 was classified as an extraordinary dividend. During 2013, the Company

declared and paid an ordinary dividend of \$330,000. During 2014, the Company declared and paid ordinary dividends in the amounts of \$400,000 and \$250,000.

Capital Stock and Capital Contributions

As of December 31, 2014, the Company's capitalization was as follows:

Number of authorized common capital shares	100,000
Number of shares issued and outstanding	20,000
Total common capital stock	\$2,000,000
Par value per share	\$100.00

Continental Heritage Holding Company owned 60% of common stock. Parish Investments, LLC owned 20% of the common stock of the Company. The remaining common stock of the Company was owned by Gary M. Williams Trust and Bradley M. Williams Trust with each owning 10% respectively.

Continental Heritage Holding Company owned 100% of the Company's preferred stock. Total number of preferred shares authorized is 10,000, at \$83.34 per share. At December 31, 2014, 6,000 shares of preferred stock were issued.

During 2010, there was a reduction in gross paid in and contributed surplus in the amount of \$1,108,930 to \$1,238,570. A corresponding increase of \$1,108,930 to \$2,661,432 to common capital stock was recorded during 2010. During 2011, the parent increased the Company's gross paid in and contributed surplus by \$161,392 to \$1,399,962, and issued \$500,040 in preferred shares. A corresponding decrease in common stock was recorded from \$2,661,432 at December 31, 2010 to \$2,000,000 at December 31, 2011. During 2013, the parent contributed

additional \$600,000 in cash to the Company. The amount of gross paid in and contributed surplus remained unchanged during 2014 which was reported at \$1,999,962.

Surplus Notes

The Company issued a surplus note to Continental Heritage Holding Company in the amount of \$500,000 in exchange for \$500,000 cash on September 27, 2012. The surplus note was approved by the Office on October 16, 2012.

Acquisitions, Mergers, Disposals, Dissolutions and Purchase or Sales through Reinsurance

The Company had no acquisitions, mergers, disposals, dissolutions and purchase or sales through reinsurance during the period of this examination.

CORPORATE RECORDS

The recorded minutes of the Shareholders, Board of Directors (Board) and certain internal committees were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions and events, in compliance with the NAIC Financial Condition Examiners Handbook adopted by Rule 69O-138.001, Florida Administrative Code, including the authorization of investments as required by Section 625.304, Florida Statutes.

Conflict of Interest

The Company adopted a policy statement requiring periodic disclosure of conflicts of interest in accordance with the NAIC Financial Condition Examiners Handbook adopted by Rule 69O-138.001, Florida Administrative Code.

MANAGEMENT AND CONTROL

Management

The annual shareholder meeting for the election of directors was held in accordance with Section 628.231, Florida Statutes. Directors serving as of December 31, 2014 are shown below.

Directors

Name and Location	Principal Occupation
Roswell Paine Lewis Columbus, Ohio	Retired
Charles Del Hamm, Jr. Cleveland, Ohio	President, Continental Heritage Insurance Company
Anne Marie Loconti Cleveland, Ohio	Lawyer, Loconti Law
Edward Farrell Feighan Atlanta, Georgia	CEO, Covius
David Alan Canzone Cleveland, Ohio	CFO, Continental Heritage Insurance Company

In accordance with the Company's bylaws, the Board appointed the following senior officers:

Senior Officers

Name	Title
Charles Del Hamm, Jr.	President
David Alan Canzone	CFO
Wan Chen Collier	Secretary
Sean Thomas O'Brien	COO
Cyril Elmo Parish	Vice President
Gary Michael Williams	Vice President
Bradley Michael Williams	Vice President

The Company's Board appointed several internal committees. Following were the principal internal board committees and their members as of December 31, 2014:

