

REPORT ON EXAMINATION
OF
TOWER HILL PREFERRED INSURANCE
COMPANY
GAINESVILLE, FLORIDA

AS OF
DECEMBER 31, 2013

BY THE
FLORIDA OFFICE OF INSURANCE REGULATION

TABLE OF CONTENTS

LETTER OF TRANSMITTAL	-
SCOPE OF EXAMINATION	1
SUMMARY OF SIGNIFICANT FINDINGS	2
CURRENT EXAM FINDINGS.....	2
PRIOR EXAM FINDINGS.....	2
SUBSEQUENT EVENTS	3
HISTORY	3
GENERAL	3
DIVIDENDS TO STOCKHOLDERS.....	4
CAPITAL STOCK AND CAPITAL CONTRIBUTIONS.....	4
SURPLUS NOTES	5
ACQUISITIONS, MERGERS, DISPOSALS, DISSOLUTIONS, AND PURCHASE OR SALES THROUGH REINSURANCE	5
CORPORATE RECORDS	5
CONFLICT OF INTEREST.....	6
MANAGEMENT AND CONTROL	6
MANAGEMENT	6
AFFILIATED COMPANIES	7
ORGANIZATIONAL CHART	9
TAX ALLOCATION AGREEMENT.....	10
CLAIMS SERVICES AGREEMENT	10
MANAGEMENT AGREEMENT	10
MANAGING GENERAL AGENT AGREEMENT.....	11
REINSURANCE DATA COMPILATION AGREEMENT.....	11
FIDELITY BOND AND OTHER INSURANCE	11
PENSION, STOCK OWNERSHIP AND INSURANCE PLANS	12
TERRITORY AND PLAN OF OPERATIONS	12
TREATMENT OF POLICYHOLDERS	12
COMPANY GROWTH	12
PROFITABILITY OF COMPANY	13
LOSS EXPERIENCE	13
REINSURANCE	14
ASSUMED	14
CEDED	14
ACCOUNTS AND RECORDS	15
CUSTODIAL AGREEMENT	16
REINSURANCE BROKERAGE AGREEMENT	16
ASSET MANAGEMENT AGREEMENT	16

FINANCIAL MANAGEMENT AGREEMENT.....	16
ANALYTICS SERVICE AGREEMENT.....	17
MASTER SERVICES AGREEMENT.....	17
INDEPENDENT AUDITOR AGREEMENT.....	17
INFORMATION TECHNOLOGY REPORT.....	17
STATUTORY DEPOSITS.....	18
FINANCIAL STATEMENTS PER EXAMINATION.....	18
ASSETS.....	19
LIABILITIES, SURPLUS AND OTHER FUNDS.....	20
STATEMENT OF INCOME.....	21
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS.....	22
COMMENTS ON FINANCIAL STATEMENTS.....	23
LIABILITIES.....	23
CAPITAL AND SURPLUS.....	23
SUMMARY OF RECOMMENDATIONS.....	24
CONCLUSION.....	25

April 2, 2015

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 690-138.005, 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, 2013, of the financial condition and corporate affairs of:

**TOWER HILL PREFERRED 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, 2010 through December 31, 2013. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2009. This examination commenced with planning at the Office on July 21, 2014 to July 25, 2014. The fieldwork commenced on July 28, 2014, and concluded as of April 2, 2015.

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.

Related Party Activities

The Company did not timely update its consolidated holding company registration statements for Tower Hill Insurance Group to include the reinsurance data compilation agreement among affiliates executed on July 24, 2014, which was not in compliance with Rule 69O-143.046(4), Florida Administrative Code. The Company also did not notify the Office of its intention to enter into this agreement at least 30 days prior to the execution of the agreement, which was not in compliance with Rule 69O-143.047(4), Florida Administrative Code.

Prior Exam Findings

There were no findings, exceptions, or corrective actions to be taken by the company for the examination as of December 31, 2009.

