

EXAMINATION REPORT

OF

CYPRESS PROPERTY & CASUALTY INSURANCE COMPANY

JACKSONVILLE, FLORIDA

AS OF

DECEMBER 31, 2014

BY THE

FLORIDA OFFICE OF INSURANCE REGULATION

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February 15, 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 69O-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

Cypress Property & Casualty Insurance Company
13901 Sutton Park Drive South, Suite 310-0230
Jacksonville, Florida 32224

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) that covered the period of January 1, 2005 through December 31, 2009. This examination commenced with planning at the Office on March 23, 2015 to March 27, 2015. The fieldwork commenced on April 6, 2015 and concluded as of February 15, 2016

The examination was a single state examination conducted in accordance with the NAIC Financial Condition Examiners Handbook, as adopted by Rule 69O-138.001, Florida Administrative Code. 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 surveillance examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles, as adopted by Rule 69O-137.001(4)(a)5, Florida Administrative Code.

This examination report includes significant findings of fact, as mentioned in Section 624.319, Florida Statutes, and general information about the Company 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. Some of the findings noted during the examination period have been resolved by the Company subsequent to the examination date. However, the findings or exceptions are discussed in detail in the body of the examination report.

Accounts and Records

The Company was not in compliance with Section 624.424 (8)(a), Florida Statutes, by not filing its 2014 audited financial report with the Office on or before June 1 for the preceding year ending December 31.

Prior Examination Findings

The following is a summary of material adverse findings, significant non-compliance findings or material changes in the financial statements in the Office's prior examination report as of December 31, 2009, along with resulting action taken by the Company in connection therewith.

Corporate Governance

A review of the meeting minutes of the Board of Directors did not show evidence of approval of the investment activity of the Company as required by Section 625.304, Florida Statutes.

Resolution: The Company was in compliance with Section 625.304, Florida Statutes, for the current exam period.

There were two members appointed to the Audit Committee. The Company was not in compliance with Section 624.424(8)(c), Florida Statutes, which requires that the Audit Committee be comprised of three or more independent directors.

Resolution: The Company increased their Audit Committee members to three.

An annual Meeting of Shareholders of the Company was not held for any of the years under examination as required by Section 607.0701(1), Florida Statutes and Section 628.231(2), Florida Statutes.

Resolution: This issue remained unresolved during this exam period.

Reinsurance

Reinsurance Contract No. 1066994001-09 between the Company and Hannover Reinsurance (Ireland), LTD reinsured the excess liability of the Company with respect to the Casualty loss incurred under the Company's claim number 62188 with a date of loss of February 2, 2009. This contract was accounted for as a prospective reinsurance transaction. Since the date of loss preceded the effective date of the agreement, this agreement should have been accounted for as retroactive reinsurance as prescribed by SSAP 62, Paragraphs 28 – 34. **Resolution:** The Company was in compliance with SSAP 62 for the current period.

COMPANY HISTORY

General

The Company was incorporated in Florida on August 26, 1998, and commenced business on December 27, 1998.

The Company was authorized to transact insurance coverage in Florida on December 27, 1998 and continued to be authorized for the following coverage(s) as of December 31, 2014.

Fire	Inland Marine
Allied Lines	Other Liability
Homeowners Multiple-Peril	

Dividends

The Company did not declare or pay any dividends during the period of this examination.

Capital Stock and Capital Contributions

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

Number of authorized common capital shares	7,000,000
Number of shares issued and outstanding	700,000
Total common capital stock	\$700,000
Par value per share	\$1.00

Control of the Company was maintained by its Parent, Cypress Holdings, Inc., who owned 100% of the stock issued by the Company, who in turn was 100% owned by Cypress Group Holdings, Inc., a Florida corporation.

Surplus Notes/Surplus Debenture

The Company has outstanding subordinated surplus debentures payable to Cypress Holdings, Inc. for \$5,000,000, in aggregate issued in 1999 and 2004 with no maturity dates. The interest due on these debentures was \$345,000 for the year ended 2014 and is not reflected in the financial statements.

On February 2, 2007, the Company executed a surplus note with the State Board of Administration of Florida in the amount of \$20,500,000 in order to participate in the Capital Build-up Incentive Program. The surplus note accrued interest at a rate equivalent to the 10-year U.S. Treasury Bond rate. The term of the agreement was 20 years. The Company made principal payments of \$558,824 and interest payments of \$121,614 in 2014. The surplus note had an outstanding principal balance of \$4,051,471 at December 31, 2014.

