

EXAMINATION REPORT

OF

WESTON INSURANCE COMPANY

CORAL GABLES, FLORIDA

AS OF

DECEMBER 31, 2014

BY THE

FLORIDA OFFICE OF INSURANCE REGULATION

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April 29, 2016

David Altmaier
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, 2014, 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, 2014 through December 31, 2014. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) covering the period of January 1, 2013 through December 31, 2013. This examination commenced with planning at the Office on September 14, 2015 to September 16, 2015. The fieldwork commenced on September 21, 2015 and concluded as of April 29, 2016.

The examination was a single state examination conducted in accordance with the NAIC Financial Condition Examiners Handbook. The Handbook requires that the examination is planned and performed to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the company and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles.

This examination report includes significant findings of fact, as mentioned in Section 624.319, Florida Statutes and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Company.

SUMMARY OF SIGNIFICANT FINDINGS

Current Examination Findings

There were no material adverse findings, significant non-compliance findings or material changes in the financial statements.

Prior Examination Findings

There were no adverse findings, significant non-compliance findings or material changes in the financial statements in the Office's prior examination report as of December 31, 2013.

COMPANY HISTORY

General

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

The Company was authorized to transact insurance coverage in Florida on December 21, 2012 and continued to be authorized for the following coverage(s) as of December 31, 2014.

Fire
Allied Lines
Homeowners Multiple-Peril
Commercial Multiple-Peril

Dividends

The Company did not declare or pay any dividends during the period covered by this examination.

Capital Stock and Capital Contributions

As of December 31, 2014, the Company's capitalization was as follows:

Number of authorized common capital shares	25,000
Number of shares issued and outstanding	25,000
Total common capital stock	\$2,500,000
Par value per share	\$100.00

Control of the Company was maintained by its parent, Weston Insurance Holdings Corporation, a Florida corporation who owned 100% of the stock issued by the Company, who in turn was owned as follows in terms of voting common stock: 79.6% by Michael C. Lyons (President and Chief Executive Officer), 14.0% by Southwind Holdings LLC, 6.1% by Gregory E.A. Morrison (Director) and 0.3% by Bryan T. McCully (Chief Operating Officer). Southwind Holdings LLC has filed a disclaimer of control with the Office.

The parent contributed \$7,500,000 in cash to the Company on August 8, 2014.

Surplus Notes

The Company issued a \$15,000,000 surplus note to Southwind Holdings, LLC on February 12, 2013. The surplus note was repaid by the Company on August 11, 2014.

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

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

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 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, 2014 are shown on the following page.

Directors

Name and Location	Principal Occupation
Gregory Ernest Alexander Morrison Warwick, Bermuda	Director, Weston Insurance Holdings Corporation
Michael Christopher Lyons Coral Gables, Florida	President and Chief Executive Officer Weston Insurance Company
Richard Bruno Primerano Miami, Florida	Chief Financial Officer Weston Insurance Company
Bryan Triplett McCully Miami, Florida	Chief Operating Officer Weston Insurance Company
Deanne Dietrich Nixon Pinecrest, Florida	Chief Underwriting Officer Weston Insurance Company

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

Senior Officers

Name	Title
Michael Christopher Lyons	President and Chief Executive Officer
Richard Bruno Primerano	Chief Financial Officer and Treasurer
Bryan Triplett McCully	Chief Operating Officer and Secretary
Richard Ryan Gadapee	General Counsel
Deanne Dietrich Nixon	Chief Underwriting Officer

The Company's Board appointed several internal committees. Following were the principal internal board committees and their members as of December 31, 2014:

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

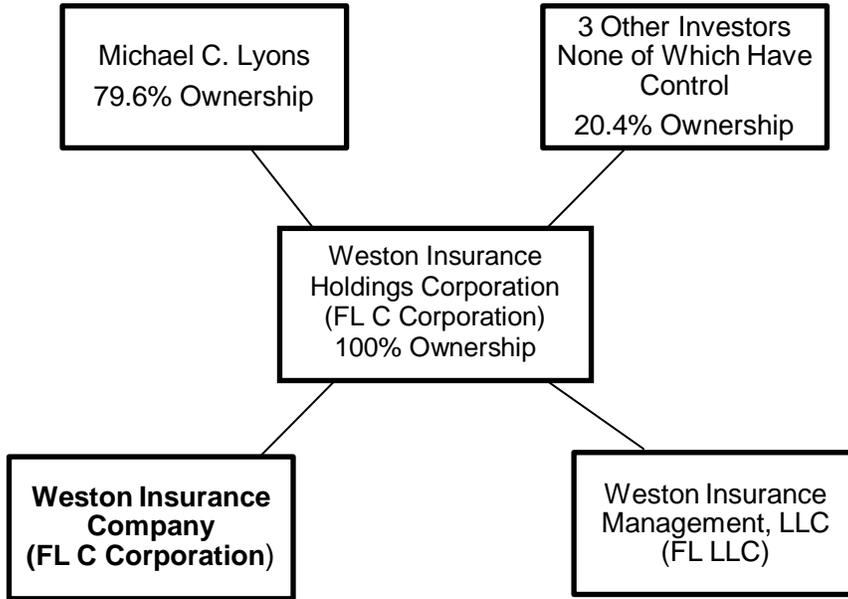
¹ Chairman

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 March 1, 2016, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