SUBSEQUENT EVENTS

The Company filed an updated holding company registration statement on October 15, 2014 which included several changes to management of the Company subsequent to the examination date. Joseph DiMartino resigned from his position as Chief Operating Officer (COO) from all Companies. In response to Mr. DiMartino's resignation, Donald Matz, Jr., assumed the position of interim COO. Subsequently, Ronald Laconi was appointed as COO. Joel Curran resigned from his positions as Chief Underwriting Officer (CUO) and Chief Compliance Officer (CCO) from all Companies to become Chief Commercial Officer of affiliate Tower Hill Prime Insurance Company. In response to Mr. Curran's resignation, Stephen Allnut assumed the position of CUO for all Companies and Scott Rowe, Internal Counsel, assumed the position of CCO for all Companies. Brian Elsmore resigned from his position as Chief Technology Officer (CTO). In response to Mr. Elsmore's resignation, Ralph Kubicsek, former Assistant Vice President of Operations, assumed the position of CTO.

HISTORY

General

The Company was incorporated on November 26, 1986, and commenced writing business on January 1, 1987, as Regency Insurance Company, domiciled in North Carolina. The Company was then owned by Regency Financial Corporation, a subsidiary of Frontier Insurance Group Inc.

Regency Insurance Company was purchased by Tower Hill Insurance Company on May 12, 2000. A Certificate of Domestication and Articles of Incorporation were approved effective January 13, 2004, upon transfer of domicile from North Carolina to the State of Florida. The Office approved the name change to Tower Hill Preferred Insurance Company which was filed on March 19, 2004.

The Company completed an approved statutory merger with Hillcrest Insurance Company (Hillcrest), effective June 1, 2010. The Company was wholly owned by Tomoka Re Holdings Inc., a Florida based holding company affiliate of the Tower Hill Insurance Group, Inc. The Company primarily writes homeowners insurance with flood and inland marine. The Company also offers the National Flood Insurance program which is non risk and entirely ceded. The Company, together with the other four Tower Hill Insurance Companies, share common management and collectively represents the fourth largest homeowner's writer in the state of Florida.

The Company was authorized to transact the following insurance coverage in Florida on various dates in 1997 and 2003 and continued to be authorized as of December 31, 2013:

Homeowners Multi Peril	Fire
Mobile Home Multi 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 any dividends during the period of this examination.

Capital Stock and Capital Contributions

As of December 31, 2013, the Company's capitalization was as follows:

Number of authorized common capital shares	100,000
Number of shares issued and outstanding	100,000
Total common capital stock	\$100,000
Par value per share	\$1.00

The Company was wholly owned and controlled by Tomoka Re Holdings, Inc., which was 60 percent owned by Tower Hill Insurance Holdings, LLC and 40 percent owned by Hillcrest

Holdings, LLC (Parent). Tower Hill Insurance Holdings, LLC was wholly owned by William and Patricia Shively.

The parent contributed \$4,500,000 in cash to the Company in 2010 as surplus. Common capital stock of \$100,000 was also reclassified as surplus.

Surplus Notes

The Company entered into a preapproved merger with Hillcrest effective June 1, 2010. On February 28, 2007, a surplus note in the amount of \$2,000,000 was issued to Hillcrest Holdings, LLC (the former parent company of Hillcrest) in exchange for cash. The current outstanding surplus note balance is \$1,400,000. As a result of the merger, the Company acquired the surplus note previously issued by Hillcrest. As part of the merger, the surplus note was approved by Office and bears interest from the date of contribution at prime plus three percent per annum, payable quarterly.

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

On May 31, 2010, the Company entered into a preapproved merger with Hillcrest effective June 1, 2010 effectively changing the ownership structure of the holding company as previously defined.

