REPORT ON EXAMINATION

OF

ST. JOHNS INSURANCE COMPANY, INC.

ORLANDO, FLORIDA

AS OF

DECEMBER 31, 2004

BY THE

OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida

March 15, 2006

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, 2004, of the financial condition and corporate affairs of:

ST. JOHNS INSURANCE COMPANY, INC.
6675 WESTWOOD BOULEVARD
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, 2004 through December 31, 2004. The Company had not previously been examined by representatives of the Florida Office of Insurance Regulation (Office) as 2004 was the Company's first full year of operations. This examination commenced with planning at the Office on January 3, 2006, to January 6, 2006. The fieldwork commenced on January 9, 2006, and was concluded as of March 15, 2006. The examination included any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

This financial examination was a statutory financial examination conducted in accordance with the Financial 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.

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 A.M. Best 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.

We valued and/or verified the amounts of the Company's assets and liabilities as reported by the Company in its annual statement as of December 31, 2004. Transactions subsequent to year-end 2004 were reviewed where relevant and deemed significant to the Company's financial condition.

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 accounts:

Deferred tax assets
Federal income taxes
Taxes, licenses and fees
Commissions payable
Reinsurance recoverable
Ceded reinsurance payable

HISTORY

General

The Company was incorporated on November 25, 2003, as a stock property and casualty insurer under the applicable provisions of the State of Florida and commenced business on December 24, 2003 with the name of St. Johns Insurance Company, Inc.

In accordance with Section 624.401(1), Florida Statutes, the Company was authorized to transact the following insurance coverage in Florida on December 31, 2004:

Fire	Allied Lines
Homeowners Multi Peril	Inland Marine

Commercial Multi Peril	Other Liability
Mobile Home Multi Peril	

The Company wrote only Homeowners multi peril coverage in 2004.

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

Capital Stock

As of December 31, 2004, 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 share	$1.00

Control of the Company was maintained by its parent, St. Johns Financial Holding Company, Inc, (SJFHC) who owned 100 percent of the stock issued by the Company. SJFHC, in turn, was 80% owned by St. James Financial Holding Company, Inc. (St. James), and 20% owned by Seibels, Bruce & Company. St James 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 as reported in the filed annual statements of the Company.

	2004	2003
Premiums Earned	1,070,064	-0-
Net Underwriting Gain/(Loss)	(8,819,293)	(400,890)
Net Income/(Loss)	(8,398,672)	(389,637)
Total Assets	11,507,158	12,792,155
Total Liabilities	6,642,482	738,483
Surplus As Regards Policyholders	5,044,676	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, 2004, were:

Directors

Name and Location	Principal Occupation
Reese I. Bowen Orlando, Florida	Vice President, St. James Insurance Group
Michael A. Culbertson Columbia, South Carolina	President The Seibels Bruce Group, Inc.
Robert P. Lucas Orlando, Florida	Principal and Executive VP St. James Insurance Group
James J. McCahill Orlando, Florida	Principal and 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

Name	**Title**
Michael Hoagland	President
Reese I. Bowen	Vice President
Edward D. Falzarano	Secretary and Treasurer
Scot E. Moore	Chief Financial Officer
Russell Beck	Chief Claims Officer

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, 2004:

Audit Committee	**Compensation Committee**
Christopher J. McHattie[1]	Robert P. Lucas[1]
Robert P. Lucas	Reese I. Bowen
Reese I. Bowen	Michael A. Culbertson

[1] Chairman

Conflict of Interest Procedure

The Company adopted a policy statement requiring annual disclosure of conflicts of interest, in accordance with Section 607.0832, Florida Statutes. No exceptions were noted during this examination period.

Corporate Records

The recorded minutes of the Board of Directors and shareholder's meetings were reviewed for the period under examination. The recorded minutes did not adequately document 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.

Specifically, the recorded minutes of the Board of Directors did not indicate approval of investments made by the Company since March 30, 2004 as required by Section 625.304, Florida Statutes. Further, the recorded minutes failed to document the annual appointment of officers of the corporation as required in the bylaws. Finally, the sole shareholder neglected to record minutes of an annual meeting to elect members to the board of directors as required by Section 607.0701, Florida Statutes and the Company's bylaws.

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

There were no 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 exchange for Cash to its parent, SJFHC. The surplus note had an interest rate of prime plus 2 ¾ % 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.

