EXAMINATION REPORT

OF

ANCHOR PROPERTY & CASUALTY INSURANCE COMPANY

NAIC Company Code: 15617

St. Petersburg, Florida
as of
December 31, 2016

BY THE

FLORIDA

OFFICE OF INSURANCE REGULATION

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March 9, 2018

David Altmaier
Commissioner
Office of Insurance Regulation
State of Florida
Tallahassee, Florida 32399-0326

Dear Commissioner:

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, 2016, of the financial condition and corporate affairs of

Anchor Property & Casualty Insurance Company
5959 Central Avenue, Suite 200
St. Petersburg, Florida 33710

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, 2016, through December 31, 2016, and planning commenced at the Florida Office of Insurance Regulation ("Office") from August 22, 2017, to August 24, 2017. The fieldwork commenced on August 22, 2017, and concluded as of March 9, 2018. The Company's last full scope examination by representatives of the Office covered the period of January 1, 2015, through December 31, 2015.

The examination was a single state examination conducted in accordance with the NAIC Financial Condition Examiners Handbook ("Handbook"). The Handbook requires that the examination be 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 Statements of Statutory Accounting Principles ("SSAP").

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 (for example, subjective conclusions or proprietary information), are not included within the examination report but separately communicated to other regulators and/or the Company.

SUMMARY OF SIGNIFICANT FINDINGS

Current Examination Findings

Some of the findings or exceptions noted during this examination period have been resolved by the Company subsequent to the examination date. However, the findings or exceptions are discussed in detail in the body of the examination report. The following is a summary of significant findings of fact, material adverse findings, significant non-compliance findings, such as non-compliance with state laws, SSAPs, annual financial statement instructions or material changes in the financial statements.

Uncollected Premiums and Agents' Balances

The Company did not age agents' balances on a policy-by-policy basis to determine if any balance was ninety (90) days past due. Not aging agents' balances on a separate policy-by-policy basis is in violation of Rule 69O-138.024(2), Florida Administrative Code. Therefore, agents' balances in the amount of $920,583 were non-admitted.

Reinsurance Premium Payable and Unearned Premiums

The examination reclassification in the amount of $2,188,990, decreasing payable for reinsurance and increasing unearned premium reserve by $2,188,990, was due to the erroneous calculation of subject premiums. Per the reinsurance contract, the Company failed to reduce ceded written premium by the catastrophic reinsurance allowance. The reclassification did not impact profit or loss. There was no change in overall liabilities.

Previous Examination Findings

There were no findings, exceptions or corrective action to be taken by the Company for the examination as of December 31, 2015.

COMPANY HISTORY

General

The Company was incorporated in Florida on October 28, 2014, and commenced business on January 13, 2015.

Dividends

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

Capital Stock and Capital Contributions

As of December 31, 2016, the Company's capitalization was as follows:

Number of authorized common capital shares	2,500,000
Number of shares issued and outstanding	2,500,000
Total common capital stock	$2,500,000
Par value per share	$1.00

Control of the Company was maintained by its parent, Anchor Insurance Holdings ("AIH"), a Florida corporation, which owns one hundred percent (100%) of the Company's stock. AIH in turn was owned sixteen and nine tenths percent (16.9%) by Pramod and Jyoti Kerkar. No other investors owned more than ten percent (10%) of the voting stock of AIH during the period of examination. AIH contributed $25,000,000 in cash to the Company upon its inception and as of December 31, 2016.

Surplus Notes

The parent Company, AIH, funded a surplus note in the amount of $3,000,000. This cash contribution was approved by the Office on December 23, 2016.

Subsequent Event: AIH funded surplus notes during 2017 as follows:

Date	Amount
May 15, 2017	$4,000,000
November 14, 2017	$6,000,000
December 31, 2017	$20,500,000

The Office approved these transactions.

Acquisitions, Mergers, Disposals, Dissolutions

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

MANAGEMENT AND CONTROL

Corporate Governance

The annual shareholder meeting for the election of Directors was held in accordance with Section 628.231, Florida Statutes. The Directors serving as of December 31, 2016, are shown below:

Directors

Name	**City, State**	**Principal Occupation, Company Name**
Vamavas Louis Zagaris [(a)]	Tarpon Springs, Florida	Director, Anchor Insurance Holdings, Inc.
Pramod Datta Kerkar	Palm Harbor, Florida	Director, Anchor Insurance Holdings, Inc.
Daniel Shawn Bowman [1]	Largo, Florida	Director, Anchor Insurance Holdings, Inc.
Brendan Keilty Moeller [(a)]	St. Petersburg, FL	Director & Vice President of Commercial Lines, Anchor Insurance Holdings, Inc.
Richard Alan Roberts	Lithia, Florida	Director, Anchor Insurance Holdings, Inc.

