

REPORT ON EXAMINATION

OF

ROYAL PALM INSURANCE COMPANY

(N.K.A. TOWER HILL SIGNATURE

INSURANCE COMPANY)

GAINESVILLE, FLORIDA

AS OF

DECEMBER 31, 2009

BY THE

OFFICE OF INSURANCE REGULATION

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TALLAHASSEE, FLORIDA

March 4, 2011

Kevin M. McCarty
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, 2009, of the financial condition and corporate affairs of:

ROYAL PALM INSURANCE COMPANY
(n.k.a. TOWER HILL SIGNATURE INSURANCE COMPANY)
7201 N.W. 11TH PLACE
GAINESVILLE, FLORIDA 32605

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, 2009, through December 31, 2009. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2008. This examination commenced with planning at the Office on December 13, 2010, to December 17, 2010. The fieldwork commenced on December 20, 2010, and concluded as of March 4, 2011.

This financial examination was a statutory financial examination conducted in accordance with the Financial Condition Examiners Handbook, Accounting Practices and Procedures Manual, and Annual Statement Instructions promulgated by the NAIC as adopted by Rules 69O-137.001(4) and 69O-138.001, Florida Administrative Code, with due regard to the statutory requirements of the insurance laws and rules of the State of Florida.

The Financial Condition Examiners Handbook requires that the examination be planned and performed to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation and management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

This report of examination is confined to significant adverse findings, a material change in the financial statements or other information of regulatory significance or requiring regulatory action. The report comments on matters that involved departures from laws, regulations or rules, or which were deemed to require special explanation or description.

SUMMARY OF SIGNIFICANT FINDINGS

Current Exam Findings

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

Deficient Loss Reserves

The consulting actuary's review of the Company's reserves as of December 31, 2009, reflected estimated net loss and LAE reserves \$5.1 million higher than the Company's booked net loss and LAE reserves as reflected in the 2009 annual statement, Schedule P – Part 1 – Summary. This variance represents 12.1% of surplus.

Subsequent Event: Following the Office's approval in February 2011 of the Company's acquisition into the holding company as described on Page 6, the Company re-estimated its reserves for loss and loss adjustment expenses (LAE) for the year just ended (2010) and prior year (2009 and prior) in connection with the filing of its Annual Statement as of December 31, 2010. As a result of this review, which included the review of updated loss experience for the accident years prior to 2010, the Company adjusted upward its reserves for loss and LAE at December 31, 2010 by \$5,116,000.

Prior Exam Findings

The following is a summary of significant adverse findings contained in the Office's prior examination report as of December 31, 2008, along with resulting action taken by the Company.

General

The Company did not maintain sufficient and adequate internal controls and supervision of external contractors providing services in connection with the insurance transactions of the Company. Upon dismissal of the Company's general agent, Security First Managers, LLC, in November 2008, the Company could not recreate certain balances and activity, including losses incurred and premiums received. The Company did not maintain adequate in-house knowledge of its financial transactions, outside of what was provided by the MGA. **Resolution:** The Company replaced Security First Managers, LLC as the Company's general agent with an affiliate, Tower Hill Insurance Group, LLC (THIG).

Investments

The Company did not properly recognize other-than-temporary impairments on common stocks.

Resolution: The Company took corrective action and posted the adjustment in the first quarter of 2009.

Deficient Loss Reserves

An actuarial review of the Company's loss and LAE reserves estimated net loss and LAE reserves \$2.6 million higher than the Company's booked loss and LAE reserves. **Resolution:** The Company took corrective action and strengthened reserves in the first quarter of 2009.

Cash Disbursements

A cash payment of ceded premiums was made December 31, 2008, but was not recorded until January 1, 2009. **Resolution:** The Company acknowledged the finding and received permission from the Office to continue to show the higher amount of payable to reinsurers on the 2008 annual statement.

