

**REPORT ON EXAMINATION**  
**OF**  
**ST. JOHNS INSURANCE COMPANY, INC.**  
**ORLANDO, FLORIDA**

**AS OF**  
**DECEMBER 31, 2006**

**BY THE**  
**OFFICE OF INSURANCE REGULATION**

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Tallahassee, Florida

June 8, 2007

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, 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, 2006, of the financial condition and corporate affairs of:

**ST. JOHNS INSURANCE COMPANY, INC.  
6675 WESTWOOD BLVD., SUITE 360  
ORLANDO, FLORIDA 32821**

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, 2006 through December 31, 2006. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2005. This examination commenced, with planning at the Office, on April 2, 2007, to April 6, 2007. The fieldwork commenced on April 9, 2007, and was concluded as of June 8, 2007.

This financial examination was a second year 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.

In this examination, emphasis was directed to the quality, value and integrity of the statement assets and the determination of liabilities, as those balances affect the financial solvency of the Company as of December 31, 2006. Transactions subsequent to year-end 2006 were reviewed where relevant and deemed significant to the Company's financial condition.

The examination included a review of the corporate records and other selected records deemed pertinent to the Company's operations and practices. In addition, the NAIC IRIS ratio report, the Company's independent audit reports and certain work papers prepared by the Company's independent certified public accountant (CPA) were reviewed and utilized where applicable within the scope of this examination.

This report of examination is confined to financial statements and comments on matters that involve departures from laws, regulations or rules, or which are deemed to require special explanation or description.

Based on the review of the Company's control environment and the materiality level set for this examination, reliance was placed on work performed by the Company's CPAs, after verifying the statutory requirements, for the following:

- Federal and Foreign Income Taxes
- Agents' Balances in the Course of Collection
- Fraud
- Testing of Premium Files

### **Status of Adverse Findings from Prior Examination**

The following is a summary of significant adverse findings contained in the Office's prior examination report as of December 31, 2003, along with resulting action taken by the Company in connection therewith.

Loss and loss adjustment expense reserves were deficient by \$893,000 as noted in the actuarial opinion issued by the Office Actuary.

**Resolution:** The Company increased its reserves to compensate for the deficiency and has fully absorbed this deficiency in its 2006 statutory financial statements.

## HISTORY

### General

The Company was incorporated in Florida on November 25, 2003 and commenced business on December 24, 2003 as St. Johns Insurance Company, Inc.

The Company was party to Consent Order 72900-03-CO filed December 4, 2003 with the Office regarding the application for the issuance of a certificate of authority. The Company failed to comply with the following provisions of this consent order. The Company did not write business in the following lines:

Fire

Allied lines

Commercial multi peril

Other liability

Mobile home multi peril

The Company did not request from the Office to have these lines removed from its certificate of authority. The Company was not in compliance with Section 624.430(1), Florida Statutes, which requires any insurer not writing premiums in a kind or line of insurance within a calendar year to have that kind or line of insurance removed from its certificate of authority;

The Company was authorized to transact, in addition to the lines listed above, the following lines of insurance coverage in Florida on December 31, 2006:

Homeowners multiple peril

Inland marine

The articles of incorporation and the bylaws were not amended during the period covered by this examination.

## Capital Stock

As of December 31, 2006, the Company's capitalization was as follows:

Number of authorized common capital shares	35,000
Number of shares issued and outstanding	1,000
Total common capital stock	\$1,000
Par value per shares	\$ 1.00

Control of the Company was maintained by its parent, St. Johns Financial Holding Company, Inc., who owned 100% of the stock issued by the Company. St. Johns Financial Holding Company, in turn, was 80% owned by St. James Financial Holding Company, Inc., and 20% owned by Seibels, Bruce & Company, a South Carolina Company. St. James Financial Holding Company was formerly known as Braishfield Holding Company, Inc.

## Profitability of Company

The following table shows the profitability trend (in dollars) of the Company for the period of examination and the previous two years, as reported in filed the annual statements.

	<b>2006</b>	<b>2005</b>	<b>2004</b>
Premiums Earned	16,176,773	2,010,705	1,070,064
Net Underwriting Gain/(Loss)	(9,010,071)	(8,608,180)	(400,890)
Net Income	(3,839,486)	(6,540,955)	(389,637)
Total Assets	92,398,120	26,961,942	12,791,155
Total Liabilities	45,534,040	16,779,292	738,483
Surplus As Regards Policyholders	46,864,080	10,182,650	12,053,672

## **Dividends to Stockholders**

No dividends were declared or paid to the stockholders during the period covered by this examination.