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 22, 2005, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

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

Tax Allocation Agreement

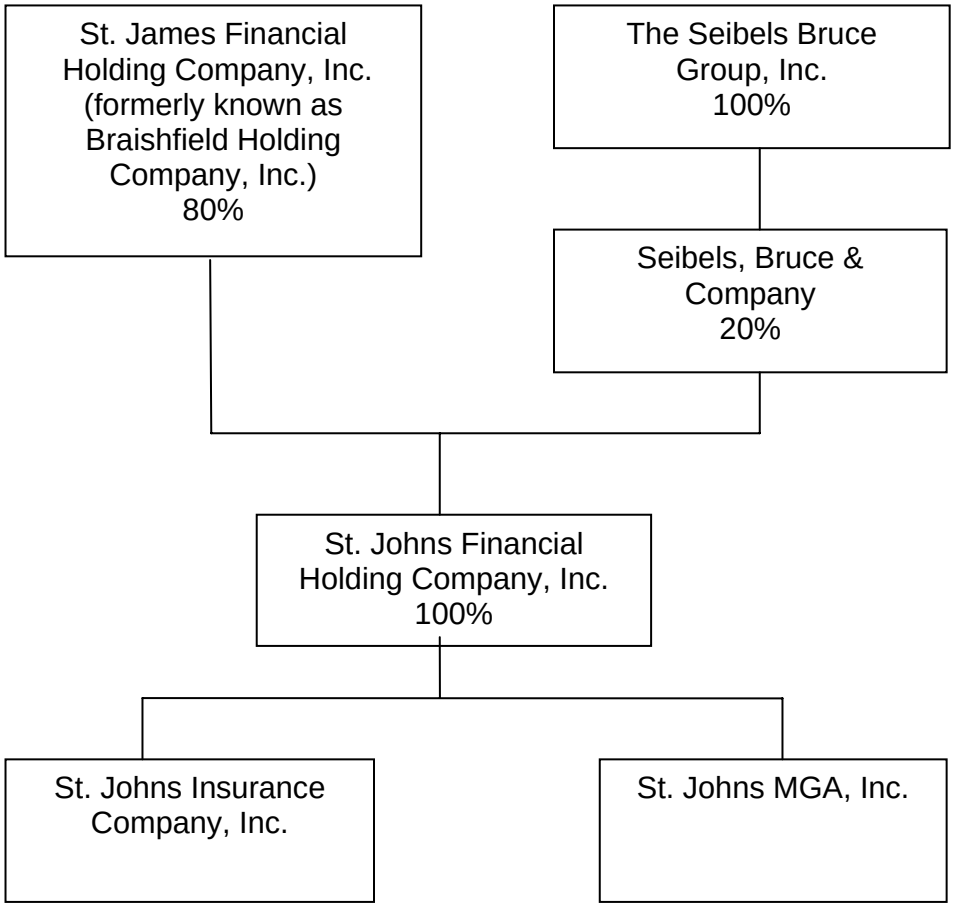
The Company, along with its parent and affiliates filed a consolidated federal income tax return. On December 31, 2004, the method of allocation between the Company and its parent was based on a separate tax liability as if the Company had filed a separate tax return.

Managing General Agency (MGA) and Claims Administration Agreement

The Company entered into an MGA and claims administration agreement with its affiliate, St. Johns MGA, Inc. (SJMGA) effective November 23, 2003. The Company appointed SJMGA as its agent and representative for producing and handling policies for the authorized lines of business. The agreement provided that SJMGA 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. The MGA charged a $25 policy fee.

An organizational chart as of December 31, 2004, reflecting the holding company system, is shown below. Schedule Y of the Company's 2004 annual statement provided a list of all related companies of the holding company group.

ST. JOHNS INSURANCE COMPANY, INC.
ORGANIZATIONAL CHART
DECEMBER 31, 2004



FIDELITY BOND AND OTHER INSURANCE

As of year-end 2004, Braishfield Associates Inc., St. James, St. Johns Insurance Company, Inc., SJFHC, and SJMGA were joint insureds on a crimeshield policy with coverage of $1,000,000 with a deductible of $10,000. 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 with limits of $1,000,000 to $3,000,000, and with deductibles ranging from $10,000 to $200,000.

PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS

The Company's full time employees were eligible to participate in the St. James 401(k) plan, with discretionary contributions by St. James. There were no discretionary contributions for 2004.