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 690-

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 69O-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, 2013, were:

Directors

Name and Location	Principal Occupation
William John Shively Lexington, Kentucky	Chief Executive Officer, Chairman of the Board Tower Hill Preferred Insurance Company
Donald Carl Matz, Jr Gainesville, Florida	President Tower Hill Preferred Insurance Company
Joel Philip Curran Gainesville, Florida	Chief Underwriting Officer Tower Hill Preferred Insurance Company
Timothy Jon Meenan Tallahassee, Florida	Attorney Blank & Meenan, PA
Ernie Anthony Petrone Winter Park, Florida	Director Tower Hill Preferred Insurance Company
Kathy Smith Petrone Winter Park, Florida	Director Tower Hill Preferred Insurance Company
Timothy Arthur Bienek Flower Mound, Texas	Director Tower Hill Preferred Insurance Company

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

Senior Officers

Name	Title
William John Shively	Chief Executive Officer
Donald Carl Matz, Jr.	President
Joseph Francis DiMartino (a)	Chief Operating Officer
Joel Philip Curran (b)	Chief Underwriting Officer, Chief Compliance Officer
Benjamin Lane Bussey, III	Chief Financial Officer, Treasurer
Scott Parker Rowe	Secretary

(a) Replaced by Ronald Bruce Laconi on November 19, 2014, pending Office approval.

(b) Replaced by Stephen Eric Allnutt as Chief Underwriting Officer and by Scott Philip Rowe as Chief Compliance Officer on October 1, 2014, pending Office approval.

The Holding Company's internal committees were all maintained at the MGA level.

Audit Committee

Timothy Arthur Bienek ¹
Kathy Smith Petrone
Timothy Jon Meenan

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 November 15, 2014, as required by Section 628.801, Florida Statutes.

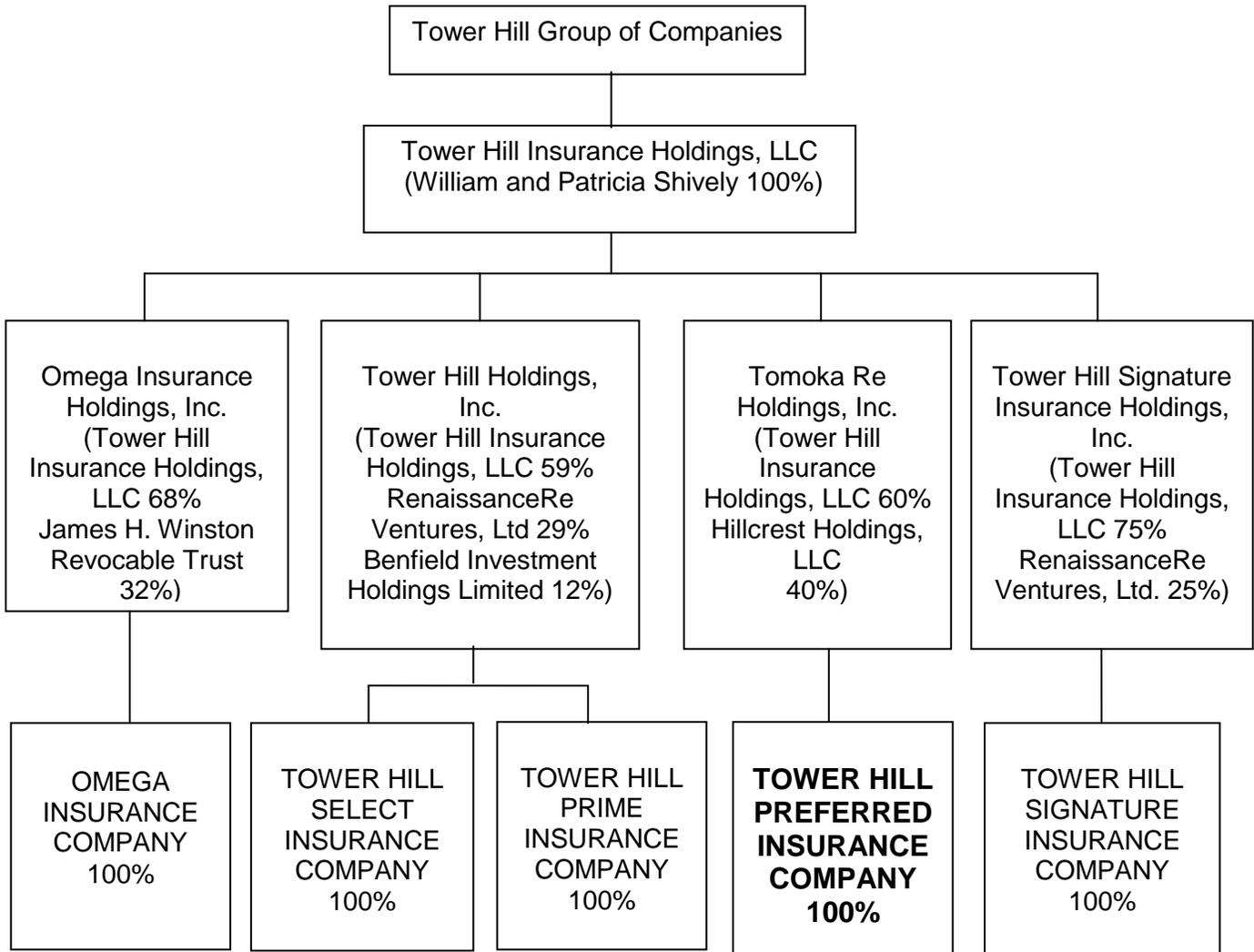
The Company did not timely update its consolidated holding company registration statements for Tower Hill Insurance Group to include the reinsurance data compilation agreement among affiliates executed on July 24, 2014, which was not in compliance with Rule 69O-143.046(4), Florida Administrative Code.

