

EXAMINATION REPORT

OF

RETAILFIRST INSURANCE COMPANY

LAKELAND, FLORIDA

AS OF

DECEMBER 31, 2014

BY THE

FLORIDA OFFICE OF INSURANCE REGULATION

TABLE OF CONTENTS

LETTER OF TRANSMITTAL	-
SCOPE OF EXAMINATION	1
SUMMARY OF SIGNIFICANT FINDINGS	2
CURRENT EXAMINATION FINDINGS	2
PRIOR EXAMINATION FINDINGS	2
GENERAL	3
DIVIDENDS	3
CAPITAL STOCK AND CAPITAL CONTRIBUTIONS.....	3
SURPLUS NOTES	4
ACQUISITIONS, MERGERS, DISPOSALS, DISSOLUTIONS AND PURCHASE OR SALES THROUGH REINSURANCE	4
CORPORATE RECORDS	4
CONFLICT OF INTEREST.....	5
MANAGEMENT AND CONTROL	5
MANAGEMENT	5
DIRECTORS	5
SENIOR OFFICERS	6
AFFILIATED COMPANIES	7
ORGANIZATIONAL CHART	8
TAX ALLOCATION AGREEMENT.....	9
TERRITORY AND PLAN OF OPERATIONS	9
TREATMENT OF POLICYHOLDERS	9
REINSURANCE	9
ASSUMED	10
CEDED	10
ACCOUNTS AND RECORDS	10
CUSTODIAL AGREEMENT	11
MANAGING GENERAL AGENT AGREEMENT.....	11
INDEPENDENT AUDITOR AGREEMENT	11
INFORMATION TECHNOLOGY REPORT	12
STATUTORY DEPOSITS	13
FINANCIAL STATEMENTS	14
ASSETS	15
LIABILITIES, SURPLUS AND OTHER FUNDS	16
STATEMENT OF INCOME AND CAPITAL AND SURPLUS ACCOUNT	17

COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS.....	19
DECEMBER 31, 2014.....	19
COMMENTS ON FINANCIAL STATEMENTS.....	18
LIABILITIES	18
CAPITAL AND SURPLUS	18
SUMMARY OF RECOMMENDATIONS.....	19
ACCOUNTS AND RECORDS	19
CONCLUSION.....	22

April 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

RetailFirst Insurance Company
2310 Commerce Point Drive
Lakeland, Florida 33801

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) covering the period of January 1, 2007 through December 31, 2009. This examination commenced with planning at the Office on July 20, 2015 to July 24, 2015. The fieldwork commenced on August 3, 2015 and concluded as of April 15, 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.

Accounts and Records

Retail First Insurance Company reported \$4,670,221 of real estate held for the production of income as of December 31, 2014, yet per Company response and Schedule A, the Company's last appraisals of these properties were more than five years old, as of November 3, 2008. This was not in compliance with SSAP 40, which requires appraisals to be no more than five years old for property held for the production of income and property held for sale. Additionally, Section 625.161(3), Florida Statutes requires the value determination of the Company's property type to include appraisals not more than five years old.

Prior Examination Findings

There were no 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.

COMPANY HISTORY

General

The Company was originally incorporated as RetailFirst Assessable Mutual Insurance Company, but changed to RetailFirst Mutual Insurance Company on November 17, 2010. The Company originally commenced business on January 1, 1979.

The Company was authorized to transact workers' compensation insurance coverage in Florida on November 17, 2010 and continued to be authorized as of December 31, 2014.

Dividends to Policyholders

In accordance with Rule 69O-190.065, Florida Administrative Code, the Company declared dividends to its policyholders during the period of examinations as shown below:

2010	\$2,817,302
2011	\$1,992,111
2012	\$2,474,658
2013	\$2,649,425
2014	\$2,361,504

Capital Stock and Capital Contributions

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

Number of authorized common capital shares	10,000,000
Number of shares issued and outstanding	5,000,000

Total common capital stock	\$5,000,000
Par value per share	\$1.00

Control of the Company was maintained by its parent, RetailFirst Holdings, Inc., who owned 100% of the stock issued by the Company, who in turn was 98.8% owned by RetailFirst Mutual Holdings, Inc., a Florida corporation. The parent made no capital contributions to the Company as of December 31, 2014.