## **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, 2006, were:

### **Directors**

<b>Name and Location</b>	<b>Principal Occupation</b>
Reese I. Bowen Orlando, Florida	President St. James Insurance Group
Michael A. Culbertson Columbia, South Carolina	President Seibels Bruce Group, Inc.
Robert P. Lucas Orlando, Florida	Executive VP St. James Insurance Group
James J. McCahill Orlando, Florida	Chairman St. James Insurance Group
Christopher J. McHattie Kinnelon, New Jersey	Attorney Christopher J. McHattie, Esq.

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

## Senior Officers

<b>Name</b>	<b>Title</b>
James J. McCahill	President
Reese I. Bowen (a)	Vice President
Edward D. Falzarano	Secretary and Treasurer
Scot E. Moore	Chief Financial Officer
Russell Beck	Chief Claims Officer

(a) Reese I. Bowen was appointed as President in August of 2006.

The Company's board appointed several internal committees in accordance with Section 607.0825, Florida Statutes. Following are the principal internal board committees and their members as of December 31, 2006:

### **Compensation Committee**

Robert P. Lucas<sup>1</sup>  
Reese I. Bowen  
Michael A. Culbertson

### **Audit Committee**

Christopher J. McHattie<sup>1</sup>  
Robert P. Lucas  
Reese I. Bowen

<sup>1</sup> Chairman

## **Conflict of Interest Procedure**

The Company adopted a policy statement requiring annual disclosure of conflicts of interest, in accordance with the NAIC Financial Condition Examiners Handbook. No exceptions were noted during this examination period.

## **Corporate Records**

The recorded minutes of the shareholder, Board of Directors, 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 in accordance with Section 607.1601, Florida Statutes, including the authorization of investments as required by Section 625.304, Florida Statutes.

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

The Company did not have any acquisitions, mergers, disposals, dissolutions, and purchase or sales through reinsurance during the period under examination.

## **Surplus Debentures**

On December 30, 2004, the Company issued a \$1,500,000 surplus note in return for cash to its parent, St. Johns Financial Holding Company. The surplus note had an interest rate of prime plus 2% with a maturity date of December 31, 2009. Interest was payable quarterly beginning April 1, 2005. The Company was required to obtain approval from the Office prior to all principal and interest payments. In June 2006, the Company obtained a \$20,000,000 surplus note from the State Board Administration of Florida. The rate of interest was based on the 10 year Treasury Note and adjusted quarterly. The term of the note was 20 years.

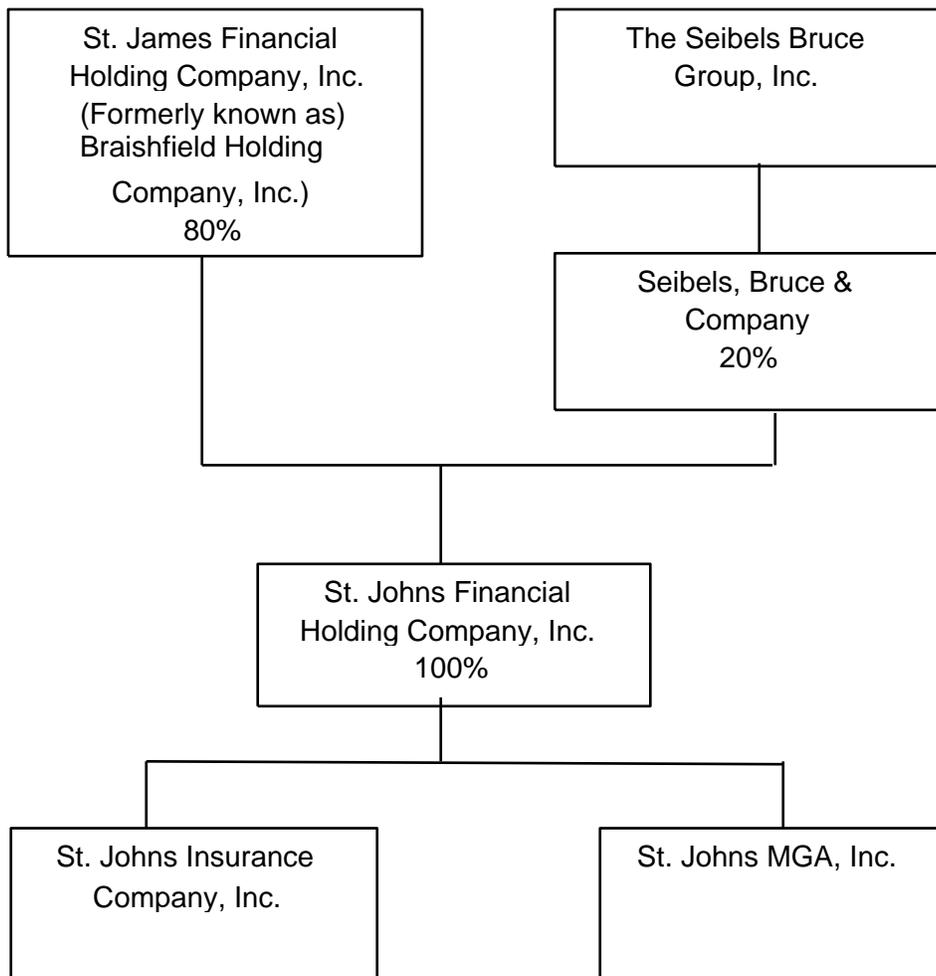
## **AFFILIATED COMPANIES**

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 February 23, 2007, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

A simplified organizational chart as of December 31, 2006, reflecting the holding company system, is shown below. Schedule Y of the Company's 2006 annual statement provided a list of all related companies of the holding company group.