After making a \$12,500,000 principal payment on the surplus note in 2010, the Company was allowed to amend the terms of this surplus note following approved legislative changes to the terms effective May 17, 2011. On December 28, 2011, the Company amended the terms of the surplus note, which exempted the Company from maintaining minimum premium-to-surplus ratios or paying any penalty interest for the duration of the note.

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

Reinsurance

On July 14, 2014, Cypress Holdings, Inc. and Cypress Insurance Group, Inc. were acquired by an investor group, composed of three individuals: Joseph N. King, Enda McDonnell and Adrian Ryan. On December 31, 2014, Cypress Insurance Group, Inc. was merged with Cypress Group Holdings, Inc., with the latter being the surviving corporation.

CORPORATE RECORDS

The recorded minutes of the Shareholder(s), Board of Directors (Board) and certain internal committees were reviewed for the period under examination. The recorded minutes of the Board adequately documented its 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 690-138.001, Florida Administrative Code.

MANAGEMENT AND CONTROL

Management

The annual shareholder meeting for the election of directors was not held in accordance with Section 607.0701 and 628.231, Florida Statutes. This was a repeat finding. Directors of the Company serving as of December 31, 2014 are shown below.

Directors

Name and Location	Principal Occupation
Ramsey Hale Campbell Bradenton, Florida	President, Access Home Insurance Company
Joseph Newborg King Darien, Connecticut	Co-Chief Executive Officer, Cypress Property & Casualty Insurance Company
Enda McDonnell Highland Beach, Florida	Co-Chief Executive Officer, Cypress Property & Casualty Insurance Company
Adrian Peter Ryan Dalkey, County Dublin, Ireland	President – Global Solutions, Amtrust
Gary Raymond Wothe (a) Jacksonville, Florida	President, Cypress Property & Casualty Insurance Company

(a) Resigned on February 17, 2015, and was replaced by Mark Keyser on April 1, 2015

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

Senior Officers

Name	Title
Gary Raymond Wothe (a)	President
Enda McDonnell (b)	Co-Chief Executive Officer
Joseph Newborg King	Co-Chief Executive Officer & Secretary
Glenn Stanley Lawson	Chief Financial Officer

(a) Resigned on February 17, 2015, and was replaced by Enda McDonnell on March 11, 2015.

The Company's Board appointed an audit committee. Following were its members as of December 31, 2014:

Audit Committee

Joseph Newborg King (a) ¹
Enda McDonnell (b)
Adrian Peter Ryan

¹ Chairman

(a) Resigned on July 29, 2015 and was replaced by Mark Keyser on July 29, 2015.

(b) Resigned on July 29, 2015 and was replaced by Hale Campbell on July 29, 2015.

The Company maintained an audit committee, as required by Section 624.424(8) (c), Florida Statutes.

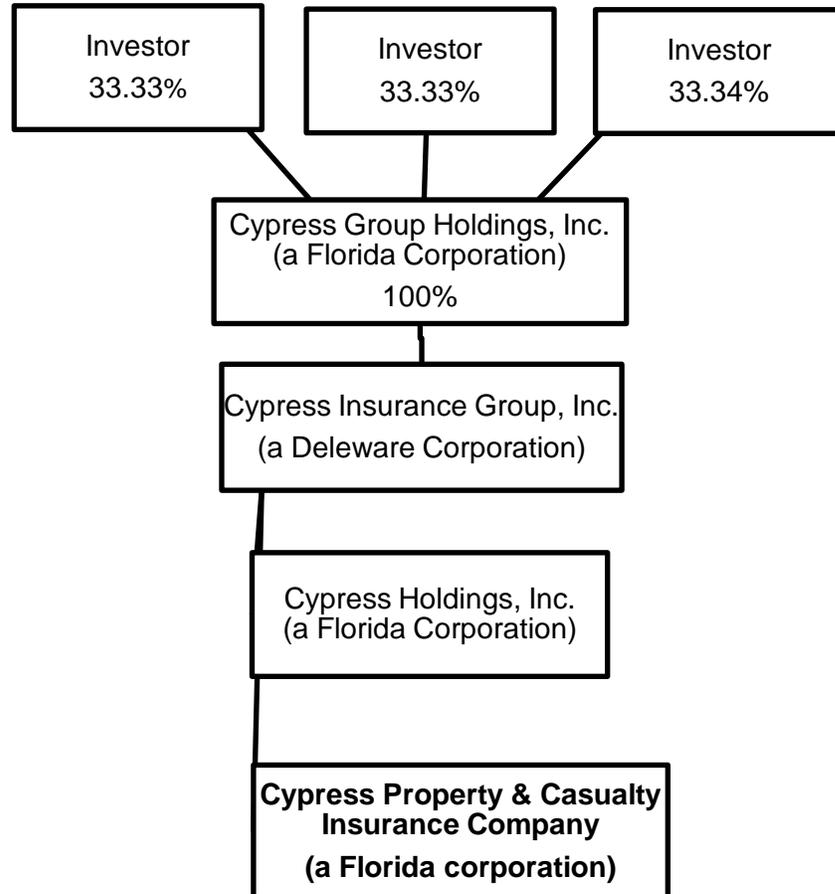
Affiliated Companies

The most recent holding company registration statement was filed by the Company with the Office on March 31, 2016, as required by Section 628.801, Florida Statutes, and Rule 690-143.046, Florida Administrative Code.

