

REPORT ON EXAMINATION
OF
TOWER HILL PRIME 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.....	3
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	14
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 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, 2013, of the financial condition and corporate affairs of:

**TOWER HILL PRIME 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 examination noted within open UCC filing #201002979577 for secured transactions of Tower Hill Holdings, Inc. on August 3, 2010, that the consolidated holding company registration statements for Tower Hill Insurance Group did not disclose the pledging of Company stock to AON Corporation which was not in compliance with Rule 69O-143.046 (2) (d), Florida Administrative Code.

Additionally, 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 Allnutt 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.

The Company began directly writing commercial business in 2015, while it previously only assumed commercial business.

HISTORY

General

The Company was incorporated in Florida on October 1, 1999, and commenced writing business on April 1, 2000, as Desoto Prime Insurance Company. On October 10, 2002, Desoto Prime Insurance Company merged with Desoto Insurance Company, with Desoto Prime becoming the surviving entity. On March 7, 2003, the Office approved the acquisition of all outstanding stock by

Tower Hill Capital Holdings, LLC pursuant to a stock purchasing agreement with the insurer's previous owner Renaissance US Holding Inc. After Tower Hill Insurance Group assumed Desoto in 2003, a name change from Desoto Prime Insurance Company to Tower Hill Prime Insurance Company was filed and approved on March 19, 2005. Although the Company is licensed to write eight lines of business in Florida, it primarily writes homeowners multi peril. 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 2000, 2005, 2011 and 2013 and continued to be authorized as of December 31, 2013:

Homeowners Multi Peril	Fire
Commercial Multi Peril	Inland Marine
Allied Lines	Other Liability
Burglary and Theft	Fidelity

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	120
Number of shares issued and outstanding	120
Total common capital stock	\$120
Par value per share	\$1.00

Control of the Company was maintained by its parent, Tower Hill Holdings, Inc., who owned 100 percent of the stock issued by the Company, who in turn was 59 percent owned by Tower Hill Insurance Holdings, LLC, 29 percent owned by RenaissanceRe Ventures Ltd., and 12 percent owned by Benfield Investment Holdings Limited. Tower Hill Insurance Holdings, LLC was wholly owned by William and Patricia Shively.

The parent contributed \$1,500,000 and \$500,000 in cash to the Company in 2010 and 2011, respectively.

Surplus Notes

The Company received the proceeds of a \$5,000,000 surplus note in February 2014 that was issued to the parent, Tower Hill Holdings, on December 31, 2013. The Company received approval from the Office to accrue the surplus in the 2013 Annual Statement. The principal amount and all accrued and unpaid interest on the note is due on December 31, 2023.

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

The Company had no acquisitions, mergers, disposals, and purchase or sales through reinsurance during the period of this examination.

CORPORATE RECORDS

The recorded minutes of the Shareholders, 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 690-138.001, Florida Administrative Code.

MANAGEMENT AND CONTROL

Management

The annual shareholder meeting for the election of directors was held in accordance with Section 628.231, Florida Statutes. Directors serving as of December 31, 2013, were:

Directors

Name and Location

Principal Occupation

William John Shively
Lexington, Kentucky

Chief Executive Officer, Chairman of the Board
Tower Hill Prime Insurance Company

Donald Carl Matz, Jr.
Gainesville, Florida

President
Tower Hill Prime Insurance Company

Joel Philip Curran
Gainesville, Florida

Chief Underwriting Officer
Tower Hill Prime Insurance Company

James Nicholas Smith
St. Petersburg, Florida

Director
Tower Hill Prime Insurance Company

George Gregory King
Fort Meyers, Florida

Director
Tower Hill Prime Insurance Company

Timothy Arthur Bienek
Flower Mound, Texas

Director
Tower Hill Prime 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. (a)	President
Joseph Francis DiMartino (b)	Chief Operating Officer
Joel Philip Curran (c)	Chief Underwriting Officer, Chief Compliance Officer
Benjamin Lane Bussey, III	Chief Financial Officer, Treasurer
Scott Parker Rowe	Secretary

(a) Replaced by Ronald Lanconi as President effective November 17, 2014.