**Weston Insurance Company
Organizational Chart
December 31, 2014**



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

Tax Allocation Agreement

The Company, along with its parent, Weston Insurance Holdings Corporation, and Managing General Agent, Weston Insurance Management LLC, executed a tax allocation agreement on April 10, 2013 to file a consolidated federal income tax return. On December 31, 2014, 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 (90) 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 Agency Agreement

The Company executed a Managing General Agency (MGA) and Claims Administration 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 (3) years and upon which successive one (1) year 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% of direct written premium, inclusive of acquisition costs. Fees incurred under this agreement during 2014 amounted to \$29,738,006.

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.

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 majority of the Company's business was takeout (depopulation) wind-only business from Citizens Property Insurance Corporation (Citizens). The depopulations were approved by the Office.

Ceded

Effective June 1, 2013, the Company entered into a net property quota share reinsurance agreement and a series of catastrophe reinsurance agreements, which combined, provided catastrophe loss protection above the Company's retention of \$6 million per loss and in the aggregate.

For the treaty year beginning June 1, 2014, the Company entered into a 100% net quota share agreement, three (3) excess of loss agreements, a Sliver excess of loss agreement, and a Second Event Wind agreement. Reinsurance premium protection was purchased for the First and Sliver excess of loss layers. In addition to private market reinsurance, Weston purchased coverage from the Florida Hurricane Catastrophe Fund. Reinsurance contract periods are primarily from June 1 to May 31 to coincide with the Atlantic hurricane season. The excess of loss treaties require deposit premiums and premiums are due in four (4) equal installments.

The Company purchased reinsurance to a 1 in 278 year event with a PML of \$26.5 billion and ceded approximately \$132 million in premium in 2014.

During the period of December 21, 2012 through May 31, 2013, the Company ceded all of the premiums assumed from Citizens to an unaffiliated reinsurer, Horseshoe Re, LTD. On May 31, 2014, the Company settled the commutation with Horseshoe Re LTD for \$20,000 to cover any IBNR claims.

ACCOUNTS AND RECORDS

The Company maintained its principal operational offices in Coral Gables, Florida.

The Company and non-affiliates had the following agreements:

Reinsurance Intermediary Agreement

The Company entered into a reinsurance intermediary agreement with JLT Re Inc., executed February 21, 2012 for JLT to solicit, negotiate, and place reinsurance on behalf of Weston Insurance Company.

Independent Auditor Agreement

An independent CPA, Gregory, Sharer & Stuart, audited the Company's statutory basis financial statements for 2014, 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

Philip E. McMurray, AES, CISA, CISSP, of Risk & Regulatory Consulting, LLC performed the review and 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>\$ 306,681</u>	<u>\$ 306,681</u>
TOTAL FLORIDA DEPOSITS		\$ 306,681	\$ 306,681
TOTAL SPECIAL DEPOSITS		<u>\$ 306,681</u>	<u>\$ 306,681</u>

FINANCIAL STATEMENTS

The examination does not attest to the fair presentation of the financial statements included herein. If an adjustment is identified during the course of the examination, the impact of such adjustment will be documented separately following the Company's financial statements.

Financial statements, as reported and filed by the Company with the Florida Office of Insurance Regulation, are reflected on the following pages:

Weston Insurance Company

Assets

December 31, 2014

	Per Company	Examination Adjustments	Per Examination
Bonds	\$0	\$0	\$0
Stocks:			
Common	0		0
Real Estate:			
Properties			
occupied by Company	0		0
Other properties	0		0
Cash and Short-Term Investments	42,275,806		42,275,806
Other investments	0		0
Aggregate write-in for invested assets	0		0
Agents' Balances:			
Uncollected premium	18,637,638		18,637,638
Deferred premium	3,118,386		3,118,386
Reinsurance recoverable	0		0
Net deferred tax asset	238,857		238,857
EDP Equipment	0		0
Interest and dividend income due & accrued	0		0
Receivable from parents, subsidiaries and affiliates	3,150,729		3,150,729
Equities and deposits in pools and associations	0		0
Aggregate write-in for other than invested assets	0		0
Totals	<u>\$67,421,416</u>	<u>\$0</u>	<u>\$67,421,416</u>