SUBSEQUENT EVENTS

On February 22, 2011, Royal Palm Insurance Holdings, Inc. (Holdings) purchased all of the issued and outstanding shares of capital stock of the Company from its parent, Ritchie Risk-Linked LLC, including certain other assets, liabilities, rights, and contracts. Holdings is a newly formed affiliate of the Company's general agent, THIG.

On May 4, 2011, the Company changed its name to Tower Hill Signature Insurance Company. This change was recognized by the Office on May 23, 2011.

HISTORY

General

The Company is a domestic property and casualty, stock company licensed to write insurance only in Florida. The Company was incorporated under Florida law on March 31, 2006.

Initially, the Company assumed approximately 120,000 in-force policies from Allstate Floridian Insurance Company and Allstate Floridian Indemnity Company (collectively Allstate), which had elected to reduce Allstate's exposure in Florida following a few years of hurricane losses. The assumption agreement with Allstate has allowed access to the Allstate agency force of approximately 1,500 agents. Renewal of policies on all Allstate business was offered on the

Company's paper. Assumption of policies from other carriers as well as new business from the voluntary market has helped support policy levels.

The Company was party to two Consent Orders, related to its initial licensing:

- Consent Order 85654-06-CO, filed March 31, 2006, with the Office regarding the application for the issuance of a Certificate of Authority.
- Consent Order 85590-06-CO, filed March 29, 2006, with the Office regarding the application for the issuance of a permit.

The Company was in compliance with the provisions of the consent orders.

The Company was authorized to transact the following insurance coverage in Florida on December 31, 2009:

Fire
Homeowners' Multiple Peril
Inland Marine
Allied Lines

The Articles of Incorporation and the Bylaws were not amended during the period covered by this examination.

Dividends to Stockholders

The Company did not declare or pay dividends to its stockholder in 2009.

Capital Stock and Capital Contributions

As of December 31, 2009, the Company's capitalization was as follows:

Number of authorized common capital shares	100,000
Number of shares issued and outstanding	55,000
Total common capital stock	\$5,500,000
Par value per share	\$100.00

The Company was a member of a holding company system and was 100% owned by Ritchie Risk-Linked, LLC, which in turn was owned by Ritchie Risk-Linked Strategies Trading, Ltd. (Strategies Trading). The ultimate parent was Ritchie Capital Management, Ltd. Both Strategies Trading and Ritchie Capital Management, Ltd. disclaimed control over the Company and did not have voting rights.

There were no capital contributions made by the Company's parent during 2009.

Subsequent Event: On February 22, 2011, the Company became a member of a holding company system and was 100% owned by Royal Palm Insurance Holdings, Inc., which in turn was owned 75% by William J. Shively (retains 75% voting control) and Patricia Shively (non-voting), and 25% by Renaissance Re Ventures, Ltd. Effective with the closing, the new owner contributed \$7,000,000 of new capital and received approval from the Office per SSAP No. 72 to accrue the contribution in the 2010 annual statement.

Surplus Debentures

On March 26, 2006, the Company executed a subordinated surplus debenture with Ritchie Risk-Linked Strategies Trading, Ltd. in order to increase surplus of the Company. The contribution to surplus of \$35 million in the form of cash was approved by the Office in compliance with Section 628.401, Florida Statutes. Pursuant to the agreement, accrued interest was to be payable quarterly commencing July 1, 2006, after first having been approved by the Office. The note bears interest at an annual rate equal to the prime rate (adjusted quarterly) plus 2.75%. The maturity date of the agreement is March 31, 2026. In December 2007, the \$35 million surplus note was reduced by \$10 million, after the Company received approval from the Office for principal

repayment. At year-end 2008, the Office approved a second principal repayment of \$5 million, such that the balance of the note was reduced to \$20 million.

On December 20, 2006, the Company executed a surplus note with the State Board of Administration of Florida of \$25 million in new capital in order to participate in the Capital Build-up Incentive Program. The surplus note accrues interest at a rate equivalent to the 10-year U.S. Treasury Bond rate. The term of the agreement is 20 years.