[1] Chairperson

[(a)] Varnavas Louis Zagaris and Brendan Keilty Moeller resigned on October 19, 2017, and the Board of Directors ("Board") appointed Kevin Francis Pawlowski and Michael David Farrell on the same day subject to Office approval. The Office approved the appointments on January 23, 2018.

In accordance with the Company's Bylaws, the Board appointed the following Senior Officers:

Senior Officers

Name	City, State	Title
Joseph John Wortman [(a)]	Ponte Vedra Beach, Florida	President
Kevin Francis Pawlowski [(b)]	Indian Shores, Florida	Chief Operating Officer
Jennifer Lynn Pintacuda [(c)]	Bradenton, Florida	Chief Financial Officer, Secretary, and Treasurer

(a) Retired on March 6, 2017, and was replaced by Michael David Farrell as President on March 6, 2017, subject to Office approval. The Office approved Mr. Farrell as President and Chief Operating Officer on June 6, 2017.

(b) Promoted to Chief Executive Officer on March 6, 2017, and approved by the Office on June 6, 2017. Mr. Pawlowski was appointed as Secretary on March 6, 2017, and it was approved by the Office on May 3, 2017.

(c) Resigned on November 1, 2016, and was replaced by Michael Hugh Terry on January 9, 2017. Mr. Terry was approved by the Office as the Chief Financial Officer and Treasurer on May 3, 2017.

The Company's Board appointed several internal committees. The following were the principal internal Board committees and their members as of December 31, 2016.

The Company maintained an audit committee, as required by Section 624.424(8)(c), Florida Statutes.

Audit Committee

Name	City, State	Title, Company Name
Jyoti Pramod Kerkar [1]	Palm Harbor, Florida	Director, Anchor Insurance Holdings, Inc.
Robert Alan Roberts	Lithia, Florida	Director, Anchor Insurance Holdings, Inc.

Kimberly Pollick Maxted [1]	Belleair, Florida	Director, Anchor Insurance Holdings, Inc.
Daniel Shawn Bowman	Largo, Florida	Director, Anchor Insurance Holdings, Inc.

[1] Chairperson

(a) Kimberly Maxted became the Chairperson on January 26, 2016. She served until Jyoti Kerkar replaced her as Chairperson on October 19, 2017.

Investment Committee

Name	City, State	Title, Company Name
Robert Alan Roberts [1]	Lithia, Florida	Director, Anchor Insurance Holdings, Inc.
Loukas Laurent Zagaris(a)	Tarpon Springs, Florida	Director, Anchor Insurance Holdings, Inc.
Jyoti Pramod Kerkar	Palm Harbor, Florida	Director, Anchor Insurance Holdings, Inc.
Varnavas Louis Zagaris(a)	Tarpon Springs, Florida	Director, Anchor Insurance Holdings, Inc.

[1] Chairperson

(a) Loukas Zagaris and Varnavas Zagaris resigned on October 19, 2017, and Michael Hugh Terry and Daniel Bowman were appointed to the Investment Committee on October 19, 2017.

Holding Company System

The Company was a wholly-owned subsidiary of AIH. Other members of the AIH group included Anchor Specialty Insurance Company (formerly known as Ranchers and Farmers Insurance Company) ("ASIC"), Anchor Insurance Managers, Inc. ("AIM"), Southeast Surplus Underwriters General Agency, Inc. ("SSUGA"), Spindletop Premiums Finance, Inc. ("SPF"), Anchor Realty Partners, LLC ("ARP"), Anchor Holdings Bermuda Limited ("AHB") a subsidiary of ARP, Grappling Hook Investments, Inc. ("GHI"), and Lozano Insurance Adjusters, Inc. ("Lozano"), a subsidiary of GHI. As of December 31, 2016, the only significant shareholder of AIH was the Kerkar family with approximately sixteen and nine-tenths percent (16.9%) ownership.