In addition, the Company's employees participated in certain health care and life insurance benefit plans offered by St. James. Expenses of these plans were initially paid by St. James who 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:

State	Description	Par Value	Market Value
FL	Cash	$250,618	$250,618
Total Special Deposits		$250,618	$250,618

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory

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.

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 insurance business during the period covered by this examination.

Ceded

The Company ceded approximately 79% of its premiums on a quota share and catastrophe excess of loss basis to authorized and unauthorized reinsurers. The primary reinsurers were Arch Reinsurance Company, an authorized unaffiliated reinsurer (61%) and Hannover Reinsurance Ltd., an unauthorized foreign reinsurer (19%).

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

ACCOUNTS AND RECORDS

An independent CPA audited the Company's statutory basis financial statements annually 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, with the exception of adjustments to line items as noted within this report.

On December 31, 2004, the accounts and records maintained by the Company did not clearly and accurately reflect the total premiums written. The Company failed to include the $25 per policy MGA fee as premiums. Section 627.403, Florida Statutes, defines premium as any assessment, membership, policy, survey, inspection, service or similar fee charged in consideration for an insurance contract. Total unreported premiums were estimated at $455,600.

Section 624.509, Florida Statutes, provides that an insurer shall pay an amount equal to 1.75% of insurance premiums, or assessments, including membership fees and policy fees. Total unreported premium taxes on the $455,600 in unreported premiums were estimated at $8,000.

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

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 not in compliance with Rule 69O-143.042 (i) and (n), Florida Administrative Code. The agreement failed to include a provision requiring the custodian to provide appropriate affidavits with respect to custodied securities at the request of the Insurance Director as required

by Rule 69O-143.042(2)(j), Florida Administrative Code. Further, the agreement failed to indicate that in the event that the custodian gained entry in a clearing corporation or in the Federal Reserve book-entry system through an agent, the agent shall be subject to the same liability for loss of custodied securities as the custodian as required by Rule 69O-143.042(n), Florida Administrative Code.

Independent Auditor Agreement

The Company engaged Dixon Hughes PLLC, for the purpose of annually auditing and reporting on the statutory basis financial statements at year-end.

Risk-Based Capital

The Company reported its risk-based capital at an adequate level.

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2004, 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, 2004

Classification	Per Company	Examination Adjustments	Per Examination
Bonds	$2,043,158		$2,043,158
Cash:			
On deposit	981,866		981,866
Short-term investments	5,586,535		5,586,535
Investment income due & accrued	15,195		15,195
Agents' Balances:			
Uncollected premium	1,445,988		1,445,988
Deferred Premium	534,669		534,669
Reinsurance			
Amounts recoverable	630,414		630,414
Net deferred tax asset	207,800		207,800
EDP equipment	61,533		61,533
Totals	$11,507,158	$0	$11,507,158

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

DECEMBER 31, 2004

Liabilities	Per Company	Examination Adjustments	Per Examination
Losses	$582,197		$582,197
Loss adjustment expenses	113,533		113,533
Commissions payable	220,000		220,000
Other expenses	68,823		68,823
Taxes licenses and fees	90,435		90,435
Unearned premiums	2,740,657		2,740,657
Ceded reinsurance premiums payable	2,481,532		2,481,532
Payable to parent, subsidiaries and affiliates	165,305		165,305
Total Liabilities	$6,462,482		$6,462,482
Common capital stock	$1,000		$1,000
Surplus notes	1,500,000		1,500,000
Gross paid in and contributed surplus	12,499,000		12,499,000
Unassigned funds (surplus)	(8,955,324)		(8,955,324)
Surplus as regards policyholders	$5,044,676		$5,044,676
Total liabilities, capital and surplus	$11,507,158	$0	$11,507,158

ST. JOHNS INCURANCE COMPANY, INC.
Statement of Income

DECEMBER 31, 2004

Underwriting Income

Premiums earned	$1,070,064
DEDUCTIONS:	
Losses incurred	5,910,333
Loss expenses incurred	790,803
Other underwriting expenses incurred	3,188,221
Aggregate write-ins for underwriting deductions	0
Total underwriting deductions	$9,889,357
Net underwriting gain or (loss)	($8,819,293)

Investment Income

Net investment income earned	$122,515
Net realized capital gains or (losses)	(2,727)
Net investment gain or (loss)	$119,788