Cypress Property & Casualty Insurance Company

Abbreviated Organizational Chart

December 31, 2014



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

Tax Allocation Agreement

Effective January 1, 2003, the Company entered into a Tax Allocation Agreement, which facilitated the Company's filing of a consolidated tax return with its parent and certain affiliates. On December 31, 2014, income tax provisions were allocated to the respective companies based on their contribution to consolidated taxable income.

Cost Allocation Agreement

The Company entered into a Cost Allocation Agreement with its parent and certain affiliates on July 1, 2009. The agreement allocated cost based upon the scope of work and responsibilities performed for the benefit of the affiliated company.

Management General Agent Agreement

The Company entered into a Managing General Agency (MGA) Agreement with its affiliate, Service First Insurance Group, LLC on January 1, 2009. The agreement was for a term of five years and automatically renews for successive five-year periods, unless otherwise terminated within the guidelines of the agreement. MGA fees were 19% of gross premium written from personal lines, 25% of gross premium written from commercial lines, and a \$25 fee for each policy. Claims administration services were included in the agreement. Claims administration fees were 0.75% of gross premium written. Fees incurred under this agreement during 2014 amounted to \$18,465,706.

TERRITORY AND PLAN OF OPERATIONS

The Company was authorized to transact insurance only in the State of Florida.

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) 3.a, 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 did not assume any risk through reinsurance during the period under the examination.

Ceded

Effective January 1, 2014, the Company ceded risk on a 30% Quota Share basis utilizing various unrelated reinsurers through its reinsurance broker, Willis Re. Additionally, the Company ceded risk on a per risk per occurrence catastrophe basis to the Florida Hurricane Catastrophe Fund and various other reinsurers. Management has estimated its current

reinsurance program to be sufficient to protect the Company to at least the 1 in 100-year probable maximum loss.

ACCOUNTS AND RECORDS

The Company maintained its principal operational offices in Jacksonville, Florida.

Significant delays were experienced during the course of the examination in receiving requested documentation from both the Company and the independent CPA firm, PwC (PricewaterhouseCoopers), in violation of Rule 69O-142.011(8)(d), Florida Administrative Code.

The Company and non-affiliates had the following agreements:

Custodial Agreement

The Company maintained a custodial agreement with U.S. Bank National Association that was entered into on September 22, 2006. The agreement complied with Rule 69O-143.042, Florida Administrative Code.

Investment Management Services Agreement

The Company maintained an investment management services agreement with GenRe - New England Asset Management, effective August 7, 1998.

Policy Administration Services Agreement

The Company maintained a policy administration services agreement with Computer Sciences Corporation, effective September 28, 1998.

Independent Auditor Agreement

An independent CPA, PriceWaterhouseCoopers LLP, audited the Company's statutory basis financial statements annually for the years 2010 through 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.

The Company was not in compliance with Section 624.424 (8)(a), Florida Statutes, by not filing its 2014 audited financial report with the Office on or before June 1 for the preceding year ending December 31.

INFORMATION TECHNOLOGY REPORT

Lindsey Pittman, CFE, Lewis & Ellis, Inc. and Joe Detrick, CISA, Jennan Enterprices LLC, performed an 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.

State	Description	Par Value	Market Value
FL	CD, 0.20%, 07/25/15	<u>\$ 300,000</u>	<u>\$ 300,000</u>
TOTAL FLORIDA DEPOSITS		<u>\$ 300,000</u>	<u>\$ 300,000</u>
TOTAL SPECIAL DEPOSITS		<u>\$ 300,000</u>	<u>\$ 300,000</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:

Cypress Property & Casualty Insurance Company

Assets

December 31, 2014

	Per Company	Examination Adjustments	Per Examination
Bonds	\$49,124,570		\$49,124,570
Cash and Short-Term Investments	36,876,716		36,876,716
Investment Income Due and Accrued	499,681		499,681
Agents' Balances:			
Uncollected premium	5,452,015		5,452,015
Deferred premium	2,053,003		2,053,003
Reinsurance recoverable	2,185,875		2,185,875
Net Deferred Tax Asset	3,676,351		3,676,351
Receivable from parents, subsidiaries and affiliates	908,488		908,488
Aggregate write-in for other than invested assets	4,328		4,328
	<hr/>		
Totals	\$100,781,027	\$0	\$100,781,027
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Cypress Property & Casualty Insurance Company