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

Amended Federal Income Tax Agreement

On March 10, 2016, the Company, AIH, AIM, ASIC, SSUGA, ARP and SPF terminated the Federal Income Tax Agreement entered into as of October 1, 2014, and entered into the Amended Federal Income Tax Allocation Agreement ("Agreement") as of December 31, 2015, to be effective for the tax year 2015 and thereafter. Parties to the new Agreement included the above mentioned, plus GHI, and Lozano. AIH filed the U.S. Income Tax Return for the 2016 fiscal year on a consolidated basis, with allocation made on a separate return basis, with current credit for net operating losses or other items utilized in the consolidated tax return. Each member of the group recorded an inter-company income tax receivable or payable with the holding company, AIH. Within thirty (30) days of the remittance by AIH of any income tax payment to the taxing authorities, all inter-company tax receivables/payables are required to be settled. The Company had a 2016 tax recoverable of $1,086,757.

Amended Cost Sharing Agreement

On February 16, 2016 the Company, AIH, AIM, ASIC, SSUGA, SPF, GHI and Lozano, referred to herein as "party" or "parties", terminated the Cost Sharing Agreement and entered an Amended Cost Sharing Agreement on February 16, 2016. The parties acknowledge and agree that each of the parties shall perform certain services on behalf of the other parties, shall share office facilities, and utilize certain personnel, furniture, equipment, computer hardware and software, and other property and assets in connection therewith. The parties agree that the costs of the services incurred by one party on behalf of one or more of the other parties shall be determined, allocated, and charged to such other party or parties in accordance with Generally Accepted Accounting Principles. The parties agree that such costs will be determined each and every calendar quarter and billed to other party or parties within thirty (30) days after the end of each calendar quarter. Parties billed for their share of the cost allocation agree to pay the amount within sixty (60) days after the end of each calendar quarter. During 2016, no fees were reported as allocated to the Company under this agreement.

Executive Management Agreement

The Company entered into an Executive Management Agreement with its parent AIH, dated October 27, 2014, whereby AIH provides the Company with management and administrative services concerning its business, subject to the terms and conditions stated within the agreement and the corporate policies promulgated from time to time by the Company's Board. The Company shall pay to AIH as compensation for services rendered under the terms of this agreement up to one-half (0.5%) percent of direct written premium. The term of the agreement shall commence as of the effective date and continue for an initial term of three (3) years and successive three (3) year renewal terms. The agreement will renew until either party gives written notice of termination to the other at least one-hundred and eighty (180) days prior to the end of the term. Fees incurred and paid under this agreement during 2016 were $293,872.

Managing General Agency and Claims Administration Agreement

The Company entered into a Managing General Agency and Claims Administration Agreement ("MGA agreement") with its affiliate, AIM on October 27, 2014. The MGA was responsible for the underwriting, claims administration, policy processing, accounting, and marketing functions of the Company. The initial term of the MGA agreement was for a period of three (3) years from the effective date unless otherwise sooner terminated. The MGA agreement shall have the option to renew the term of this agreement for additional two (2) year periods commencing after the initial term and any renewal term by providing written notice to the Company at least ninety (90) days prior to expiration of the initial term.

The fee for MGA's service, excluding claims services, was twenty-two percent (22%) of total direct written premium plus five percent (5%) of the Company's total assumed written premium. In addition, the MGA receives five percent (5%) of total written annual premium for its claim administration services. This was not inclusive of the Allocated Loss Adjustment Expenses, and does not apply to class action suits, catastrophic events, or subrogation or salvage activities. On a monthly basis, the MGA receives fifty percent (50%) of all salvage and subrogation amounts recovered by the MGA. Any other services not contemplated by this agreement shall be provided by the MGA, as mutually agreed to by the parties on a time and materials basis at a rate of $100 per person-hour plus reasonable actual incurred out of pocket expenses. The MGA will receive additional fees for catastrophe management services per a schedule based upon the amount of loss. The MGA also retains a $25 per policy fee for each policy written. There was also a profit sharing component to this agreement whereby the Company and MGA shall, no less than every twelve (12) months, effectuate a profit sharing distribution for the profits which may be earned by the MGA pursuant to this agreement. The MGA shall be entitled to receive five percent (5%) of such statutory underwriting profits, subject to the approval of the Office. This MGA agreement was terminable by either party with no less than one hundred twenty (120) days prior written notice. Fees incurred and paid to the MGA under this agreement during 2016 were $16,257,190.