Other Income

Net gain or (loss) from agents' or premium balances charged off	($2,567)
Finance and service charges not included in premiums	0
Aggregate write-ins for miscellaneous income	0
Total other income	($2,567)
Net income before dividends to policyholders and before federal & foreign income taxes	($8,702,072)
Dividends to policyholders	0
Net Income, after dividends to policyholders, but before federal & foreign income taxes	($8,702,072)
Federal & foreign income taxes	(303,400)
Net Income	($8,398,672)

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year	$12,053,672

Gains and (Losses) in Surplus

Net Income	($8,398,672)
Change in net deferred income tax	2,949,724
Change in non-admitted assets	(3,060,048)
Change in surplus notes	1,500,000
Examination Adjustment	0
Change in surplus as regards policyholders for the year	($7,008,996)
Surplus as regards policyholders, December 31 current year	$5,044,676

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses

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, 2004, 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 actuary reviewed work papers provided by the Company and was in concurrence with this opinion but noted the following exceptions:

1. The Office Actuary requested but never obtained a full and complete actuarial report.

2. The actuarial opinion incorrectly indicated that there was no significant likelihood of a material adverse deviation (losses costing significantly more than the booked reserves).

3. The Office's Actuary requested but did not receive a reconciliation of reserving data from the appointed actuary.

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

DECEMBER 31, 2004

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 per December 31, 2004, Annual Statement				$5,044,676
	PER COMPANY	PER EXAM	INCREASE (DECREASE) IN SURPLUS	
ASSETS:				
No adjustment				
LIABILITIES:				
No adjustment				
Net Change in Surplus:				0
Surplus as Regards Policyholders December 31, 2004, Per Examination				$5,044,676

SUMMARY OF FINDINGS

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, 2004.

Corporate Records

The recorded minutes of the Board of Directors and shareholders did not adequately document its meetings and approval of Company transactions in accordance with Section 607.0701, Florida Statutes, including the authorization of investments as required by Section 625.304, Florida Statutes. **We recommend the Company comply with Sections 607.0701 and 625.304, Florida Statutes and timely record all minutes of the board of directors and shareholders' meetings.**

Accounts and Records

The Company failed to include the $25 per policy MGA fee as premiums as well as pay premium taxes on those premiums as required by Section 627.403, Florida Statutes and 624.509, Florida Statutes. **We recommend the Company file an amended premium tax return with the Florida Department of Revenue and pay the applicable premium taxes on the unreported $25 per policy MGA fees totaling $455,600.**

Subsequent Event:

The Company properly included the $25 per policy MGA fee as written premiums in the 2005 annual statement.

Custodial Agreement

The custodial agreement between the Company and BB&T did not indicate that the custodian shall provide appropriate affidavits at the request of the Insurance Director or that the custodian's agent or clearing corporation shall be subject to the same liability for loss of custodied securities as the custodian. **We recommend the Company maintain a custodial agreement in compliance with Rule 69O-143.042 (j) and (n), Florida Administrative Code.**

Subsequent Event

The Company amended the custodial agreement with BB&T to include the provisions of Rule 69O-143.042 (j) and (n), Florida Administrative Code.

Office Actuary Review

The Office Actuary never obtained a full and complete actuarial report. **We recommend that the Company direct its appointed actuary to file a full and complete actuarial report that documents all analyses, the reinsurance program, all calculations performed, and containing the required data reconciliation for all future annual and quarterly filings as required by the NAIC annual statement instructions adopted by Rule 137.001, Florida Administrative Code.**

The actuarial opinion incorrectly indicated that there was no significant likelihood of a material adverse deviation (losses costing significantly more than the booked reserves). **We recommend that the Company file a memo explaining why reserves developed upward significantly as of the September 30, 2005 quarterly statement, when the December 31, 2004 actuarial opinion indicated that a risk of material adverse deviation did not exist in accordance with Section 624.424(1), Florida Statutes.**

The Office Actuary did not receive a reconciliation of reserving data from the appointed actuary. **We recommend that the Company direct the appointed actuary maintain a reconciliation of reserving data for all future annual and quarterly filings as required by NAIC annual statement instructions adopted by Rule 137.001, Florida Administrative Code.**

SUBSEQUENT EVENTS

James J. McCahill has been appointed President of the Company effective January 2005, replacing Michael Hoagland. Michael Hoagland resigned from the Company.

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, 2004, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was $5,044,676, which was in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned, Donna L. Letterio, CFE, CPA, Financial Specialist; John C. Berry, Financial Examiner/Analyst Supervisor, and Joseph Boor, FCAS, Actuary participated in the examination.

Respectfully submitted,

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