Subsequent Event: Ritchie Risk-Linked Strategies Trading, Ltd. contributed the \$20 million surplus note to the Company upon its sale. The State Board of Administration of Florida deferred payment on its \$25 million surplus note for one year.

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

There were no acquisitions, mergers, disposals, dissolutions, or purchase or sales through reinsurance during the period of examination.

CORPORATE RECORDS

The recorded minutes of the shareholder, Board and certain internal committees were not reviewed for the period under examination. The corporate minutes, including the meetings of all shareholders, Board and committees were requested in the initial documentation request sent to the Company. After several subsequent requests, an incomplete set of documents was provided. A complete set of corporate minutes was not received during the course of fieldwork. The Company was in violation of Sections 624.318 (2), and 607.1601, Florida Statutes.

Conflict of Interest

The Company adopted a policy statement requiring annual 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 Sections 607.1601 and 628.231, Florida Statutes. Directors serving as of December 31, 2009, were:

Directors

Name and Location	Principal Occupation
Gerald R. Komlofske Wilmette, Illinois	Consultant Ritchie Capital Management
Kumar Gursahaney Palm Beach Gardens, Florida	Consultant Ritchie Capital Management
John D. Kermath Houston, Texas	Consultant and Financial Advisor Ritchie Capital Management
Phillip M. Thomasson Lisle, Illinois	President – Retired Tower Hill Insurance Group, LLC
Stephen S. Charles Fairfield, Connecticut	Chief Risk Officer Ritchie Capital Management

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

Senior Officers

Name	Title
Gerald R. Komlofske	Chief Executive Officer and President
John D. Kermath	Vice President and Secretary
Kumar Gursahaney	Treasurer

The Company's Board appointed several internal committees in accordance with Section 607.0825, Florida Statutes. Following were the principal internal board committees and their members as of December 31, 2009:

Executive Committee

Gerald R. Komlofske¹
Kumar Gursahaney
John D. Kermath

Audit Committee

Phillip M. Thomasson¹
Kumar Gursahaney
Stephen S. Charles

Investment Committee

Stephen S. Charles¹
Kumar Gursahaney
John D. Kermath

Compensation Committee

John D. Kermath¹
Phillip M. Thomasson
Stephen S. Charles

Underwriting Committee

Gerald R. Komlofske¹
Phillip M. Thomasson

Reinsurance Committee

John D. Kermath¹
Gerald R. Komlofske
Phillip M. Thomasson

¹ Chairman

Subsequent Event: Upon the acquisition of the Company by Royal Palm Insurance Holdings, Inc., and until a meeting of the stockholders is held to elect a Board of Directors, the acting directors were:

Name and Location

William J. Shively
Lexington, Kentucky

Principal Occupation

Chief Executive Officer
Tower Hill Insurance Group, LLC

Donald C. Matz, Jr.
Gainesville, Florida

President
Tower Hill Insurance Group, LLC

Joel P. Curran
Gainesville, Florida

Chief Underwriting Officer
Tower Hill Insurance Group, LLC

Keyton Benson, Sr.
Gainesville, Florida

Chief Marketing Officer
Tower Hill Insurance Group, LLC

Affiliated Companies

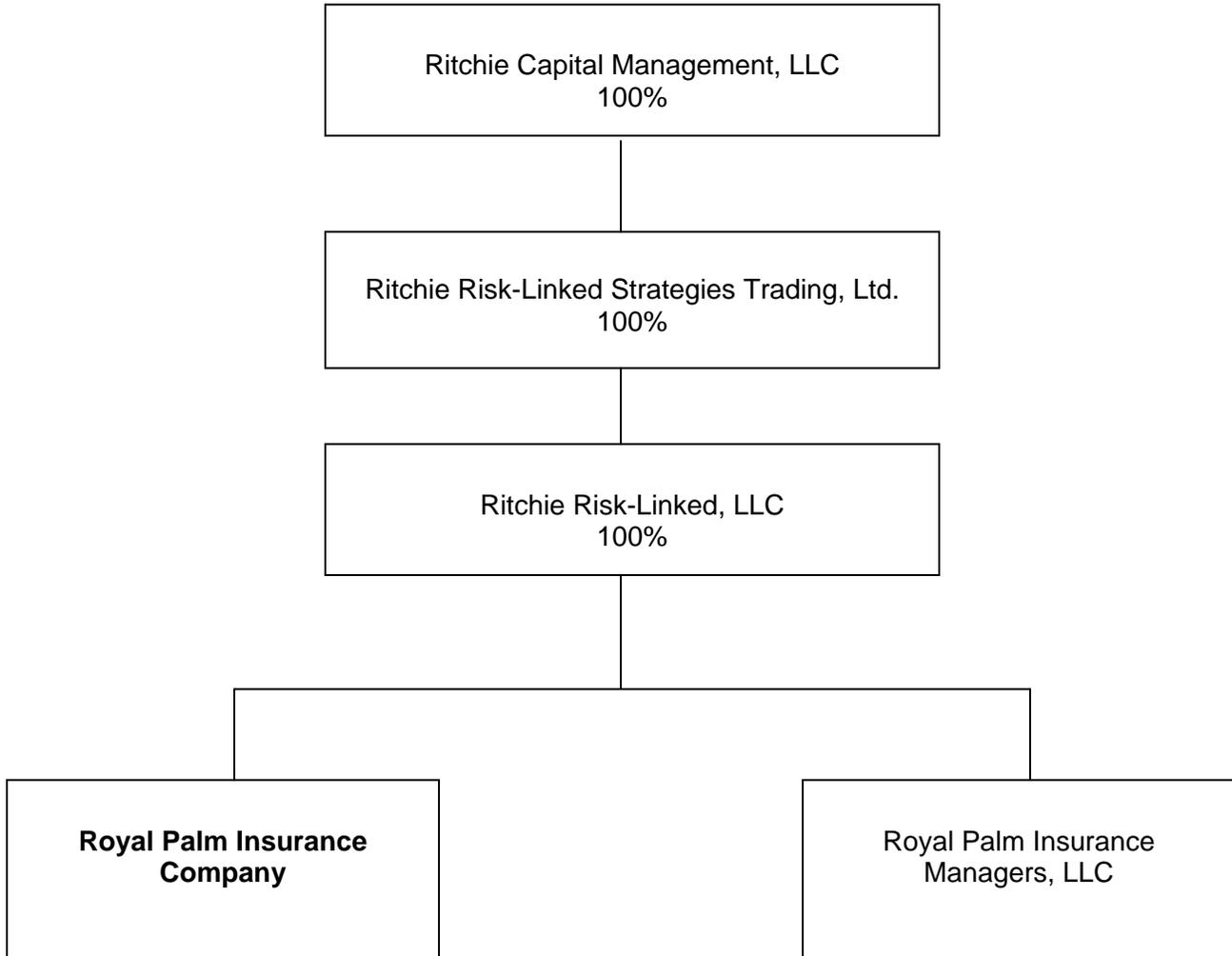
The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code. The latest holding company registration statement was filed with the State of Florida on April 15, 2010, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

A simplified organizational chart as of December 31, 2009, reflecting the holding company system, is shown below. Schedule Y of the Company's 2009 annual statement provided a list of all related companies of the holding company group.