Lease Agreements

Effective January 1, 2016, the Company had two (2) lease agreements with AIM, whereby the Company leased space in its company-owned building at "The Winter Centre" in St Petersburg, Florida.

Reinsurance Agreements

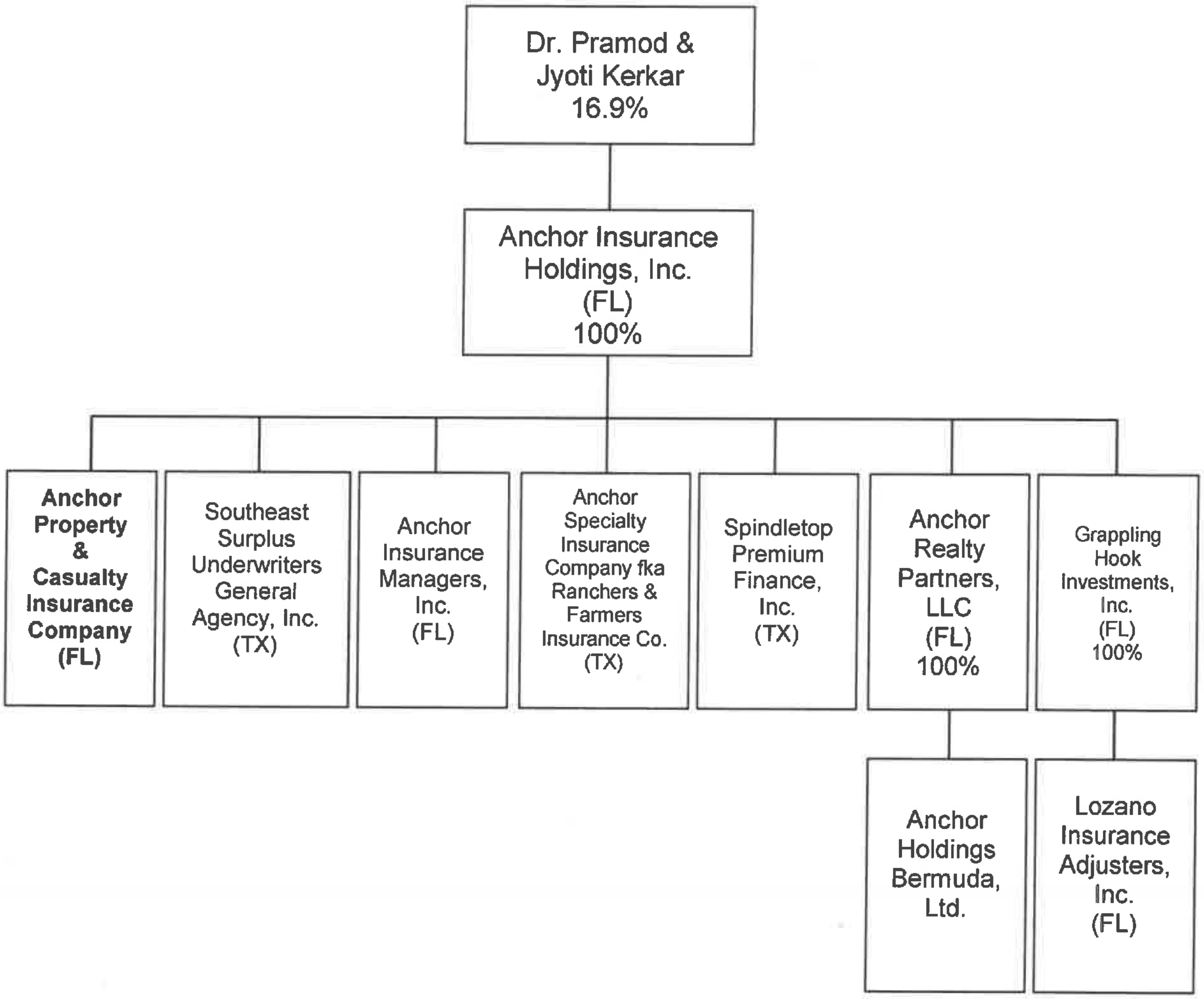
Anchor Holdings Bermuda Ltd., a subsidiary of AIH, held one thousand (1,000) shares of Horseshoe Re Separate Account RA0001 non-voting redeemable preferred shares that were issued by Horseshoe Re Limited ("Horseshoe Re"). Horseshoe Re was a licensed Bermuda Class 3 separate accounts reinsurer incorporated under a Bermuda Private Act and was part of the Horseshoe Group. Horseshoe Re, in its capacity as a protected cell company, established cells or separate accounts. Effective June 1, 2016, and December 31, 2016, respectively, the Company entered into an excess of loss reinsurance agreement with Horseshoe Re Separate Account RA0001 cell and a quota share reinsurance agreement.