A simplified organizational chart as of December 31, 2013, reflecting the holding company system, is shown on the following page.

Schedule Y of the Company's 2013 annual statement provided a list of all related companies of the holding company group.

**TOWER HILL PREFERRED INSURANCE COMPANY
ORGANIZATIONAL CHART**

DECEMBER 31, 2013



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. The consolidated return is prepared as if each individual corporation filed a separate return based on the income, losses, deductions and credit of such individual corporation. Tax payments by the Company were made to the Parent.

Claims Services Agreement

The Company entered into a Claims Services Agreement with its affiliate, Tower Hill Claims Service, Inc., effective January 1, 2008. The agreement was continuous unless terminated within the guidelines of the agreement. Claims services included administration, investigation, adjusting, payment, and litigation supervision. Fees were based upon claim amount with a maximum fee of \$1,500. The total amount incurred under this agreement amounted to \$1,013,621 for 2013.

Management Agreement

The Company entered into a Management Agreement with its parent, Tomoka Re Holdings, Inc. on January 13, 2004. The agreement was effective for five years and automatically renewed for successive five-year periods unless terminated within the guidelines of the agreement. Services provided under the agreement included legal counsel, executive management, reinsurance oversight, resource management, audit services, technology, marketing, purchasing, central operations and processing. On a monthly basis, the Company paid its parent a management and services fee totaling approximately \$2,569,848 for 2013.

Managing General Agent Agreement

The Company entered into a Managing General Agency Agreement (MGA) with its affiliate, Tower Hill Insurance Group, Inc. effective January 1, 2008. The agreement was effective for five years and automatically renewed for successive five-year periods unless terminated within the guidelines of the agreement. On a monthly basis, the Company paid policy and inspection fees to Tower Hill Insurance Group, Inc. totaling \$2,000,532 for 2013. The Company also incurred MGA commission expense of \$29,387,734 for 2013.

Reinsurance Data Compilation Agreement

The Company entered into a Reinsurance Data Compilation Agreement with its affiliate, Tomoka Reinsurance Intermediaries, Inc. effective July 24, 2014 whereby the affiliate prepared and provided the Reinsurance Broker, TigerRisk Partners, LLC (TigerRisk), with underwriting exposure and modeling data per industry standards for all reinsurance placements made on the Company's behalf. Fees are on a commission basis of fifty percent of brokerage revenue.