Surplus Debentures

The Company had no surplus debentures for the period under exam.

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 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 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 690-138.001, 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
Thomas Samuel Petcoff Lakeland, Florida	President & CEO, Petcoff Companies
Nis Hansen Nissen, III Jacksonville, Florida	Secretary & CFO Nissen Advertising Inc.
John Douglas Hanselman Odessa, Florida	Retired, Summit Consulting, Inc.
William Kundrat, Jr. Sun City Center, Florida	Retired, Summit Consulting, Inc.
George Hall Sandefer Palatka, Florida	Retired, Summit Consulting, Inc.
Charles Richard Wintz Jacksonville, Florida	Owner, Charles R. Wintz, CPA, PA
Ricky Tarver Hodges Lakeland, Florida	Owner, Ricky Hodges Consulting

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

Senior Officers

Name	Title
Thomas Samuel Petcoff	President
William Kundrat, Jr.	Vice President
George Hall Sandefer	Vice President
Charles Richard Wintz	Vice President
Ricky Tarver Hodges	Vice President
Nis Hansen Nissen, III	Secretary
John Douglas Hanselman	Treasurer

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

Audit Committee

Charles Richard Wintz ¹
John Douglas Hanselman
William Kundrat, Jr.
Nis Hansen Nissen, III
Thomas Samuel Petcoff
George Hall Sandefer

¹ Chairman

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

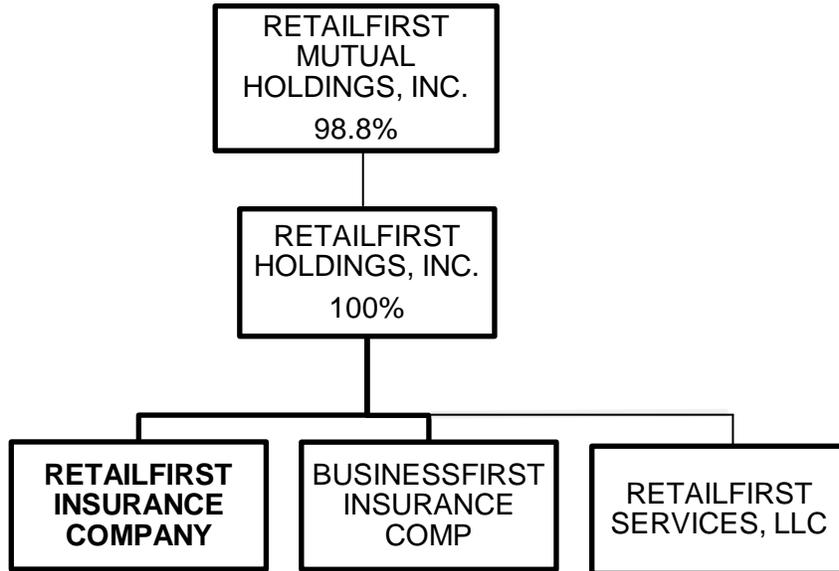
Affiliated Companies

The most recent holding company registration statement was filed with the Office on February 26, 2015, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

RetailFirst Insurance Company

Organizational Chart

December 31, 2014



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

Tax Allocation Agreement

The Company, along with its affiliate, BusinessFirst Insurance Company (BFIC), entered in to a Tax Allocation Agreement on March 16, 2006. The Company entered into an amended and restated Tax Allocation Agreement effective May 19, 2011. During 2014, an intercompany tax settlement was paid by BFIC to the Company in the total amount of \$97,805.

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) 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 did not assume any reinsurance during the period of this examination. However, the Company was party to an affiliated Reinsurance Pooling Agreement by which they do report assumed reinsurance in Schedule F Part 1. See discussion of Reinsurance Pooling Agreement below.

Ceded

The Company and its affiliate, BFIC, are parties to a Reinsurance Pooling Agreement effective January 1, 2011. This agreement was amended effective August 16, 2011. Based on terms of the agreement, the Company assumes 100% of the BFIC premium, losses and expenses. Once pooled, the Company cedes 10% of the pooled premium, losses and expenses back to BFIC. During 2014, BFIC paid the Company reinsurance pooling settlements in the amount of \$5,044,071.