**ST. JOHNS INSURANCE COMPANY, INC.  
ORGANIZATIONAL CHART**

**DECEMBER 31, 2006**



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

### **Tax Allocation Agreement**

The Company, along with its parent, filed a consolidated federal income tax return. On December 31, 2006, the method of allocation between the Company and its parent was based on a separate tax liability as if the Company had filed a separate tax return.

### **Managing General Agent Agreement and Claims Administration Agreement**

The Company entered into a managing general agent agreement (MGA) and claims administration agreement with its affiliate, St. Johns MGA, Inc., effective November 23, 2003. St. Johns MGA Inc. represented the Company in producing and handling policies in the authorized lines of business. The agreement provided that St. Johns MGA, Inc. had authority to provide services which included but were not limited to: accept applications, issue and service policies, collect premiums, and cancel policies, as well as investigate, evaluate, handle, adjust and settle claims. St. Johns, MGA, Inc. charged a \$25 policy fee.

### **FIDELITY BOND AND OTHER INSURANCE**

As of year-end 2006, St. Johns Financial Holding Company, St. James MGA, Inc. and the Company were joint insureds on a crime shield policy with coverage of \$3,000,000, and a deductible of \$50,000. This insurance adequately covered the suggested minimum amount of coverage for the Company as recommended by the NAIC.

The Company also maintained Directors and Officers, Errors & Omissions, and general liability and property coverage usual to the operation of an insurer.

## PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company's full time employees were eligible to participate in the St. James Insurance Group 401(k) plan, with discretionary contributions by St. James Insurance Group. There were no discretionary contributions for 2005. In addition, the Company's employees participated in certain health care and life insurance benefit plans offered by St. James Insurance Group. Expenses of these plans were initially paid by St. James Insurance Group. In turn, St. James Insurance Group was then reimbursed by the Company.

## STATUTORY DEPOSITS

The following securities were deposited with the State of Florida as required by Section 624.411, Florida Statutes:

<u>State</u>	<u>Description</u>	<u>Par Value</u>	<u>Market Value</u>
FL	CASH DEPOSIT	<u>\$300,000</u>	<u>\$300,000</u>
	TOTAL SPECIAL DEPOSITS	<u>\$300,000</u>	<u>\$300,000</u>

## INSURANCE PRODUCTS

### Territory

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

### 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)3a, Florida Statutes.

## **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**

The Company did not assume any risk during the period covered by this examination.

### **Ceded**

The Company ceded approximately 67% of its premiums on a quota share and catastrophe excess of loss basis to authorized and unauthorized reinsurers. The primary reinsurers were Tokio Millenium Re Ltd, an unauthorized and unaffiliated reinsurer (70%).

Unauthorized reinsurers were credited with letters of credit. The letters of credit contained the proper evergreen clause and also the State of Florida governance.

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

## **ACCOUNTS AND RECORDS**

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

An independent CPA audited the Company's statutory basis financial statements for the year 2006, 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's accounting records were maintained on a computerized system. The Company's balance sheet accounts were verified with the line items of the annual statement submitted to the Office.

The Company and non-affiliates had the following agreements:

#### **Custodial Agreement**

The Company maintained a custodial agreement with Branch Banking & Trust Company of Florida (BB&T), which was in compliance with the Rule 69O-143.042, Florida Administrative Code.

#### **Independent Auditor Agreement**

The Company engaged Dixon Hughes, PLLC for the statutory audit of its financial statements.

### **FINANCIAL STATEMENTS PER EXAMINATION**

The following pages contain financial statements showing the Company's financial position as of December 31, 2006, 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."