Liabilities, Surplus and Other Funds

December 31, 2014

	Per Company	Examination Adjustments	Per Examination
Losses	\$15,769,420		\$15,769,420
Loss adjustment expenses	3,907,195		3,907,195
Other expenses	1,510,758		1,510,758
Taxes, licenses and fees	567,233		567,233
Current federal and foreign income taxes	1,173,879		1,173,879
Borrowed money	25,866		25,866
Unearned premium	39,739,198		39,739,198
Advance premium	2,478,246		2,478,246
Ceded reinsurance premiums payable	943,443		943,443
Funds held under reinsurance treaties	1,394		1,394
Remittances and items not allocated	27,770		27,770
Aggregate write-ins for liabilities	1,805,833		1,805,833
Total Liabilities	\$67,950,236	\$0	\$67,950,236
Common capital stock	\$700,000		\$700,000
Surplus notes	9,051,471		9,051,471
Gross paid in and contributed surplus	37,159,857		37,159,857
Unassigned funds (surplus)	(14,080,537)		(14,080,537)
Surplus as regards policyholders	\$32,830,791	\$0	\$32,830,791
Total liabilities, surplus and other funds	\$100,781,027	\$0	\$100,781,027

Cypress Property & Casualty Insurance Company
Statement of Income and Capital and Surplus Account

December 31, 2014

Underwriting Income

Premiums earned		\$53,006,989
	Deductions:	
Losses incurred		\$19,096,343
Loss expenses incurred		3,703,814
Other underwriting expenses incurred		27,555,849
Aggregate write-ins for underwriting deductions		0
Total underwriting deductions		<u>\$50,356,006</u>
Net underwriting gain		\$2,650,982

Investment Income

Net investment income earned		\$532,533
Net realized capital gains		74,684
Net investment gain		<u>\$607,217</u>

Other Income

Net gain from agents' or premium balances charged off		\$1,130
Finance and service charges not included in premiums		0
Aggregate write-ins for miscellaneous income		3,414
Total other income		<u>\$4,544</u>

Net income before dividends to policyholders and before federal & foreign income taxes		\$3,262,743
Dividends to policyholders		0
Net Income, after dividends to policyholders, but before federal & foreign income taxes		<u>\$3,262,743</u>
Federal & foreign income taxes		<u>1,163,762</u>
Net Income		<u><u>\$2,098,981</u></u>

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year		\$31,106,374
Net Income		\$2,098,981
Net unrealized capital losses		(920)
Change in net deferred income tax		86,696
Change in nonadmitted assets		91,389
Change in provision for reinsurance		7,094
Change in surplus notes		(558,824)
Examination Adjustment		0
Change in surplus as regards policyholders for the year		<u>\$1,724,416</u>
Surplus as regards policyholders, December 31 current year		<u><u>\$32,830,791</u></u>

Cypress Property & Casualty 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	\$32,830,791
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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:			0
 Surplus as Regards Policyholders December 31, 2014, Per Examination			\$32,830,791

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses

An actuarial firm, Merlinos & Associates, Inc., 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, Greg 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 \$32,830,791 exceeded the minimum of \$6,189,545 required by Section 624.408, Florida Statutes.

SUMMARY OF RECOMMENDATIONS

Accounts and Records

We recommend that the Company comply with Section 624.424 (8)(a), Florida Statutes, by filing its audited financial reports with the Office on or before June 1 for the preceding year ending December 31.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Cypress Property & Casualty 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 \$32,830,791, which exceeded the minimum of \$6,189,545 required by Section 624.408, Florida Statutes.

In addition to the undersigned, Sarah Lucibello, CFE, CPA, and Lindsey Pittman, CFE, CPA, Examiners-in-Charge, and Amy Carter, CFE, CPA, David Palmer, CFE, Participating Examiners, of Lewis & Ellis, Inc., also participated in the examination. Members of the Office who participated in the examination include Jonathan Frisard, Examination Manager and Mikhael Goldgisser, Participating Examiner. Additionally, Greg Wilson, FCAS, MAAA of Lewis & Ellis, Inc. and Lindsey Pittman, CFE, CPA, IT Specialist of Lewis & Ellis, Inc. and Joe Detrick, CISA, CPA, CFE, AES, IT Specialist of Jennan Enterprises LLC, are recognized for participation in the examination.

Respectfully submitted,

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