

REPORT ON EXAMINATION
OF
WESTON INSURANCE COMPANY
CORAL GABLES, FLORIDA
AS OF
DECEMBER 31, 2013

BY THE
FLORIDA OFFICE OF INSURANCE REGULATION

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January 9, 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:

**WESTON INSURANCE COMPANY
2555 PONCE DE LEON BOULEVARD, SUITE 300
CORAL GABLES, FLORIDA 33134**

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, 2013 through December 31, 2013. The Company was subject to a target examination by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2012, whereby the examination was subsequently moved into the current examination. This examination commenced with planning at the Office from April 14, 2014 to April 18, 2014. The fieldwork commenced on April 28, 2014, and concluded as of January 9, 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, which were deemed to require special explanation or description.

SUMMARY OF SIGNIFICANT FINDINGS

Current Exam Findings

There were no material findings or exceptions noted during the examination as of December 31, 2013.

SUBSEQUENT EVENTS

Various changes were made to the management and the Board of Directors (Board) of the Company subsequent to the examination date. Effective May 1, 2014, Mr. Richard Primerano replaced Mr. Preston Kavanagh as the Chief Financial Officer of the Company. Effective September 9, 2014, Ms. Deanne Nixon replaced Mr. Ian Davey as the Chief Underwriting Officer and a Director of the Company.

Effective August 8, 2014, the Company retired the surplus note issued to Southwind Holdings, LLC by the contribution of capital from the Parent in the amount of \$7,500,000 funded by the sale of preferred stock of the Parent to Transatlantic Holdings and the remaining \$7,500,000 from the Company's surplus as approved by the Office.

HISTORY

General

The Company was incorporated in Florida on February 20, 2012 and commenced business on December 21, 2012 as Weston Insurance Company.

The Company was party to Consent Order 123654-12-CO filed February 20, 2012, regarding the application for the issuance of a Certificate of Authority.

The Company was authorized to transact the following insurance coverage in Florida on December 21, 2012 and continued to be authorized as of December 31, 2013:

Homeowners Multi Peril
Commercial Multi Peril

Allied Lines
Fire

The Company had not written insurance coverage in the scope period in the lines of business of Homeowners Multi Peril, Fire or Commercial Multi Peril. The Company was not in compliance with Section 624.430 (1), Florida Statutes which requires that a company not writing premiums in a line of business in a calendar year, shall remove the line of business from its Certificate of Authority.

Subsequent Event: The Company filed formal notice with the Office for continuance of these lines of business based on future expansion into other states.

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

The Company was wholly owned and controlled by its Parent, who was 83.38 percent owned by Michael C. Lyons, 9.9 percent owned by Southwind Holdings, LLC, 6.4 percent owned by Gregory E. A. Morrison, and 0.32 percent owned by Bryan T. McCully.

Surplus Notes

The Company maintained a surplus note with Southwind Holdings, LLC in the amount of \$15,000,000 as of December 31, 2013. As noted in a previous section of this report, this surplus note was retired on August 8, 2014.

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

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

CORPORATE RECORDS

The recorded minutes of the Shareholder(s), 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 69O-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:

Name and Location	Principal Occupation
Gregory E. A. Morrison Hamilton, Bermuda	Director
Michael C. Lyons Miami, Florida	President and CEO, Weston Insurance Company
Bryan T. McCully Miami, Florida	Chief Claims Officer, Weston Insurance Company
Preston B. Kavanagh ¹ Miami, Florida	Chief Financial Officer, Weston Insurance Company
Ian G. Davey ² Miami, Florida	Chief Underwriting Officer, Weston Insurance Company

¹ Richard Primerano was appointed to this position effective May 1, 2014.

² Deanne Nixon was appointed to this position effective September 9, 2014, following Mr. Davey's passing.

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

SENIOR OFFICERS

Name	Title
Michael C. Lyons	President/CEO
Bryan Triplett McCully	General Counsel, Chief Claims Officer
Preston B. Kavanagh ¹	CFO/Treasurer
Ian Davey ²	Chief Underwriting Officer

¹ Richard Primerano was appointed to this position effective May 1, 2014.

² Deanne Nixon was appointed to this position effective September 9, 2014.