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

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

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

Audit Committee

Timothy Arthur Bienek ¹
George Gregory King
James Nicholas Smith

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

The examination noted within open UCC filing #201002979577 for secured transactions of Tower Hill Holdings, Inc. on August 3, 2010, that the consolidated holding company registration statements for Tower Hill Insurance Group did not disclose the pledging of Company stock to

AON Corporation which was not in compliance with Rule 69O-143.046 (2) (d), Florida Administrative Code.

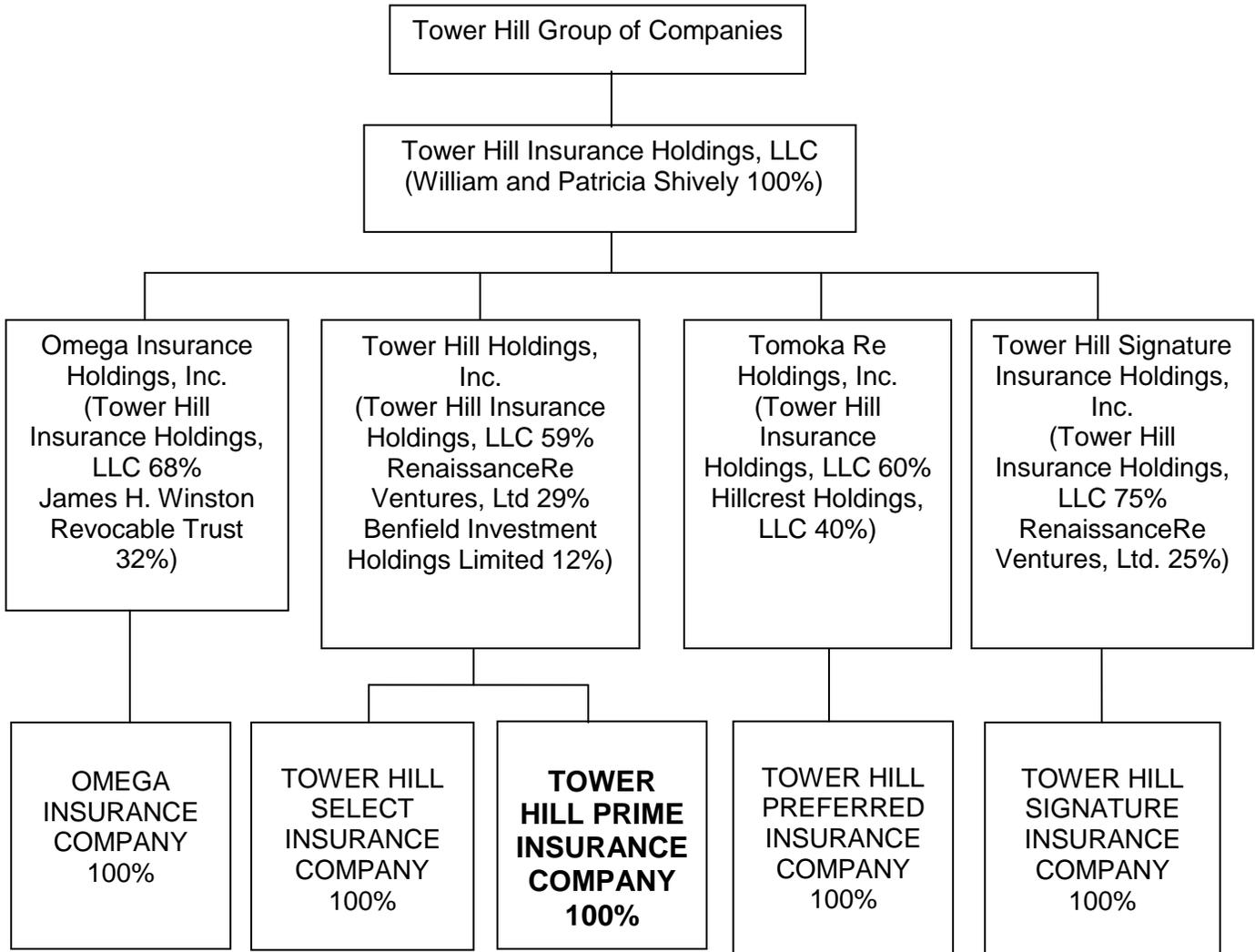
Additionally, the Company did not timely update its consolidated holding company registration statements for Tower Hill Insurance Group to include the reinsurance data compilation agreement among affiliates executed on July 24, 2014, which was not in compliance with Rule 69O-143.046 (4), Florida Administrative 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 PRIME 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 otherwise 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 \$1,736,360 for 2013.