The Company did not notify the Office of its intention to enter into this agreement at least 30 days prior to the execution of the agreement, which was not in compliance with Rule 69O-143.047(4), Florida Administrative Code.

FIDELITY BOND AND OTHER INSURANCE

The Company maintained fidelity bond coverage up to \$3,000,000 per policy period, which reached the suggested minimum as recommended by the NAIC.

The Company also maintained Directors and Officers (D&O) liability coverage with limits of \$6,500,000 per policy period with a deductible of \$300,000 each claim.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company had no employees and therefore no pension, stock ownership or 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

Total assets increased by \$7.2 million or 8.1 percent and surplus increased by \$15.1 million over the period under examination.

Although total recoverables related to reinsurance increased by \$0.9 million in 2013 from the 2012 level of \$0.6 million, it is \$0.9 million less than it was in 2010. The 2013 increase was primarily due to the change in the quota share contracts.

The Company's gross written premium increased \$63.4 million and its ceded written premium increased \$75.5 million resulting in a net written premium decrease of \$12.1 million during the period under examination.

The Company's underwriting expenses decreased by \$14.1 million as a result of higher expenses related to the increase in premium production and lower commission on assumed business from its quota share contracts.

Invested assets dropped by 78 percent from 2011 to 2012 related to the Company's liquidating most of the fixed income investment portfolio in late 2012 to guard against market volatility. Investments increased by 46 percent during 2013 as the Company began reinvesting the proceeds from the liquidation.

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.

	2013	2012	2011	2010
Premiums Earned	22,270,729	28,910,164	31,835,742	41,047,053
Net Underwriting Gain/(Loss)	5,765,331	966,085	7,210,204	(11,254,276)
Net Income	3,705,479	5,083,697	8,366,056	(8,221,163)
Total Assets	96,364,618	87,747,796	85,045,519	89,117,543
Total Liabilities	57,139,222	52,088,985	52,540,175	64,971,131
Surplus As Regards Policyholders	39,225,397	35,658,811	32,505,344	24,146,412

LOSS EXPERIENCE

During the current examination period, the Company showed unfavorable development overall. The one and two-year net loss developments were \$48,000 favorable and \$3,033,000 unfavorable, respectively. As of December 31, 2013, the Company had recorded their ultimate

reserves at the top end of their independent actuary's range to prevent any more unfavorable development.

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

In November 2013, the Company participated in the Citizens Property Insurance Corporation (Citizens) depopulation program, and assumed a related unearned premium reserve of approximately \$8,800,000

Ceded

The Company has entered into several reinsurance contracts to protect itself from excessive homeowners' multiple peril losses and from catastrophic events. During the years ended December 31, 2013 and 2012, the Company ceded premiums under quota share, catastrophe excess of loss, and accident year excess of loss reinsurance agreement.

The Company entered a new quota share reinsurance agreement effective on June 1, 2013. Under the new quota share, the Company will cede 70 percent of new, renewal and in-force business while retaining 30 percent. Previously, the Company ceded 80 percent while retaining 20 percent. The Company's affiliated captives Tower Hill Re & Orange Grove Re Ltd. each have 2.5 percent participation in the June 1, 2013 quota share. The new quota share change resulted in an increase in the net reserve for unearned premiums of approximately \$6,967,000

and a decrease in amounts due to reinsurers of approximately \$2,408,000 (written premiums less related expenses), which is settled within 90 days. The effect of these transactions on the Statutory Statements of Operations was a change in underwriting income of approximately \$3,695,000 pre-tax. This was primarily the result of the immediate recognition of commissions ceded associated with the change in unearned premiums (as required by Statutory accounting). The after-tax effect on surplus was a change of approximately \$2,402,000.

Along with the quota share, the Company retroceded its November 2013 Citizens assumptions to its affiliates Tower Hill Re & Orange Grove Re at 50 percent participation each. The underlying CAT allowance and ceding commission from these retrocessions were similar to the regular quota share terms and each Company also deferred their ceding commissions related to these retrocessions.

The Company ceded \$143,571,000 and \$117,526,000 in reinsurance premiums earned in 2013 and 2012, respectively.