Investment Committee

Charles Dell Hamm Jr. ¹
David Alan Canzone

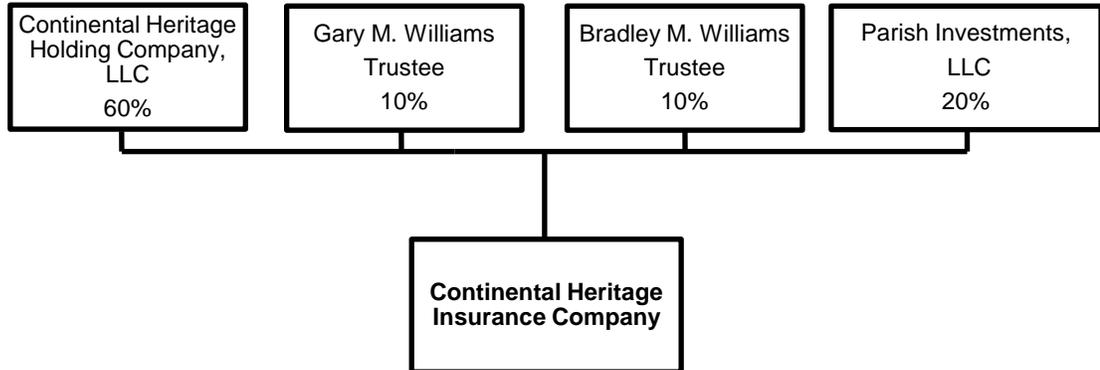
¹ Chairman

At December 31, 2014, the Company did not maintain an audit committee, as required by Section 624.424(8) (c), Florida Statutes. **Subsequent event:** the Company formed an audit committee in August 2015. The first meeting was held on September 16, 2015. Prior to that meeting, the Board performed functions normally performed at the audit committee level such as approval of external auditors.

Affiliated Companies

The most recent holding company registration statement was filed with the Office on April 22, 2016, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

**Continental Heritage Insurance Company
Organizational Chart
December 31, 2014**



The following agreements were in effect between the Company and its affiliates:

Operating Agreement

The Company entered into an Operating Agreement with Williams National Surety Corporation (Williams) and C.E. Parish General Agency (Parish) on January 1, 2000. Under the operating agreement, the Company shall supply surety powers of attorney to Parish and Williams. Parish and Williams shall request the Company appoint producers to write bail bonds in states where the Company is and becomes licensed and is qualified as a surety bail producer(s) in state(s) in which he/she/it operates. Parish and Williams will allow producer(s) to solicit and execute bail bonds in said states(s) where producer(s) is duly licensed, has been issued a qualifying power to operate by the Company or by Parish and Williams and has been duly appointed by the Company. Certain officers of Williams and Parish are officers of the Company.

Administrative Services Agreement

The Company entered into an Administrative Services Agreement with Evergreen National Indemnity Company (Evergreen) on July 1, 2011. Under the agreement, Evergreen will continue to provide all executive managerial, supervisory, administrative, technical, claims handling, investment management, regulatory affairs, legal accounting, financial reporting, professional and clerical services to operate the Company's business.

TERRITORY AND PLAN OF OPERATIONS

The Company was authorized to transact insurance in the following states:

Arizona	Idaho	Maine	New Jersey	Tennessee
California	Illinois	Maryland	North Dakota	Texas
Colorado	Indiana	Minnesota	Ohio	Utah
District of Columbia	Iowa	Mississippi	Pennsylvania	Virginia
Florida	Kentucky	Nebraska	South Carolina	Washington
Georgia	Louisiana	Nevada	South Dakota	West Virginia

Treatment of Policyholders

The Company established procedures for handling written complaints in accordance with Section 626.9541(1) (j), Florida Statutes. The Company maintained a claims procedure manual that included detailed procedures for handling each type of claim in accordance with Section 626.9541(1) (i) 3a, Florida Statutes.

REINSURANCE

The reinsurance agreements reviewed complied with NAIC standards with respect to the standard insolvency clause, arbitration clause, intermediary clause, transfer of risk, reporting and settlement information deadlines.

Assumed

The Company assumed risk on a facultative basis. During 2014, the Company assumed \$2,000 in premiums.

Ceded

As of December 31, 2014, the Company's ceded reinsurance program consisted of several quota share reinsurance provided by various reinsurers, including Evergreen Heritage Insurance Company. Some treaties were placed through reinsurance intermediary, Guy Carpenter. The Company was not in compliance with Section 626.7492(4), Florida Statutes, as the Company did not have a written agreement with its reinsurance intermediary broker agent. **Subsequent Event:** The Company executed an agreement with its reinsurance broker, effective May 3, 2016.

The Company ceded 67% of its bail bond business to Evergreen Heritage Insurance Company. This agreement was terminated effective June 30, 2015.

The Company ceded 50% of its landfill bond, up to \$600,000 liability on any one bond, to Ohio Indemnity Company.

The Company entered into a variable quota share agreement to reinsure its landfill bonds over \$1,200,000. The retention varied from 50% on \$1,500,000 bonds to gradually receding to 15% on bonds of \$15,000,000, with retention of \$2,250,000 for bonds over \$15,000,000.

The Company had coverage of 75% of the Company's net liability on bonds classified as surety and miscellaneous bonds.