Management Agreement

The Company entered into a Management Agreement with its parent, Tower Hill Holdings, Inc. on April 6, 2005. 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 \$3,724,769 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 five-year terms 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 \$3,716,783 for 2013. The Company also incurred MGA commission expense of \$43,771,503 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 \$10.3 million or 9 percent over the period under examination.

Recoverables related to reinsurance increased by \$0.7 million or 44 percent over the period under examination.

The Company's gross written premium increased \$95.5 million and its ceded written premium increased \$122.3 million resulting in a net written premium decrease of \$26.7 million. Net earned premiums, after the cessions for catastrophe reinsurance premiums and the cession of direct premiums under the newly entered quota share agreements, decreased from 2012 by

\$15.3 million or 33.6 percent, related to increased premium writing for 2013 and lower costs for catastrophe reinsurance coverage.

The Company's gross paid losses decreased \$4.1 million and ceded paid losses decreased \$9.9 million resulting in a net paid loss decrease of \$14 million during the period under examination, in part due to quota share reinsurance changes as discussed in the reinsurance section of the report.

The Company's underwriting expenses decreased by \$20.9 million as a result of ceding commission adjustments from its quota share contracts.

Surplus increased by \$11.4 million during the period under examination due, in part, to a surplus note of \$5,000,000 in 2013.

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	30,142,089	45,401,363	52,310,308	63,805,297
Net Underwriting Gain/(Loss)	2,195,199	(4,324,833)	1,613,941	(1,137,621)
Net Income	1,494,255	1,175,404	3,166,270	2,594,611
Total Assets	125,084,406	109,734,347	110,202,096	114,751,542
Total Liabilities	81,310,926	73,400,164	74,843,953	82,352,006
Surplus As Regards Policyholders	43,773,480	36,334,183	35,358,143	32,399,536

LOSS EXPERIENCE

During the current examination period, the Company showed unfavorable development overall. The one and two-year net loss developments were \$896,000 unfavorable and \$8,822,000 unfavorable, respectively. As of December 31, 2013, the Company has 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 \$14,113,000.

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 agreements.

The Company entered into a new quota share agreement effective June 1, 2013. Under the new quota share, the Company will cede 75 percent of new, renewal and in-force business while retaining 25 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 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 \$4,950,000 and no change in amounts due to reinsurers (written premiums less related expenses), which is settled within 90 days. The effect of these transactions on the Statutory Statements of Operations was a decrease in underwriting income of approximately \$3,145,000 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 decrease of approximately \$2,044,000.

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 \$170,420,000 and \$135,404,000 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>\$617,312</u>	<u>\$617,312</u>
TOTAL FLORIDA DEPOSITS		\$617,312	\$617,312
TOTAL OTHER DEPOSITS		<u>0</u>	<u>0</u>
TOTAL SPECIAL DEPOSITS		<u>\$617,312</u>	<u>\$617,312</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 PRIME INSURANCE COMPANY
Assets