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 Gainesville, Florida.

The Company's accounting records were maintained on fully integrated electronic systems by the Managing General Agent, utilizing purchased and customized Microsoft Dynamics SL (Solomon) for their accounting software.

The Company and non-affiliates had the following agreements:

Custodial Agreement

The Company maintained a custodial agreement with JP Morgan Chase Bank, N.A., entered into on April 1, 2010. The agreement was in compliance with Rule 69O-143.042, Florida Administrative Code.

Reinsurance Brokerage Agreement

The Company maintained a brokerage agreement effective June 10, 2010 with TigerRisk. Pursuant to the agreement, TigerRisk negotiated agreements and placed reinsurance as directed by the Company for customary brokerage commissions.

Asset Management Agreement

The Company maintained an asset management agreement with Conning Asset Management Company (Conning) effective March 1, 2002. Pursuant to the agreement, Conning provided investment advisory and portfolio management services in accordance with the investment guidelines of the Company.

Financial Management Agreement

The Company maintained a financial management agreement with BlackRock Financial Management, Inc. (BlackRock) effective October 21, 2013. Pursuant to the agreement, BlackRock provided investment advisory and portfolio management services in accordance with the investment guidelines of the Company.

Analytics Service Agreement

The Company maintained an analytics service agreement with Clearwater Analytics (Clearwater) effective February 1, 2010. Pursuant to the agreement, Clearwater provided licensed access to investment data and accounts management services.

Master Services Agreement

The Company maintained a master services agreement with Torrent Technologies, Inc. (Torrent), effective September 30, 2010. Pursuant to the agreement Torrent administered and supervised the Company's flood program under the provisions of the Flood Disaster Protection Act of 1973.

Independent Auditor Agreement

An independent CPA audited the Company's statutory basis financial statements annually for all years under examination, 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

Tracy Gates, CFE, CISA, 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	<u>\$707,374</u>	<u>\$707,374</u>
TOTAL FLORIDA DEPOSITS		\$707,374	\$707,374
TOTAL OTHER DEPOSITS		<u>0</u>	<u>0</u>
TOTAL SPECIAL DEPOSITS		<u>\$707,374</u>	<u>\$707,374</u>

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2013, and the results of its operations for the year then ended as determined by this examination.

TOWER HILL PREFERRED INSURANCE COMPANY
Assets

DECEMBER 31, 2013

	Per Company	Examination Adjustments	Per Examination
Bonds	\$18,685,778		\$18,685,778
Stocks:			
Common	1,277,019		1,277,019
Mortgage loans on real estate:			
First liens	2,093,807		2,093,807
Cash and Short-Term Investments	65,911,181		65,911,181
Investment income due and accrued	94,455		94,455
Agents' Balances:			
Uncollected premium	5,355,505		5,355,505
Reinsurance recoverable	1,426,412		1,426,412
Net deferred tax asset	1,513,700		1,513,700
Aggregate write-in for other than invested assets	6,761		6,761
Totals	<u>\$96,364,618</u>	<u>\$0</u>	<u>\$96,364,618</u>

TOWER HILL PREFERRED INSURANCE COMPANY
Liabilities, Surplus and Other Funds

DECEMBER 31, 2013

	Per Company	Examination Adjustments	Per Examination
Losses	\$10,839,058		\$10,839,058
Reinsurance payable on paid losses	905		905
Loss adjustment expenses	1,755,275		1,755,275
Commissions payable	951,733		951,733
Other expenses	175,187		175,187
Taxes, licenses and fees	869,128		869,128
Current federal and foreign income taxes	1,653,229		1,653,229
Unearned premium	17,160,257		17,160,257
Ceded reinsurance premiums payable	20,888,238		20,888,238
Amounts withheld	660,339		660,339
Provision for reinsurance	2,000		2,000
Payable to parent, subsidiaries and affiliates	237,899		237,899
Aggregate write-ins for liabilities	1,945,974		1,945,974
Total Liabilities	\$57,139,222	\$0	\$57,139,222
Common capital stock	\$100,000		\$100,000
Surplus notes	1,400,000		1,400,000
Gross paid in and contributed surplus	39,468,328		39,468,328
Unassigned funds (surplus)	(1,742,931)		(1,742,931)
Surplus as regards policyholders	\$39,225,397	\$0	\$39,225,397
Total liabilities, surplus and other funds	\$96,364,619	\$0	\$96,364,619