Schedule Y of the Company's 2016 annual statement provided a list of all related companies of the holding company group. The organizational chart as of December 31, 2016, reflecting the holding company system, is shown on the following page.

Anchor Property & Casualty Insurance Company

Organizational Chart

December 31, 2016



*No other shareholder owns more than 10% of the voting stock of Anchor Insurance Holdings.

ACCOUNTS AND RECORDS

The Company maintained its principal operational offices in St. Petersburg, Florida.

Fidelity Bond

A fidelity bond owned by the parent company, AIH, did not list the Company on the Named Insured Schedule. Therefore, the Company did not have fidelity coverage in the recommended amount as established by NAIC guidelines in manuals adopted in Rule 69O-138.001, Florida Administrative Code as of December 31, 2016.

Subsequent Event: On January 2, 2018, the Company provided evidence that they were listed on the Named Insured Schedule.

Corporate Governance - Corporate Records

Based on a review of Board minutes and documentation provided, separate Board minutes did not exist for the Company during the examination scope period, and more importantly, separate Board meetings were not held by the Company Directors and there were no separate and specific approvals of the Company Board. While all Company Directors were present, all matters concerning the Company were discussed and documented at the AIH level and within AIH Board minutes. The governance and responsibilities of the Directors of the Company were directed and enacted by the Directors of AIH of which, not all were pre-approved by the Office. Therefore, the Company was not in compliance with Section 607.1601, Florida Statutes.

Subsequent Event: During 2017, the Company established and maintained separate Board meetings and documented minutes. The recorded minutes of the Board documented its meetings and approval of Company transactions and events, in compliance with the Handbook adopted by Rule 69O-138.001, Florida Administrative Code, and Section 607.1601, Florida Statutes.

Corporate Governance - Election of Directors

The Company did not elect Directors according to the Bylaws for the period under examination, which was not in compliance with Section 628.231(2), Florida Statutes.

Subsequent Event: The Directors of the Company were elected at the Annual Meeting of Anchor Insurance Holdings, Inc. on April 26, 2017. The Company subsequently provided the shareholders' meeting minutes reflecting the election of Directors.

Conflict of Interest

The Company adopted a policy statement requiring periodic disclosure of conflicts of interest in accordance with the Handbook adopted by Rule 69O-138.001, Florida Administrative Code.

The Company and non-affiliates had the following agreements:

Horseshoe Trust Agreement

An agreement was executed and effective June 1, 2016, between Horseshoe Re Ltd ("grantor"), APCIC and ASIC ("beneficiaries"), and HSBC Bank USA, N.A. (trustee), related to the offshore (Bermuda) reinsurance agreement to secure payments of all amounts at any time from time to time owing by the grantor to the beneficiaries.

Custodial Agreement

The Company maintained a custodial agreement with Synovus Trust Company N.A., executed on January 27, 2015. The agreement complied with Rule 69O-143.042, Florida Administrative Code.

Investment Management Agreement with Synovus Trust Company, N. A.

The Company maintained an investment management agreement with Synovus Trust Company, N. A. ("Synovus") executed on January 6, 2015. Pursuant to the agreement, Synovus manages the investment and reinvestment of Company assets under the Company's Investment Policy and Guidelines.

Clearwater Master Services Agreement

The Company had an agreement with Clearwater Analytics, LLC, executed and effective January 20, 2015, for investment accounting, analytics and reporting services, through a web-based platform and tools.

Independent Auditor Agreement

An independent CPA firm, Dixon Hughes Goodman LLP audited the Company's statutory basis financial statements annually for the years 2014, 2015 and 2016, in accordance with Section 624.424(8), Florida Statutes. Supporting workpapers were prepared by the CPA firm as required by Rule 69O-137.002, Florida Administrative Code.