DECEMBER 31, 2013

	Per Company	Examination Adjustments	Per Examination
Bonds	\$22,588,218		\$22,588,218
Stocks:			
Common	3,093,045		3,093,045
Mortgage loans on real estate			
First liens	2,512,569		2,512,569
Cash and Short-Term Investments	79,266,372		79,266,372
Investment income due and accrued	127,639		127,639
Agents' Balances:			
Uncollected premium	6,239,743		6,239,743
Reinsurance recoverable	2,417,756		2,417,756
Funds held or deposited with reinsured companies	1,098,848		1,098,848
Current federal and foreign income tax recoverable and interest thereon	384,433		384,433
Net deferred tax asset	2,598,100		2,598,100
EDP Equipment	71,539		71,539
Receivable from parents, subsidiaries and affiliates	4,685,566		4,685,566
Aggregate write-in for other than invested assets	578		578
Totals	\$125,084,406	\$0	\$125,084,406

TOWER HILL PRIME INSURANCE COMPANY
Liabilities, Surplus and Other Funds

DECEMBER 31, 2013

	Per Company	Examination Adjustments	Per Examination
Losses	\$15,339,633		\$15,339,633
Reinsurance payable on paid losses	\$37,763		37,763
Loss adjustment expenses	2,493,578		2,493,578
Commissions payable	832,489		832,489
Other expenses	180,617		180,617
Taxes, licenses and fees	981,113		981,113
Current federal and foreign income taxes	520,800		520,800
Unearned premium	24,664,920		24,664,920
Ceded reinsurance premiums payable	32,039,313		32,039,313
Amounts withheld	1,047,539		1,047,539
Provision for reinsurance	1,000		1,000
Aggregate write-ins for liabilities	3,172,161		3,172,161
Total Liabilities	\$81,310,926	\$0	\$81,310,926
Common capital stock	\$120		\$120
Surplus notes	5,000,000		5,000,000
Gross paid in and contributed surplus	45,400,039		45,400,039
Unassigned funds (surplus)	(6,626,679)		(6,626,679)
Surplus as regards policyholders	\$43,773,480	\$0	\$43,773,480
Total liabilities, surplus and other funds	\$125,084,406	\$0	\$125,084,406

TOWER HILL PRIME INSURANCE COMPANY
Statement of Income

DECEMBER 31, 2013

Underwriting Income

Premiums earned		\$30,142,089
	Deductions:	
Losses incurred		\$16,221,407
Loss expenses incurred		5,107,600
Other underwriting expenses incurred		6,617,883
Aggregate write-ins for underwriting deductions		0
Total underwriting deductions		\$27,946,890
Net underwriting gain or (loss)		\$2,195,199

Investment Income

Net investment income earned		\$303,689
Net realized capital gains or (losses)		160,934
Net investment gain or (loss)		\$464,623

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		0
Total other income		\$0

Net income before dividends to policyholders and before federal & foreign income taxes		\$2,659,822
Dividends to policyholders		0
Net Income, after dividends to policyholders, but before federal & foreign income taxes		\$2,659,822
Federal & foreign income taxes		1,165,567
Net Income		\$1,494,255

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year		\$36,334,183
Net Income		\$1,494,255
Net unrealized capital gains or losses		340,770
Change in net deferred income tax		277,300
Change in non-admitted assets		324,972
Change in provision for reinsurance		2,000
Change in excess statutory over statement reserves		0
Change in surplus notes		5,000,000
Surplus adjustments: Paid in		0
Aggregate write-ins for gains and losses in surplus		0
Examination Adjustment		0
Change in surplus as regards policyholders for the year		\$7,439,297
Surplus as regards policyholders, December 31 current year		\$43,773,480

A comparative analysis of changes in surplus is shown below.

TOWER HILL PRIME 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 \$43,773,480

	<u>PER</u> <u>COMPANY</u>	<u>PER</u> <u>EXAM</u>	<u>INCREASE</u> <u>(DECREASE)</u> <u>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><u>\$43,773,480</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses \$17,833,211

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 \$43,773,480, exceeded the minimum of \$7,774,837 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 Prime 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 \$43,773,480, which exceeded the minimum of \$7,774,837 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