TOWER HILL PREFERRED INSURANCE COMPANY
Statement of Income

DECEMBER 31, 2013

Underwriting Income

Premiums earned		\$22,270,729
	Deductions:	
Losses incurred		\$8,789,999
Loss expenses incurred		3,152,659
Other underwriting expenses incurred		4,562,740
Aggregate write-ins for underwriting deductions		0
Total underwriting deductions		<u>\$16,505,398</u>
Net underwriting gain or (loss)		\$5,765,331

Investment Income

Net investment income earned		\$161,435
Net realized capital gains or (losses)		<u>(755)</u>
Net investment gain or (loss)		\$160,680

Other Income

Net gain or (loss) from agents' or premium balances charged off		\$0
Finance and service charges not included in premiums		0
Aggregate write-ins for miscellaneous income		<u>0</u>
Total other income		<u>\$0</u>

Net income before dividends to policyholders and before federal & foreign income taxes		\$5,926,011
Dividends to policyholders		<u>0</u>
Net Income, after dividends to policyholders, but before federal & foreign income taxes		\$5,926,011
Federal & foreign income taxes		<u>2,220,532</u>
Net Income		<u><u>\$3,705,479</u></u>

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year		\$35,658,811
Net Income		\$3,705,479
Net unrealized capital gains or losses		20,024
Change in net deferred income tax		(150,100)
Change in non-admitted assets		(10,817)
Change in provision for reinsurance		2,000
Change in excess statutory over statement reserves		0
Surplus adjustments: Paid in		0
Aggregate write-ins for gains and losses in surplus		0
Examination Adjustment		<u>0</u>
Change in surplus as regards policyholders for the year		<u>\$3,566,586</u>
Surplus as regards policyholders, December 31 current year		<u><u>\$39,225,397</u></u>

A comparative analysis of changes in surplus is shown below.

TOWER HILL PREFERRED INSURANCE COMPANY
Comparative Analysis of Changes in Surplus

DECEMBER 31, 2013

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, 2013, per Annual Statement	\$39,225,397
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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:			<u>0</u>
Surplus as Regards Policyholders December 31, 2013, Per Examination			<u>\$39,225,397</u>

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses \$12,594,333

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, 2013, 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, Dennis Henry, FCAS, MAAA of The Actuarial Advantage, 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 \$39,225,397, exceeded the minimum of \$5,259,171 required by Section 624.408, Florida Statutes.

SUMMARY OF RECOMMENDATIONS

Related Party Activities

We recommend that the Company timely amend its consolidated holding company registration statement to disclose all affiliate transactions in accordance with Rule 69O-143.046, Florida Administrative Code and timely notify the Office of all applicable affiliate transactions in accordance with Rule 69O-143.047, Florida Administrative Code.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Tower Hill Preferred Insurance Company** as of December 31, 2013, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's surplus as regards policyholders was \$39,225,397, which exceeded the minimum of \$5,259,171 required by Section 624.408, Florida Statutes.

In addition to the undersigned, Tracy Gates, CFE, CISA, Examiner-In-Charge and IT specialist, Travis Harrison, CPA, and Sam Hebert, Participating Examiners, of Highland Clark, LLC participated in the examination. We also recognize, Dennis Henry, FCAS MAAA, consulting actuary of The Actuarial Advantage, Jonathan Frisard, Examination Manager and Jeff Rockwell, Participating Examiner of the Office participated in the examination.

Respectfully submitted,

Robin Brown, CFE
Chief Examiner
Florida Office of Insurance Regulation