TERRITORY AND PLAN OF OPERATIONS

The Company was authorized to transact insurance only in the State of Florida on October 28, 2014, and was authorized for the following coverages as of December 31, 2016:

Fire	Inland Marine
Allied Lines	Other Liability
Homeowners Multi-peril	Commercial Multi-peril

Treatment of Policyholders

The Company established procedures for handling written complaints in accordance with Section 626.9541(1)(i)(3)(a), 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)(j), 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.

Reinsurance Assumed

The Company assumed policies under a policy assumption agreement with Citizens Property Insurance Corporation ("Citizens") since the organization of the Company in 2014, exclusively under the provisions of the state-approved depopulation program designed to reduce Florida's exposure to property loss.

As of December 31, 2016, the Company assumed an aggregate of approximately twenty-seven thousand one hundred and thirteen (27,113) policies, net of cancellations, through participation in the Citizens depopulation program. During 2016, the Company assumed premiums of $2,177,894 under three separate assumed reinsurance transactions in January, April and May of 2016.

Reinsurance Ceded

The Company's ceded reinsurance program consisted of a twenty-five percent (25%) quota share and catastrophe excess of loss reinsurance provided by agreements with Horseshoe Re and various commercial reinsurers through an intermediary, Tiger Risk. The Company also participated in the Florida Hurricane Catastrophe Fund ("FHCF").

The Company's reinsurance was segmented into layers of coverage to protect for excess property catastrophe losses and loss adjustment expenses. The Company's 2016 reinsurance program incorporated the mandatory coverage required by law to be placed with the FHCF, as well as private reinsurance below, alongside and above the FHCF layer and aggregate reinsurance coverage.

INFORMATION TECHNOLOGY REPORT

Kevin Ralston, Senior IT Specialist, CISA, of INS Services, Inc., 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 and with various state officials as required or permitted by law:

State	Description	Par Value	Market Value
FL	Cash Deposit	$ 300,000	$ 300,000
FL	Cash Interest	9,483	9,483
TOTAL FLORIDA DEPOSITS		$ 309,483	$ 309,483
TOTAL SPECIAL DEPOSITS		$ 309,483	$ 309,483

FINANCIAL STATEMENTS

The examination does not attest to the fair presentation of the financial statements included herein. If an adjustment was 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 Office, are reflected on the following pages.

Anchor Property & Casualty Insurance Company

Assets

December 31, 2016

	Per Company	Examination Adjustments	Per Examination
Bonds	$40,025,089		$40,025,089
Stocks:			
Preferred stocks	909,818		909,818
Common stocks	1,970,957		1,970,957
Real Estate:			
Properties occupied by Company	3,612,451		3,612,451
Cash, cash equivalents and short-term investments	11,863,410		11,863,410
Other invested assets	2,078,190		2,078,190
Investment income due and accrued	323,076		323,076
Premiums and considerations:			
Uncollected premiums and agents' balances in the course of collection	920,583	(920,583)	0
Deferred premiums, agents' balances and installments booked but deferred and not yet due	3,682,332		3,682,332
Current federal and foreign income tax recoverable and interest thereon	1,350,659		1,350,659
Net deferred tax asset	3,025,536		3,025,536
Electronic data processing equipment and software	601,688		601,688
Receivables from parent, subsidiaries and affiliates	1,457,512		1,457,512
Aggregate write-ins for other than invested assets	577,987		577,987
Totals	$72,399,289	($920,583)	$71,478,706

Anchor Property & Casualty Insurance Company
Liabilities, Surplus and Other Funds
December 31, 2016

	Per Company	Examination Adjustments	Per Examination
Losses	$14,645,657		$14,645,657
Loss adjustment expenses	2,739,247		2,739,247
Other expenses	52,833		52,833
Taxes, licenses and fees	373,352		373,352
Borrowed Money	93,934		93,934
Unearned premiums	14,199,410	2,188,990	16,388,400
Advance Premiums	1,385,276		1,385,276
Ceded reinsurance premiums payable	15,574,174	(2,188,990)	13,385,184
Remittances and items not allocated	13,891		13,891
Aggregate write-ins for liabilities	125,655		125,655
TOTAL Liabilities	$49,203,429	$0	$49,203,429
Common capital stock	$2,500,000		$2,500,000
Surplus notes	3,000,000		3,000,000
Gross paid in and contributed surplus	22,500,000		22,500,000
Unassigned funds (surplus)	(4,804,140)	(920,583)	(5,724,723)
Surplus as regards policyholders	$23,195,860	($920,583)	$22,275,277
TOTALS	$72,399,289	($920,583)	$71,478,706