Compensation Committee	Audit Committee	Investment Committee
Peter Pruitt ¹	Luis Alvarez ¹	Austin Neal ¹
Luis Alvarez	Peter Pruitt	Peter Pruitt
Austin Neal	Austin Neal	Luis Alvarez

¹ Chairman

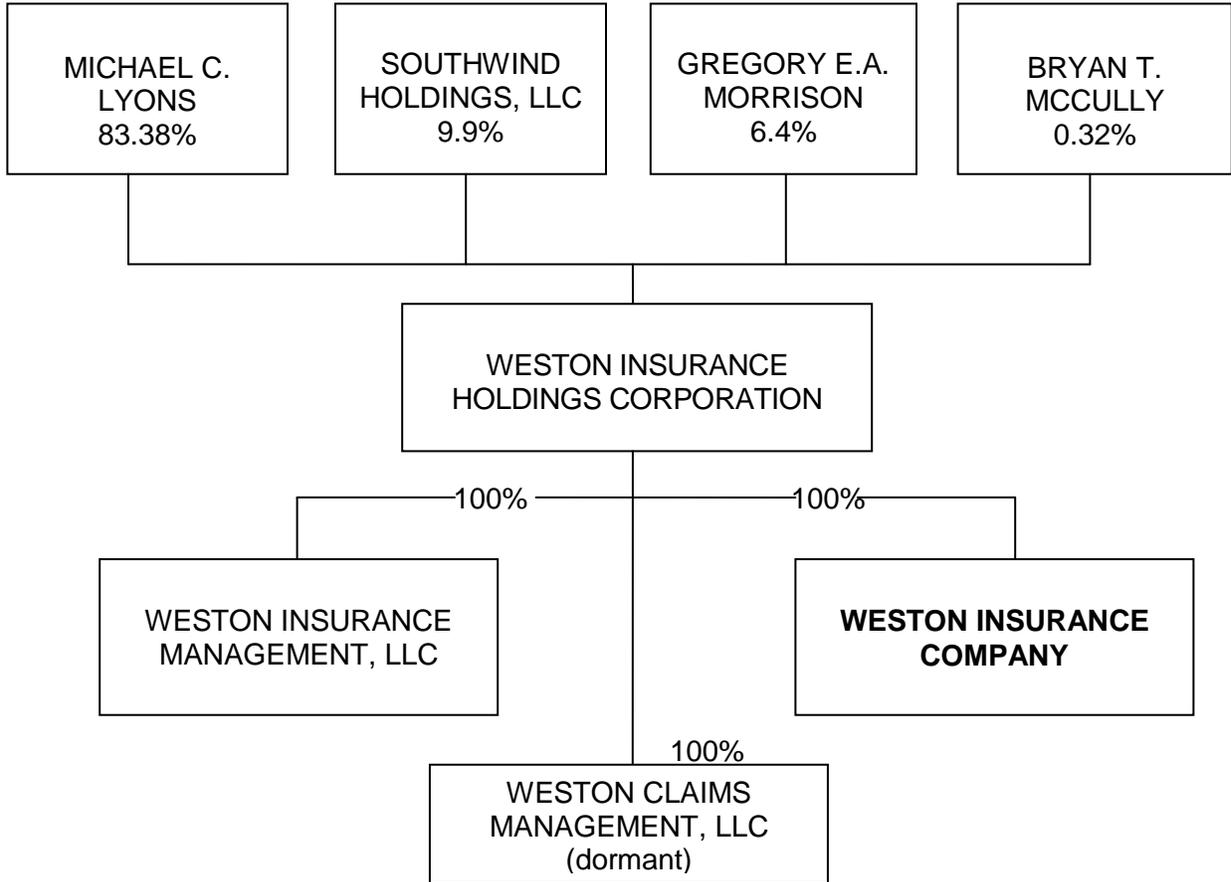
Affiliated Companies

The most recent holding company registration statement was filed with the State of Florida on February 27, 2014, as required by Section 628.801, Florida Statutes.

An 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.

**WESTON 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 and Managing General Agent (MGA), Weston Insurance Management, LLC, executed a tax allocation agreement on April 10, 2013 to file a consolidated federal income tax return. On December 31, 2013, the method of allocation between the Company, its Parent and Affiliate was on a separate-entity basis. Each member of the group recorded an inter-company income tax receivable or payable with Weston Insurance Holdings Corporation for the balance as would have been owed or due on an individual basis. Within ninety days of the remittance by Weston Insurance Holdings Corporation of any income tax payment to the taxing authorities, all inter-company tax receivables/payables were settled.