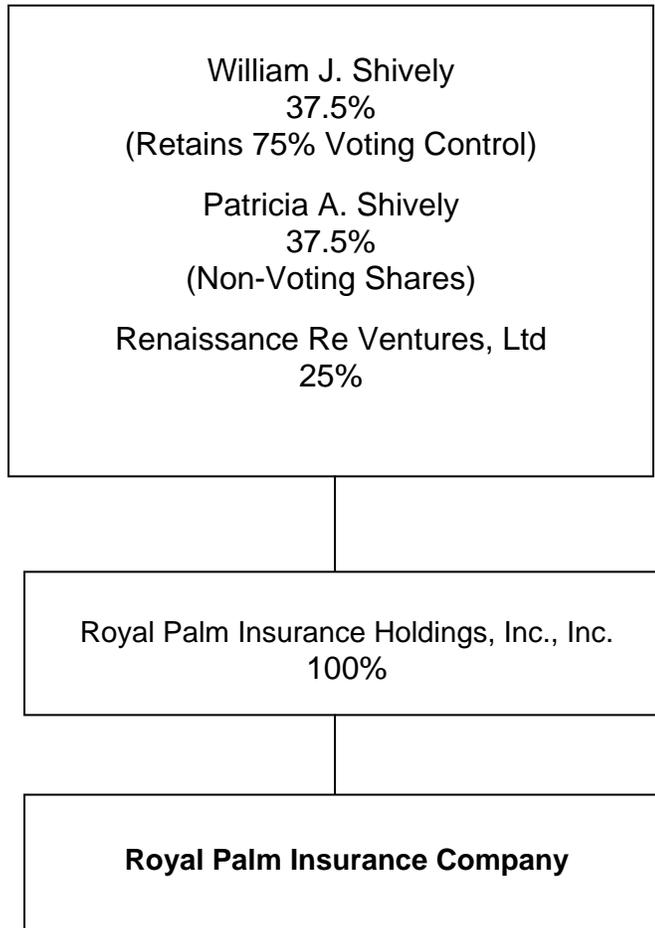
ROYAL PALM INSURANCE COMPANY

Organizational Chart

DECEMBER 31, 2009



Subsequent Event: A simplified organizational chart reflecting the holding company system upon the acquisition of the Company is shown below.



The following agreements were in effect at December 31, 2009 between the Company and its affiliates:

General Agency Agreement

The Company entered into a General Agency Agreement with its affiliate, Royal Palm Insurance Managers, LLC, (RPIM), effective December 4, 2008. Pursuant to this agreement, RPIM will manage all business produced by the Allstate agents. Fees under the agreement were based on 25% of direct written premium and included the \$25 policy fee. Fees and commissions incurred under this agreement during 2009 amounted to \$43,295,597.

FIDELITY BOND AND OTHER INSURANCE

The Company maintained fidelity bond coverage up to \$1,500,000 with a deductible of \$35,000, which adequately reached the suggested minimum as recommended by the NAIC.

The Company also maintained professional liability coverage, which included directors and officers (D&O), with an aggregate limit of \$12,000,000 as well as worker's compensation, general liability and umbrella coverage.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company did not have any pension stock ownership or employee insurance plans.

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.

COMPANY GROWTH

Direct written premium from the voluntary market has increased significantly since the Company's inception and the initial assumption of Allstate policies. With access to an independent agency force through Tower Hill Insurance Group, LLC, the Company has started to build a book of business that is no longer solely reliant upon Allstate agents for growth.

However, the Company has experienced significant surplus depletion due to several factors including adverse loss development; legal costs and judgment related to the litigation with the Company's former general agent, Securities First Managers, LLC; and realized losses associated with the sale of investments. Contributions to surplus by the Company's parent and affiliated general agent, Royal Palm Insurance Managers, LLC has allowed surplus levels to remain 2.5 times higher than the amount required by regulatory formula.

Profitability of Company

The following table shows the profitability trend (in dollars) of the Company for the period of operation, as reported in the filed annual statements.