ACCOUNTS AND RECORDS

The Company maintained its principal operational offices in Mayfield Heights, Ohio.

The Company and non-affiliates had the following agreements:

Custodial Agreement

The Company maintained a custodial agreement with Huntington National Bank executed on July 17, 2009. The agreement complied with Rule 69O-143.042, Florida Administrative Code.

Independent Auditor Agreement

An independent CPA, Skoda Minotti, audited the Company's statutory basis financial statements annually for the years 2010, 2011, 2012, 2013 and 2014, in accordance with Section 624.424(8), Florida Statutes. Supporting work papers were prepared by the CPA as required by Rule 69O-137.002, Florida Administrative Code.

INFORMATION TECHNOLOGY REPORT

Due to common systems with the Evergreen Heritage Indemnity Company, domiciled in Ohio, we leveraged work of the Ohio examiners, who concurrently conducted the 2014 examination of Evergreen. Ryan Gibson, AES, CFE, CISA, FLMI, Ohio Department of Insurance, performed the review and evaluation of the information technology and computer systems of the Company. Results of the evaluation were noted in the Information Technology Report provided to the Company.

STATUTORY DEPOSITS

The following securities were deposited with the State of Florida as required by Section 624.411, Florida Statutes and with various state officials as required or permitted by law:

State	Description	Par Value	Market Value
FL	USTNTS, 2.63% 11/15/2020	\$ 300,000	\$ 313,170
FL	USTNTS, 2.0% 02/15/2023	\$ 250,000	\$ 248,950
FL	USTNTS, 0.88% 02/28/2017	\$ 600,000	\$ 601,680
FL	USTNTS, 1.63% 04/30/2019	\$ 250,000	\$ 250,950
FL	USTNTS, 1.7% 09/30/2019	\$ 460,000	\$ 462,668
FL	USTNTS, 2.63% 11/15/2020	<u>\$ 10,000</u>	<u>\$ 10,439</u>
TOTAL FLORIDA DEPOSITS		\$ 1,870,000	\$ 1,887,857
GA	USTNTS, 2.0%, 02/15/23	\$ 35,000	\$ 34,841
IN	Certificate of Deposit, 0.02%, 01/27/15	78,630	78,630
LA	Shreveport LA Ref Ser A, 5.0%, 05/01/19	70,000	71,133
PA	Certificate of Deposit, 0.05%, 07/09/15	50,629	50,629
PA	Certificate of Deposit, 0.02%, 03/23/15	25,012	25,012
SC	USTNTS, 1.875%, 06/30/15	250,000	252,188
TX	Certificate of Deposit, 0.3%, 01/16/15	50,000	50,000
TX	Certificate of Deposit, 0.3%, 01/16/15	50,000	50,000
TX	Certificate of Deposit, 0.3%, 02/06/15	50,000	50,000
TX	Certificate of Deposit, 0.3%, 03/20/15	50,000	50,000
TX	USTNTS, 2.0%, 02/15/23	115,000	114,479
VA	Shreveport LA Ref Ser A, 5.0%, 05/01/15	230,000	233,721
VA	Wisconsin St Ser A, 5.0%, 05/01/16	<u>170,000</u>	<u>180,523</u>
TOTAL OTHER DEPOSITS		<u>\$ 1,124,271</u>	<u>\$ 1,141,156</u>
TOTAL SPECIAL DEPOSITS		<u>\$ 2,994,271</u>	<u>\$ 3,029,013</u>

FINANCIAL STATEMENTS

The examination does not attest to the fair presentation of the financial statements included herein. If an adjustment is identified during the course of the examination, the impact of such adjustment will be documented separately following the Company's financial statements.

Financial statements, as reported and filed by the Company with the Florida Office of Insurance Regulation, are reflected on the following pages:

Continental Heritage Insurance Company

Assets

December 31, 2014

	Per Company	Examination Adjustments	Per Examination
Bonds	\$3,627,614		\$3,627,614
Cash and Short-Term Investments	3,544,544		3,544,544
Investment Income	40,475		40,475
Agents' Balances:			
Uncollected premium	63,774		63,774
Current Federal and Foreign income tax recoverable & interest	70,733		70,733
	<hr/>		
Totals	\$7,347,140	\$0	\$7,347,140
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Continental Heritage Insurance Company
Liabilities, Surplus and Other Funds
December 31, 2014