Managing General Agent Agreement

The Company executed an MGA agreement effective February 23, 2012, with Weston Insurance Management, LLC, in which the MGA was responsible for policy administration, claims administration, reinsurance, accounting, billing and collections, information services, product and underwriting development and management, and catastrophe risk management. The agreement continues in force for a term of three years and upon which successive renewals would be at the determination of both parties, unless otherwise terminated within the guidelines of the agreement. MGA fees were based on 24.25 percent of direct written premium, inclusive of acquisition costs. Fees incurred under this agreement during 2013 amounted to \$13,482,683.

FIDELITY BOND AND OTHER INSURANCE

In 2014, the Company maintained fidelity bond coverage up to \$350,000 with a deductible of \$25,000, which reached the suggested minimum as recommended by the NAIC.

The Company also maintained Directors and Officers liability insurance with a limit of \$5,000,000 and a maximum Company retention of \$150,000.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

There were no pensions, stock ownership or insurance plans in place at the Company during the period of this examination.

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

The Company was created to satisfy the depopulation plans of Citizens Property Insurance Corporation (Citizens) and the Florida Wind Pool. As a result, the Company's growth from inception to date was primarily the result of take-outs from the Citizens wind pool book of business. The Company performed various iterations of take-outs from Citizens from its 2012 certificate of authority issuance to date. During the examination period, the Company experienced adverse developments in policyholder opt-outs. The primary outcome of this adverse development in the success of the take out program is the negative earned premium in 2013 and the resulting net loss. Given the Company did not begin to assume and/or write policies until December 21, 2012, the Company had no loss experience in 2012. Therefore the minimal loss activity in 2013, totaling less than \$100,000, also partially contributed to the change in financial results from 2012 to 2013. Although these factors contributed to a negative net income, the Company was able to increase surplus over the period under review.

Profitability of Company

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

	2013	2012
Premiums Earned	(655,007)	0
Net Underwriting Gain/(Loss)	815,046	66,397
Net Income	(344,740)	43,822
Total Assets	47,750,467	112,920,114
Total Liabilities	(3,446,593)	62,876,292
Surplus As Regards Policyholders	51,197,060	50,043,822

LOSS EXPERIENCE

The Company did not incur any losses in 2012. Therefore, there is no comparative data to determine any loss experience to date. The Company showed minimal loss activity for the period under review.

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

The Company entered into a quota share treaty with Citizens Property Insurance Corporation (Citizens) effective and for the period December 21, 2012 through May 31, 2013. This agreement allowed the Company to assume 100 percent of the liability and premium for the population of wind-only policies written by Citizens.

Ceded

The Company ceded 100 percent of the risk assumed under the quota share agreement in place with Citizens for the period of December 21, 2012 through May 31, 2013.

The Company executed a reinsurance contract on February 6, 2013, effective December 21, 2012, with a segregated account of Horseshoe Re Limited (Horseshoe Re). Southwind Capital Group LLC (Southwind Capital) owns the segregated account. This arrangement is required by

the Weston Insurance Holdings Corporation's (Parent) Investment Agreement with Southwind Capital, also executed February 6, 2013.

Effective June 1, 2013, the Company entered into a net catastrophe property quota share reinsurance agreement and a series of excess of loss catastrophe reinsurance agreements, which combined, provided catastrophe loss protection above the Company's retention of \$6 million per occurrence and \$12 million in aggregate. As of year-end 2013, the Company ceded approximately \$55 million in premium, including the unearned premium of approximately \$41 million to be returned from the former 100 percent quota share agreement. The Company had purchased reinsurance to a standard 1 in 223 year event.

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 Coral Gables, Florida.

The Company's accounting records were maintained on an outsourced network environment with Computer Science Corporation (CSC). CSC assisted the Company in maintaining transactional information and assisted in the production of financial statements.

The Company and non-affiliates had the following agreements:

Independent Auditor Agreement

An independent CPA audited the Company's statutory basis financial statements annually for the years 2012 and 2013, 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

Ian Staab, CISA of Baker Tilly LLP 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 Deposit	<u>\$ 300,000</u>	<u>\$ 303,005</u>
TOTAL FLORIDA DEPOSITS		<u>\$ 300,000</u>	<u>\$ 303,005</u>
TOTAL SPECIAL DEPOSITS		<u>\$ 300,000</u>	<u>\$ 303,005</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. Adjustments made as a result of the examination are noted in the section of this report captioned, "Comparative Analysis of Changes in Surplus."