Effective January 1, 2014, the Company and its affiliate, BFIC, are also parties to an unaffiliated excess of loss reinsurance agreement whereby the Companies retain the first \$1,000,000 loss with a \$1,000,000 annual deductible. The reinsurer assumes all liability up to \$10,000,000 per occurrence for workers' compensation with a limit of \$40,000,000 for all occurrences.

ACCOUNTS AND RECORDS

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

The Company and non-affiliates had the following agreements:

Custodial Agreement

The Company maintained a custodial agreement with U.S. Bank, NA executed on September 15, 2008. The agreement complied with Rule 69O-143.042, Florida Administrative Code.

Investment Management Agreement

The Company maintained an investment management services agreement with Conning Asset Management Company effective December 29, 2005 and amended January 1, 2014.

Managing General Agent Agreement

The Company entered into a Managing General Agency (MGA) Agreement with Summit Consulting, Inc. (Summit) on December 2, 2010 with an amendment effective January 1, 2014. Pursuant to this agreement, Summit provided administrative services to the Company including policy servicing, underwriting, claims administration, loss control and financial management. The agreement also provided for Summit to perform as a MGA for the Company as it provided marketing, sales, and premium billing and collection services. The agreement remains in effect unless otherwise terminated within the guidelines of the agreement. Summit's annual management fees are calculated at a percentage between 13%-15% of earned normal premium, decreasing as earned normal premium increases. Summit also may earn a performance management fee ranging from 1.0-2.0% of the earned annual premium based on gross loss and DCC ratios. Summit's fees also include an expense constant calculated separately from the management or performance fees. Claims administration services were included in the agreement. Fees incurred under this agreement during 2014 amounted to \$18,465,706.

Independent Auditor Agreement

An independent CPA, Postlethwaite & Netterviller, audited the Company's statutory basis financial statements annually for the years 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

Lindsey Pittman, CFE, Lewis & Ellis, Inc. 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	Bonds	\$ 2,239,752	\$ 2,235,586
TOTAL FLORIDA DEPOSITS		\$ 2,239,752	\$ 2,235,586
TOTAL OTHER DEPOSITS		<u> 0</u>	<u> 0</u>
TOTAL SPECIAL DEPOSITS		<u><u> \$2,239,752</u></u>	<u><u> \$2,235,586</u></u>

FINANCIAL STATEMENTS

The examination does not attest to the fair presentation of the financial statements included herein. If during the course of the examination an adjustment is identified, 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:

RetailFirst Insurance Company

Assets

December 31, 2014

	Per Company	Examination Adjustments	Per Examination
Bonds	\$216,779,262		\$216,779,262
Stocks:			
Preferred	1,032,000		1,032,000
Common	33,493,669		33,493,669
Real Estate:			
Properties			
occupied by Company	0		0
Held for production of income	4,670,221		4,670,221
Cash and Short-Term Investments	1,110,444		1,110,444
Other investments	0		0
Receivables for securities	360		360
Agents' Balances:			
Uncollected premium	6,675,019		6,675,019
Deferred premium	3,981,089		3,981,089
Accrued retrospective premiums	4,669,007		4,669,007
Reinsurance recoverable	4,570,752		4,570,752
Net deferred tax asset	5,757,877		5,757,877
Interest and dividend			
income due & accrued	2,012,712		2,012,712
Aggregate write-in for			
other than invested assets	99,046		99,046
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Totals	\$284,851,458	\$0	\$284,851,458
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**RetailFirst Insurance Company
Liabilities, Surplus and Other Funds**