**ST. JOHNS INSURANCE COMPANY, INC.**  
**Assets**

**DECEMBER 31, 2006**

	Per Company	Examination Adjustments	Per Examination
Bonds	\$39,727,793		\$39,727,793
Cash and Short-term investments	37,138,290		37,138,290
Investment income due & accrued	463,664		463,664
Agents' Balances:			
Uncollected premium	6,731,389		6,731,389
Deferred premium	5,141,914		5,141,914
Reinsurance Recoverable	1,032,731		1,032,731
EDP Equipment	35,728		35,728
Net deferred tax asset	966,800		966,800
Guaranty funds receivable	1,159,811		1,159,811
Totals	\$92,398,120	\$0	\$92,398,120

**ST. JOHNS INSURANCE COMPANY, INC.**  
**Liabilities, Surplus and Other Funds**

**DECEMBER 31, 2006**

	Per Company	Examination Adjustments	Per Examination
Losses	\$7,576,329		\$7,576,329
Loss adjustment expenses	1,842,907		1,842,907
Other expenses	72,022		72,022
Taxes, licenses and fees	557,765		557,765
Current federal income tax	491		491
Unearned premium	41,449,399		41,449,399
Ceded reinsurance premium payable	(6,441,793)		(6,441,793)
Payable to parent, subsidiaries and affiliates	395,785		395,785
Aggregate write-ins for liabilities	81,135		81,135
Total Liabilities	\$45,534,040		\$45,534,040
Common capital stock	\$1,000		\$1,000
Surplus notes	21,500,000		21,500,000
Gross paid in and contributed surplus	43,574,000		43,574,000
Unassigned funds (surplus)	(18,210,920)		(18,210,920)
Surplus as regards policyholders	\$46,864,080		\$46,864,080
Total liabilities, capital and surplus	\$92,398,120	\$0	\$92,398,120

**ST. JOHNS INSURANCE COMPANY, INC.**  
**Statement of Income**

**DECEMBER 31, 2006**

**Underwriting Income**

Premiums earned	\$16,176,773
<b>DEDUCTIONS:</b>	
Losses incurred	17,991,053
Loss expenses incurred	6,541,622
Other underwriting expenses incurred	654,169
Aggregate write-ins for underwriting deductions	0
Total underwriting deductions	<u>\$25,186,844</u>
Net underwriting gain or (loss)	(\$9,010,071)

**Investment Income**

Net investment income earned	\$1,942,380
Net realized capital gains or (losses)	437
Net investment gain or (loss)	<u>\$1,942,817</u>

**Other Income**

Net gain or (loss) from agents' or premium balances charged off	(\$61,209)
Aggregate write-ins for miscellaneous income	(2,732)
Total other income	<u>(\$63,941)</u>
Net income before dividends to policyholders and before federal & foreign income taxes	<u>(\$7,131,195)</u>
Dividends to policyholders	
Net Income, after dividends to policyholders, but before federal & foreign income taxes	(\$7,131,195)
Federal & foreign income taxes	<u>(3,291,709)</u>
Net Income	(\$3,839,486)

**Capital and Surplus Account**

Surplus as regards policyholders, December 31 prior year	\$10,182,650
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**Gains and (Losses) in Surplus**

Net Income	(\$3,839,486)
Change in net unrealized capital gains or losses	
Change in net deferred income tax	(696,801)
Change in surplus notes	20,000,000
Surplus adjustments: Paid in	20,000,000
Examination adjustment	0
Change in surplus as regards policyholders for the year	<u>\$35,463,713</u>
Surplus as regards policyholders, December 31 current year	<u><u>\$45,646,363</u></u>

## COMMENTS ON FINANCIAL STATEMENTS

### Liabilities

#### Losses and Loss Adjustment Expenses

**\$9,419,236**

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, 2006, make a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

The Office actuary reviewed work papers provided by the Company and was in concurrence with this opinion.

**ST. JOHNS INSURANCE COMPANY, INC.  
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS**

**DECEMBER 31, 2006**

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, 2006, Per Annual Statement	\$46,864,080
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	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
<b>ASSETS:</b>			
No adjustment.			
<b>LIABILITIES:</b>			
No adjustment.			
Net Change in Surplus:			0
Surplus as Regards Policyholders December 31, 2006, Per Examination			\$46,864,080

## SUMMARY OF FINDINGS

### **Compliance with previous directives**

The Company has taken the necessary actions to comply with the comments made in the 2003 examination report issued by the Office.

### **Current examination comments and corrective action**

The following is a brief summary of items of interest and corrective action to be taken by the Company regarding findings in the examination as of December 31, 2006.

### **General**

The Company had not written insurance coverage in the following lines of business for a period of two years: Fire, Allied lines, Commercial multi-peril, Other liability and Mobile home multi peril. Section 624.430(1), Florida Statutes, requires any insurer who does not write any premiums in a kind or line of insurance within a calendar year shall have that kind or line of insurance removed from its certificate of authority. **We recommend that the Company request from the Office the removal of any line of business from its certificate of authority that it has not written.**

## CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **St. Johns Insurance Company, Inc.** as of December 31, 2006, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was \$46,864,080, which was in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned, John Berry, Financial Examiner/Analyst Supervisor, and Joe Boor, FCAS, Office Actuary, participated in the examination.

Respectfully submitted,

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James D. Collins  
Reinsurance/Financial Specialist  
Florida Office of Insurance Regulation