WESTON INSURANCE COMPANY

Assets

DECEMBER 31, 2013

	Per Company	Examination Adjustments	Per Examination
Cash and Short-Term Investments	\$38,434,580		\$38,434,580
Agents' Balances:			
Uncollected premium	1,779,526		1,779,526
Deferred premium	2,860,681		2,860,681
Reinsurance recoverable	111,902		111,902
Current Fed and Foreign Inc Tax	1,760		1,760
Receivable from parents, subsidiaries and affiliates	4,530,517		4,530,517
Aggregate write-in for other than invested assets	31,500		31,500
Totals	<u>\$47,750,467</u>	<u>\$0</u>	<u>\$47,750,467</u>

WESTON INSURANCE COMPANY
Liabilities, Surplus and Other Funds
DECEMBER 31, 2013

	Per Company	Examination Adjustments	Per Examination
Losses	\$76,580		\$76,580
Loss adjustment expenses	9,691		9,691
Taxes, licenses and fees	345,451		345,451
Advance Premium	1,605,893		1,605,893
Ceded reinsurance payable	(8,397,517)		(8,397,517)
Remittances not allocated	1,316,654		1,316,654
Aggregate write-ins for liabilities	1,596,655		1,596,655
Total Liabilities	(\$3,446,593)	\$0	(\$3,446,593)
Common capital stock	\$1,000		\$1,000
Surplus Notes	15,000,000		15,000,000
Gross paid in and contributed surplus	36,499,000		36,499,000
Unassigned funds (surplus)	(302,940)		(302,940)
Surplus as regards policyholders	\$51,197,060	\$0	\$51,197,060
Total liabilities, surplus and other funds	\$47,750,467	\$0	\$47,750,467

WESTON INSURANCE COMPANY
Statement of Income

DECEMBER 31, 2013

Underwriting Income

Premiums earned		(\$655,007)
	Deductions:	
Losses incurred		\$214,634
Loss expenses incurred		93,502
Other underwriting expenses incurred		(1,778,188)
Total underwriting deductions		<u>(\$1,470,052)</u>
Net underwriting gain or (loss)		\$815,045

Investment Income

Net investment income earned	\$3,005
Net investment gain or (loss)	\$3,005

Other Income

Net gain or (loss) from agents' or premium balances charged off	(\$82,501)
Finance and service charges not included in premiums	40,446
Aggregate write-ins for miscellaneous income	(1,122,496)
Total other income	<u>(\$1,164,551)</u>
Net income before dividends to policyholders and before federal & foreign income taxes	(\$346,500)
Net Income, after dividends to policyholders, but before federal & foreign income taxes	(364,500)
Federal & foreign income taxes	<u>(1,760)</u>
Net Income	<u><u>(344,740)</u></u>

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year	\$50,043,822
Net Income	(344,740)
Change in net deferred income tax	111,355
Change in non-admitted assets	(113,377)
Change in provision for reinsurance	
Surplus adjustments: Paid in	1,500,000
Change in surplus as regards policyholders for the year	<u>\$1,153,238</u>
Surplus as regards policyholders, December 31 current year	<u><u>\$51,197,060</u></u>

A comparative analysis of changes in surplus is shown below.

WESTON 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	\$51,197,060
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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><u>\$51,197,060</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses \$86,271

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, Ronald Kuehn, FCAS, MAAA, and Todd Dashoff, ACAS, MAAA, of Huggins Actuarial Services Inc., reviewed the loss and loss adjustment expense work papers provided by the Company and they were in concurrence with this opinion.

Capital and Surplus

The amount of capital and surplus reported by the Company of \$51,197,060, exceeded the minimum of \$15,000,000 required by Section 624.408, Florida Statutes.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of Weston 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 \$51,197,060, which exceeded the minimum of \$15,000,000 required by Section 624.408, Florida Statutes.

In addition to the undersigned, Phil Schmoyer, CFE, CISA, Examiner-In-Charge and Emily Cheng, CPA, CFE, Participating Examiner, of Baker Tilly LLP participated in the examination. Additionally, Ronald Kuehn, FCAS MAAA, and Todd Dashoff, ACAS, MAAA, consulting actuaries of Huggins Actuarial Services Inc., Ian Staab, CISA, IT Manager of Baker Tilly LLP, and Jonathan Frisard, Financial Examiner/Analyst Supervisor, and Marie Stuhlmuller, Financial Specialist, of the Office participated in the examination.

Respectfully submitted,

Robin Brown, CFE
Chief Examiner
Florida Office of Insurance Regulation