Anchor Property & Casualty Insurance Company

Statement of Income

December 31, 2016

Underwriting Income

Premiums earned	$36,066,330
Deductions:	
Losses incurred	$23,699,064
Loss adjustment expenses incurred	11,463,756
Other underwriting expenses incurred	11,133,567
TOTAL underwriting deductions	$46,296,387
Net underwriting gain or (loss)	($10,230,057)

Investment Income

Net investment income earned	$837,692
Net realized capital gains or (losses)	(7,708)
Net investment gain or (loss)	$829,984

Other Income

Net gain or (loss) from agents' or premium balances charged off	($49,047)
Finance and service charges not included in premiums	8
Aggregate write-ins for miscellaneous income	518,180
TOTAL other income	$469,141
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	($8,930,932)
Dividends to policyholders	0
Net Income, after dividends to policyholders, after capital gains tax and before all other federal & foreign income taxes	($8,930,932)
Federal & foreign income taxes incurred	(1,086,757)
Net Income	($7,844,175)

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year	$26,638,863
Net Income	($7,844,175)
Net unrealized capital gains or losses	159,423
Change in net deferred income tax	1,724,170
Change in nonadmitted assets	(1,403,005)
Change in surplus notes	3,000,000
Change in surplus as regards policyholders for the year	($4,363,587)
Surplus as regards policyholders, December 31 current year	$22,275,277

Anchor Property & Casualty Insurance Company

Reconciliation of Capital and Surplus

December 31, 2016

	Gain in Surplus	Loss in Surplus	
Surplus as regards policyholders December 31, 2015 per Examination			$26,638,863
Net Income (loss)		$7,844,175	
Change in net unrealized capital gain (loss)	$159,423		
Change in net deferred income tax	$1,724,170		
Change in non-admitted assets		$1,403,005	
Change in surplus notes	$3,000,000		
Rounding	$1		
Total Gains and Losses	$4,883,594	$9,247,180	
Net Increase/(Decrease) in surplus as regards policyholders			($4,363,586)
Surplus as regards policyholders December 31, 2016 per Examination			$22,275,277

Anchor Property & Casualty Insurance Company
Analysis of Changes in Financial Statement Resulting from the Examination
December 31, 2016

One adjustment was made to surplus as regards policyholders as a result of this examination.

Analysis of Changes in Surplus

Surplus at December 31, 2016, per Annual Financial Statement			$23,195,860
	Increase	Decrease	
Unearned Premium	$2,188,990		$2,188,990
Ceded Reinsurance Premiums Payable		($2,188,990)	($2,188,990)
Agents' Balances-Uncollected Premiums		($920,583)	($920,583)
Net increase (or decrease)			($920,583)
Surplus at December 31, 2016, after adjustment			$22,275,277

COMMENTS ON FINANCIAL STATEMENT ITEMS

Assets

Uncollected Premiums and Agents' Balances

The Company did not age agents' balances on a policy-by-policy basis to determine if any balance was ninety (90) days past due. Not aging agents' balances on a separate policy-by-policy basis was in violation of Rule 69O-138.024(2), Florida Administrative Code. Therefore, agents' balances in the amount of $920,583 were non-admitted, reducing policyholders' surplus to $22,275,277 as of December 31, 2016.

Liabilities

Reinsurance Premium Payable and Unearned Premiums

The examination reclassification in the amount of $2,188,990 decreasing payable for reinsurance and increasing unearned premium reserve by $2,188,990 was due to the erroneous calculation of subject premiums. Per the reinsurance contract, the Company failed to reduce ceded written premium by the catastrophic reinsurance allowance. The reclassification did not impact profit or loss as the decrease in ceded written premium in the amount of $2,188,990 was offset by an increase of $2,188,990 in the change in unearned premium reserve. There was no change in overall liabilities as the $2,188,990 decrease in payable for reinsurance was offset by a $2,288,990 increase to unearned premium reserve.