	Per Company	Examination Adjustments	Per Examination
Losses	\$13,745		\$13,745
Loss adjustment expenses	14,096		14,096
Commissions Payable	11,300		11,300
Other expenses	88,693		88,693
Taxes, licenses and fees	109,388		109,388
Net deferred tax liability	1,267		1,267
Unearned premium	127,651		127,651
Ceded reinsurance premiums payable	34,207		34,207
Total Liabilities	\$400,347	\$0	\$400,347
Common capital stock	\$2,000,000		\$2,000,000
Preferred capital stock	500,040		500,040
Surplus notes	500,000		500,000
Gross paid in and contributed surplus	1,999,962		1,999,962
Unassigned funds (surplus)	1,946,791		1,946,791
Surplus as regards policyholders	\$6,946,793	\$0	\$6,946,793
Total liabilities, surplus and other funds	\$7,347,140	\$0	\$7,347,140

Continental Heritage Insurance Company
Statement of Income and Capital and Surplus Account
December 31, 2014

Underwriting Income

Premiums earned		\$1,758,247
	Deductions:	
Losses incurred		(\$3,548)
Loss expenses incurred		(5,401)
Other underwriting expenses incurred		1,248,470
Aggregate write-ins for underwriting deductions		0
Total underwriting deductions		\$1,239,521
Net underwriting gain or (loss)		\$518,726

Investment Income

Net investment income earned		\$35,074
Net realized capital gains or (losses)		0
Net investment gain or (loss)		\$35,074

Other Income

Net gain or (loss) from agents' or premium balances charged off		\$0
Finance and service charges not included in premiums		0
Aggregate write-ins for miscellaneous income		0
Total other income		\$0

Net income before dividends to policyholders and before federal & foreign income taxes		\$553,800
Dividends to policyholders		0
Net Income, after dividends to policyholders, but before federal & foreign income taxes		\$553,800
Federal & foreign income taxes		172,677
Net Income		\$381,123

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year		\$7,214,013
Net Income		\$381,123
Net unrealized capital gains or losses		0
Change in non-admitted assets		(1,033)
Change in net deferred income tax		2,690
Change in excess statutory over statement reserves		0
Surplus adjustments: Paid in		0
Dividends to stockholders		(650,000)
Examination Adjustment		0
Change in surplus as regards policyholders for the year		(\$267,220)
Surplus as regards policyholders, December 31 current year		\$6,946,793

Continental Heritage Insurance Company
Comparative Analysis of Changes in Surplus
December 31, 2014

The following is a reconciliation of surplus as regards policyholders between that reported by the Company and as determined by the examination.

Surplus as Regards Policyholders December 31, 2014, per Annual Statement	\$6,946,793
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	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:			
No Adjustment			
LIABILITIES:			
No Adjustment			
Net Change in Surplus:			_____
Surplus as Regards Policyholders December 31, 2014, Per Examination			\$6,946,793

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses

Towers Watson, an actuarial firm appointed by the Board, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2014, made a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

The Office consulting actuary, Gregory Wilson, FCAS, MAAA of Lewis & Ellis, Inc., reviewed the loss and loss adjustment expense work papers provided by the Company and he was in concurrence with this opinion.

Capital and Surplus

The amount of capital and surplus reported by the Company of \$6,946,793 exceeded the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

SUMMARY OF RECOMMENDATIONS

Change in Directors and Officers

We recommend that, in the future, the Company comply with Section 628.261, Florida Statutes regarding providing the Office with timely written notification of any changes to its Directors and Officers.

Agents Balances

We recommend that the Company separately account for its agents' balances on a policy by policy basis in accordance with the provisions of Rule 69O-138.024 (2), Florida Administrative Code.

Bail Bond Premiums

We recommend that the Company comply with Section 624.4094(1), Florida Statute, with regards to the direct written premiums for bail bonds be less than 6.5% of the total consideration received by the agent for all bail bonds written by the agent.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Continental Heritage Insurance Company** as of December 31, 2014, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's surplus as regards policyholders was \$6,946,793 which exceeded the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

In addition to the undersigned, Kate Bolbas, CFE, Examiner-in-Charge, and Ryne Davison, CFE, Financial/Rating Analyst, Participating Examiner, of Lewis & Ellis, Inc., also participated in the examination. Members of the Office who participated in the examination include Jeff Rockwell, Financial Examiner/Analyst Supervisor, Examination Manager and Marie Stuhlmuller, Financial Specialist, Participating Examiner. Additionally, Gregory Wilson, FCAS, MAAA of Lewis & Ellis, Inc. is recognized for participation in the examination.

Respectfully submitted,

Lamar Downs, CPA
Deputy Chief Examiner
Florida Office of Insurance Regulation