December 31, 2014

	Per Company	Examination Adjustments	Per Examination
Losses	\$104,658,439		\$104,658,439
Reinsurance payable on paid losses and LAE	\$3,767,636		\$3,767,636
Loss adjustment expenses	15,999,658		15,999,658
Commissions payable	1,345,599		1,345,599
Other expenses	2,204,425		2,204,425
Taxes, licenses and fees	4,445,102		4,445,102
Current federal and foreign income taxes	629,386		629,386
Unearned premium	1,667,554		1,667,554
Advance premium	758,449		758,449
Dividends declared and unpaid: Policyholders	3,074,045		3,074,045
Ceded reinsurance premiums payable	1,724,321		1,724,321
Amounts withheld	308,840		308,840
Provision for reinsurance	179,809		179,809
Aggregate write-ins for liabilities	5,368,128		5,368,128
Total Liabilities	\$146,131,391	\$0	\$146,131,391
Common capital stock	\$5,000,000		\$5,000,000
Gross paid in and contributed surplus	1,110,363		1,110,363
Unassigned funds (surplus)	132,609,705		132,609,705
Surplus as regards policyholders	\$138,720,068	\$0	\$138,720,068
Total liabilities, surplus and other funds	\$284,851,459	\$0	\$284,851,459

RetailFirst Insurance Company
Statement of Income and Capital and Surplus Account

December 31, 2014

Underwriting Income

Premiums earned		\$100,639,745
	Deductions:	
Losses incurred		\$60,354,665
Loss expenses incurred		9,881,011
Other underwriting expenses incurred		31,433,544
Aggregate write-ins for underwriting deductions		0
Total underwriting deductions		\$101,669,220
Net underwriting gain or (loss)		(\$1,029,475)

Investment Income

Net investment income earned		\$8,349,470
Net realized capital gains or (losses)		2,164,718
Net investment gain or (loss)		\$10,514,188

Other Income

Net gain or (loss) from agents' or premium balances charged off		(\$694,281)
Finance and service charges not included in premiums		0
Aggregate write-ins for miscellaneous income		0
Total other income		(\$694,281)
Net income before dividends to policyholders and before federal & foreign income taxes		\$8,790,432
Dividends to policyholders		2,361,504
Net Income, after dividends to policyholders, but before federal & foreign income taxes		\$6,428,928
Federal & foreign income taxes		(343,733)
Net Income		\$6,772,661

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year		\$130,425,524
Net Income		\$6,772,661
Net unrealized capital gains or losses		1,437,494
Change in net deferred income tax		(365,746)
Change in non-admitted assets		83,474
Change in provision for reinsurance		0
Change in excess statutory over statement reserves		0
Surplus adjustments: Paid in		366,660
Aggregate write-ins for gains and losses in surplus		0
Examination Adjustment		0
Change in surplus as regards policyholders for the year		\$8,294,543
Surplus as regards policyholders, December 31 current year		\$138,720,067

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	\$138,720,068
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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			\$138,720,068

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses

An actuarial firm, KPMG LLP, 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 \$138,720,068, exceeded the minimum of \$13,239,967 required by Section 624.408, Florida Statutes.

SUMMARY OF RECOMMENDATIONS

Accounts and Records

We recommend that the Company obtain current appraisals for properties reported on December 31, 2014 or non-admit \$3,197,221 in accordance with SSAP 40 and Section 625.161, Florida Statutes. We also recommend that the Company maintain appraisals and disclose recognized real estate impairment losses going forward in accordance with SSAP 40.

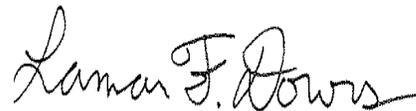
CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of RetailFirst 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 \$138,720,068, which exceeded the minimum of \$13,239,967 required by Section 624.408, Florida Statutes.

In addition to the undersigned, Lindsey Pittman, CFE, CPA, Examiner-in-Charge, and Ashley Johnson, CPA, Amy Carter, CFE, CPA, Participating Examiners, of Lewis & Ellis, also participated in the examination. Members of the Office who participated in the examination include Jonathan Frisard, Financial Examiner/Analyst Supervisor, Examination Manager and Kyra Brown, Financial Specialist, Participating Examiner. Additionally, Greg Wilson, FCAS, MAAA of Lewis & Ellis, Inc. and Lindsey Pittman, IT Specialist of Lewis & Ellis, Inc., are recognized for participation in the examination.

Respectfully submitted,

A handwritten signature in black ink that reads "Lamar F. Downs". The signature is written in a cursive, flowing style.

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