	2009	2008	2007	2006
Premiums Earned	103,819,451	116,438,960	87,861,860	34,341,069
Net Underwriting Gain/(Loss)	(10,952,235)	(3,768,651)	(32,726,723)	(21,712,477)
Net Income	(11,706,318)	1,203,082	(23,591,409)	(19,918,075)
Total Assets	633,522,973	198,172,293	243,117,765	182,313,475
Total Liabilities	591,223,507	149,138,299	181,803,582	88,034,997
Surplus As Regards Policyholders	42,299,466	49,033,994	61,314,183	94,278,478

LOSS EXPERIENCE

Incurred losses and loss adjustment expenses attributable to insured events increased by \$2,767,000 in 2009, compared with amounts previously reported in 2008. The change was a result of payments and re-estimation of unpaid losses and loss adjustment expenses principally on losses with loss dates in the year 2008.

Subsequent Event: Incurred losses and loss adjustment expenses recorded in 2010, attributable to insured events of prior years increased by \$12.4 million in 2010 compared with amounts previously reported in 2009, for these same periods. The one-year adverse development reported in 2010 was substantially attributable to losses associated with sinkhole claims.

REINSURANCE

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

Assumed

Effective April 1, 2006, the Company entered into a quota share reinsurance agreement with Allstate Floridian Insurance Company and Allstate Floridian Indemnity Company whereby, the Company assumed 100 percent of the losses associated with a book of homeowners' policies in Florida. The assumed written premium remaining as of December 31, 2009, was \$28,092.

Ceded

The Company ceded risk on a per risk excess of loss and per occurrence catastrophe basis to the Florida Hurricane Catastrophe Fund and various unrelated reinsurers.

The reinsurance contracts were reviewed by the Company's appointed actuary and were utilized in determining the ultimate loss opinion.

Subsequent Event: The Company entered into a new quota share reinsurance agreement with Greenlight Reinsurance Ltd., an unaffiliated, unauthorized company based in the Cayman Islands, effective September 1, 2010. Under the new agreement, the Company cedes 80% of new, renewal, and in-force business while retaining 20%. Pursuant to Consent Order 114865-11-CO, filed February 7, 2011, the Office will allow the Company until March 1, 2014, to reduce cessions to 50% or less, as required by Section 624.404(4), Florida Statutes.

ACCOUNTS AND RECORDS

The Company maintained its principal operational offices in Gainesville, Florida, where this examination was conducted.

An independent CPA audited the Company's statutory basis financial statements for the year 2009 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 and non-affiliates had the following agreements:

General Agency Agreement

The Company entered into a General Agency Agreement with THIG on July 16, 2008. Pursuant to this agreement and a separate agreement with Royal Palm Insurance Managers, THIG provided marketing, underwriting, accounting and administrative services on all business.

Claims Service Agreement

The Company entered into a Claims Service Agreement with Tower Hill Claims Service, Inc. on July 16, 2008. The agreement continues in force for a term of five years and will automatically renew for successive five-year periods, unless otherwise terminated within the guidelines of the agreement. Claims administration fees were calculated according to a fee schedule based on size of claim.

Custodial Agreement

The Company maintained a custodial agreement with Morgan Stanley Trust, N. A. The Company was in compliance with Rule 69O-143.042, Florida Administrative Code, that stipulates the requirements of a custodial agreement.

Investment Manager Agreement

On March 22, 2006, the Company entered into the Investment Manager Agreement with Sage Advisory Services, Ltd. Co. (Sage). Sage acted as investment manager and advisor with respect to certain of the Company's assets held by Morgan Stanley Trust, N.A., pursuant to a separate custodial agreement. Sage supervised and directed investments on behalf of the Company subject to the terms of the written investment policies and guidelines established by the Company.

Customer Agreements – TALF Program

In 2009, the Company took advantage of the Term Asset-Backed Securities Loan Facility (TALF) program offered by the Federal Reserve, increasing the Company's invested assets by \$500 million and incurring liabilities (debt) of \$455 million. TALF loans are specifically used to buy high quality asset-backed securities, have a term of up to five years, are non-recourse to the borrower and are fully secured by the eligible asset-backed securities.