Weston Insurance Company
Liabilities, Surplus and Other Funds
December 31, 2014

	Per Company	Examination Adjustments	Per Examination
Losses	\$238,209		\$238,209
Loss adjustment expenses	39,365		39,365
Other expenses	0		0
Taxes, licenses and fees	1,376,768		1,376,768
Current federal and foreign income taxes	240,194		240,194
Unearned premium	(174,375)		(174,375)
Advance premium	3,436,252		3,436,252
Ceded reinsurance premiums payable	15,247,865		15,247,865
Remittances and items not allocated	454,026		454,026
Payable to parent, subsidiaries and affiliates	0		0
Aggregate write-ins for liabilities	2,533,408		2,533,408
Total Liabilities	\$23,391,712	\$0	\$23,391,712
Common capital stock	\$2,500,000		\$2,500,000
Gross paid in and contributed surplus	41,500,000		41,500,000
Unassigned funds (surplus)	29,704		29,704
Surplus as regards policyholders	\$44,029,704	\$0	\$44,029,704
Total liabilities, surplus and other funds	\$67,421,416	\$0	\$67,421,416

Weston Insurance Company
Statement of Income and Capital and Surplus Account
December 31, 2014

Underwriting Income

Premiums earned		(\$2,264,994)
	Deductions:	
Losses incurred		\$337,604
Loss expenses incurred		113,288
Other underwriting expenses incurred		(4,582,777)
Aggregate write-ins for underwriting deductions		0
Total underwriting deductions		<u>(\$4,131,885)</u>
Net underwriting gain or (loss)		\$1,866,891

Investment Income

Net investment income earned		\$3,676
Net realized capital gains or (losses)		0
Net investment gain or (loss)		<u>\$3,676</u>

Other Income

Net gain or (loss) from agents' or premium balances charged off		(\$319,728)
Finance and service charges not included in premiums		221,576
Aggregate write-ins for miscellaneous income		(1,402,432)
Total other income		<u>(\$1,500,584)</u>
Net income before dividends to policyholders and before federal & foreign income taxes		\$369,984
Dividends to policyholders		0
Net Income, after dividends to policyholders, but before federal & foreign income taxes		\$369,984
Federal & foreign income taxes		<u>241,954</u>
Net Income		<u><u>\$128,030</u></u>

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year		\$51,197,060
Net Income		\$128,030
Change in deferred income tax		127,502
Change in non-admitted assets		77,112
Change in surplus notes		(15,000,000)
Capital changes: Paid in		2,499,000
Surplus adjustments: Paid in		5,001,000
Aggregate write-ins for gains and losses in surplus		0
Examination Adjustment		0
Change in surplus as regards policyholders for the year		<u>(\$7,167,356)</u>
Surplus as regards policyholders, December 31 current year		<u><u>\$44,029,704</u></u>

Weston Insurance Company
Comparative Analysis of Changes in Surplus
December 31, 2014

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, 2014, per Annual Statement	\$44,029,704
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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:			0
Surplus as Regards Policyholders December 31, 2014, Per Examination			\$44,029,704

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses

An actuary, Max Mindel, FCAS, MAAA, With Milliman, appointed by the Board, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2014, 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, Edward J. Zonenberg, FCAS, MAAA, of Risk & Regulatory Consulting, LLC, 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 \$44,029,704, exceeded the minimum of \$15,000,000 required by Section 624.408, Florida Statutes.

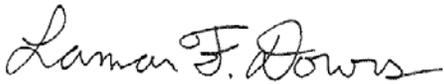
CONCLUSION

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, 2014, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's surplus as regards policyholders was \$44,029,704, which exceeded the minimum of \$15,000,000 required by Section 624.408, Florida Statutes.

In addition to the undersigned, Alan Griffith, CFE, CPA, Examiner-in-Charge, and Kathleen Wilson, Participating Examiner, of Risk & Regulatory Consulting, LLC, also participated in the examination. Members of the Office who participated in the examination include Jonathan Frisard, Financial Examiner/Analyst Supervisor, Examination Manager and Kyra Brown, Financial Specialist, Participating Examiner. Additionally, Edward Zonenberg, FCAS, MAAA, and Philip McMurray, AES, CISA, CISSP, of Risk & Regulatory Consulting, LLC, are recognized for participation in the examination.

Respectfully submitted,

A handwritten signature in cursive script that reads "Lamar F. Downs".

Lamar Downs, CPA
Deputy Chief Examiner
Florida Office of Insurance Regulation