Losses and Loss Adjustment Expenses

Arthur R. Randolph II, Principal & Consulting Actuary, Pinnacle Actuarial Resources, Inc., appointed by the Board, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2016, 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's consulting actuary, Jacqueline M. Lewis, FCAS, MAAA, of INS Consultants, Inc., reviewed the loss and loss adjustment expense workpapers provided by the Company and she was in concurrence with this opinion.

Capital and Surplus

The amount of capital and surplus reported by the Company of $23,195,860 exceeded the minimum of $15,000,000 required by Section 624.408, Florida Statutes.

SUBSEQUENT EVENTS

The Consent Order filed August 31, 2017, and designated Case No.: 213670-17-CO reflect the following changes approved by the Texas Department of Insurance ("TXDOI") and the Office.

At the October 19, 2017, Board meeting of the Company, the resignations of Varnavas Zagaris and Brendan Moeller were accepted. At the same Board meeting, Kevin Francis Pawlowski and Michael David Farrell were appointed to the Company's Board, subject to Office approval.

AIH, the Company's parent, also held a Board meeting on October 19, 2017 and accepted the resignations of Varnavas Zagaris, Brendan Moeller, Steve Kontos, Christofis Kontos, John Souliotis, and Loukas Zagaris as Board members. At the same Board meeting, Kevin Pawlowski was appointed to AIH's Board.

On August 31, 2017, the Office approved via Consent Order No. 213670-17-CO an application for the indirect acquisition of 10% or more of the issued and outstanding voting securities of AIH by THD Enterprises, LLC ("THD") from various shareholders. As a result of the THD Acquisition, THD's ownership stake in AIH increased to thirty-seven and seven tenths percent (37.7%) of outstanding capital stock of AIH. Ownership of AIH is sixteen and nine tenths percent (16.9%) by Pramod Kerkar and Jyoti Kerkar, and no other single entity or person owns greater than 10%.

Hurricane Irma

In September 2017, Hurricane Irma was a named storm CAT event that directly impacted the Company and its insureds. In 2017, the Company's reinsurance structure consisted of a twenty-five (25%) percent quota shares and excess of loss coverages similar to the 2016 structure described herein, in addition to CAT Bonds. At the time of the event, the Company's net retention was $3,000,000 (net of quota share).

The TXDOI and the Office granted approval necessary to allow for the purchase of additional common stock and series A preferred stock from several existing shareholders of AIH. The purchase of these additional shares of stock was disclosed in the Form A filed by THD Enterprises, LLC. The purchase of these additional shares resulted in THD Enterprises, LLC possessing a thirty-seven and seven tenths percent (37.7%) interest in AIH.

SUMMARY OF RECOMMENDATIONS

Uncollected Premiums and Agents' Balances

We recommend that the Company age agents' balances on a policy-by-policy basis to determine any past due balance in compliance with Rule 69O-138.024(2), Florida Administrative Code.

Reinsurance Premium Payable and Unearned Premiums

We recommend that the Company record reinsurance transactions in accordance with the terms of the reinsurance contract and NAIC Annual Statement Instructions.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Anchor Property & Casualty Insurance Company** as of December 31, 2016, consistent with the insurance laws of the State of Florida.

Per examination annual financial statements, the Company's surplus as regards policyholders was $22,275,277 which exceeded the minimum of $15,000,000 required by Section 624.408, Florida Statutes.

In addition to the undersigned, Patricia Neesham, CFE, Examiner-in-Charge, and Carolyn Maynard, CFE, Participating Examiner, and William Fedak, CFE, Examination Manager, of INS Regulatory Insurance Services, Inc., also participated in the examination. Members of the Office who participated in the examination include Kyra Brown, APIR, Financial Examiner/Analyst Supervisor, Examination Manager and Mary James, CFE, Financial Specialist, Participating Examiner. Additionally, Jacqueline Lewis, FCAS, MAAA, of INS Consultants, Inc.; Claude Granese, CPA, CISA, IT Specialist, and Kevin Ralston, CISA, IT Specialist of INS Services, Inc. are recognized for participation in the examination.

Respectfully submitted,

Brian Sewell

Brian Sewell, CFE, MCM
Chief Examiner
Florida Office of Insurance Regulation