There were two customer agreements associated with this program. One with Deutsche Bank, executed on June 25, 2009, and one with Banc of America Securities, LLC and Huxley Capital Management, LLC, executed on May 28, 2009. Pursuant to the agreements, Deutsche Bank and Huxley Capital Management, LLC acted as agents of the Company for the purpose of obtaining funds to purchase certain asset-backed securities from the Federal Reserve. In the

second of the aforementioned agreements, Banc of America Securities, LLC acted as dealer of the securities purchased.

Subsequent Event: Prior to the sale of the Company, the investment portfolio was liquidated, including the TALF asset-backed securities, and the related government-backed TALF loans (Borrowed Money as reflected on the Balance Sheet) were satisfied with no material impact.

Independent Auditor Agreement

The Company contracted with McGladrey & Pullen, LLP, to perform the annual audit of its financial statements as required by Rule 69O-137.002 (7) (c), Florida Administrative Code.

INFORMATION TECHNOLOGY REPORT

INS Services, 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	Cash	\$2,156,884	\$2,156,884
TOTAL SPECIAL DEPOSITS		<u>\$2,156,884</u>	<u>\$2,156,884</u>

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2009, and the results of its operations for the year then ended as determined by this examination. Adjustments made as a result of the examination are noted in the section of this report captioned, "Comparative Analysis of Changes in Surplus."

**Royal Palm Insurance Company
Assets**

DECEMBER 31, 2009

	Per Company	Examination Adjustments	Per Examination
Bonds	\$588,535,701		\$588,535,701
Cash and S/T Investments	29,583,664		29,583,664
Investment income due and accrued	1,246,912		1,246,912
Agents' Balances:			
Uncollected premium	2,547,545		2,547,545
Deferred premiums	8,837,108		8,837,108
Reinsurance recoverable	948,061		948,061
Guaranty funds receivable or on deposit	1,523,777		1,523,777
Receivables from parent, subsidiaries and affiliates	316,093		316,093
Aggregate write-in for other than invested assets	(15,888)		(15,888)
Totals	<u>\$633,522,973</u>	<u>\$0</u>	<u>\$633,522,973</u>

**Royal Palm Insurance Company
Liabilities, Surplus and Other Funds**

DECEMBER 31, 2009

	Per Company	Examination Adjustments	Per Examination
Losses	\$33,834,432	\$1,358,000	\$35,192,432
Reinsurance payable	95,199		95,199
Loss adjustment expenses	2,878,234	3,758,000	6,636,234
Commissions payable, contingent commissions and other similar charges	2,193,043		2,193,043
Other expenses	901,574		901,574
Net deferred tax liability	96,700		96,700
Borrowed money	455,601,982		455,601,982
Taxes, licenses and fees	604,210		604,210
Unearned premium	52,365,810		52,365,810
Advance premium	4,835,750		4,835,750
Ceded reinsurance premiums payable	33,140,291		33,140,291
Amounts withheld	1,476,282		1,476,282
Aggregate write-ins for liabilities	3,200,000		3,200,000
Total Liabilities	\$591,223,507	\$5,116,000	\$596,339,507
Common capital stock	\$5,500,000		\$5,500,000
Surplus notes	44,632,353		44,632,353
Gross paid in and contributed surplus	49,500,000		49,500,000
Unassigned funds (surplus)	(57,332,887)	(\$5,116,000)	(62,448,887)
Surplus as regards policyholders	\$42,299,466	(\$5,116,000)	\$37,183,466
Total liabilities, surplus and other funds	\$633,522,973	\$0	\$633,522,973

**Royal Palm Insurance Company
Statement of Income**

DECEMBER 31, 2009

Underwriting Income

Premiums earned		\$103,819,451
	Deductions:	
Losses incurred		\$66,276,393
Loss expenses incurred		6,013,607
Other underwriting expenses incurred		42,481,686
Total underwriting deductions		\$114,771,686
Net underwriting gain or (loss)		(\$10,952,235)

Investment Income

Net investment income earned		\$3,810,847
Net realized capital gains or (losses)		(279,052)
Net investment gain or (loss)		\$3,531,795

Other Income

Net gain (loss) from agents' or premium balances charged off		(\$1,222,101)
Finance and service charges not included in premiums		136,223
Aggregate write-ins for miscellaneous income		(3,200,000)
Total other income		(\$4,285,878)
Net income before dividends to policyholders and before federal & foreign income taxes		(\$11,706,318)
Dividends to policyholders		0
Net Income, after dividends to policyholders, but before federal & foreign income taxes		(\$11,706,318)
Federal & foreign income taxes		0
Net Income		(\$11,706,318)

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year		\$49,033,994
Net Income		(\$11,706,318)
Change in net unrealized capital gains		2,580,441
Change in net deferred income tax		(14,857,600)
Change in non-admitted assets		17,616,596
Change in surplus notes		(367,647)
Examination adjustment		(5,116,000)
Change in surplus as regards policyholders for the year		(\$11,850,528)
Surplus as regards policyholders, December 31 current year		\$37,183,466

A comparative analysis of changes in surplus is shown below.

ROYAL PALM INSURANCE COMPANY
Comparative Analysis of Changes In Surplus

DECEMBER 31, 2009

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, 2009, per Annual Statement	\$42,299,466
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	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:			
No Adjustment			
LIABILITIES:			
Losses	\$33,834,432	\$35,192,432	(\$1,358,000)
Loss Adjustment Expenses	2,878,234	6,636,234	(3,758,000)
Net Change in Surplus:			(5,116,000)
Surplus as Regards Policyholders December 31, 2009, Per Examination			\$37,183,466

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses \$41,828,666

An outside actuarial firm appointed by the Board of Directors, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2009, 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 engaged an independent actuarial firm, INS Consultants, Inc., to review the reserves for loss and loss adjustment expenses (LAE) carried in the Company's balance sheet as of December 31, 2009. The review reflected estimated net loss and LAE reserves \$5.1 million greater than the Company's booked net loss and LAE reserves. Loss and LAE reserves were increased a total of \$5,116,000.

Subsequent Event: Following the Office's approval in February 2011 of the Company's acquisition into the holding company as described on Page 6, the Company re-estimated its reserves for loss and loss adjustment expenses (LAE) for the year just ended (2010) and prior year (2009 and prior) in connection with the filing of its Annual Statement as of December 31, 2010. As a result of this review, which included the review of updated loss experience for the accident years prior to 2010, the Company adjusted upward its reserves for loss and LAE at December 31, 2010 by \$5,116,000.

Capital and Surplus

The adjusted surplus amount of \$37,183,466, exceeded the minimum of \$13,401,904 required by Section 624.408, Florida Statutes.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Royal Palm Insurance Company** as of December 31, 2009, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was \$37,183,466, which exceeded the minimum of \$13,401,904 required by Section 624.408, Florida Statutes.

In addition to the undersigned, John V. Normile, CFE, Examiner-In-Charge; plus J. Matthew Perkins, CFE, Bill W. Holmes, CFE, and Don Gaskill, CFE, Participating Examiners; and Patricia Casey Davis, CPA, CFE, Manager of INS Regulatory Insurance Services, Inc. participated in the examination. James Boswell, Systems Specialist; Michael W. Morrow, ACAS, MAAA, and Robert Gardner, FCAS, MAAA, consulting actuaries of INS Consultants, Inc.; Claude Granese, CPA, Director of Finance and Quality Control of INS Services, Inc.; and Fidel S. Gonzalez, Financial Examiner/Analyst Supervisor of the Office also participated in the examination.

Respectfully submitted,

Kethessa Carpenter, CPA
Financial Examiner/Analyst Supervisor
Florida Office of Insurance Regulation