

EXAMINATION REPORT

OF

AMERICAN INTEGRITY INSURANCE COMPANY OF FLORIDA

TAMPA, FLORIDA

AS OF

DECEMBER 31, 2014

BY THE

FLORIDA OFFICE OF INSURANCE REGULATION

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April 15, 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

American Integrity Insurance Company of Florida
5426 Bay Center Drive
Suite 650
Tampa, FL 33609

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, 2014. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) covered the period of January 1, 2009 through December 31, 2009. This examination commenced with planning at the Office on November 2, 2015 to November 4, 2015. The fieldwork commenced on November 9, 2015 and concluded as of April 15, 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

The following is a summary of material adverse findings, significant non-compliance findings or material changes in the financial statements.

Appointed Actuary

On February 10, 2010, the Board of Directors formally appointed Christopher Gross, ACAS, MAAA (President & CEO - Christopher Gross Consulting, Inc.) as the opining actuary of the Company effective for the December 31, 2009 year-end. This appointment should have occurred sometime before December 31 2009. While the Company provided the Board of Director's December 31, 2009 "Written Unanimous Consent" it was uncertain if these may have been backdated.

Compliance with State Laws and Regulations

Company was not compliance with Rule 69O-137.002, Florida Administrative Code, (6) (a), which states each insurer required by this rule to file an annual Audited Financial Report must, by December 31 of the year subject to audit, register with the Office in writing the name and address of the independent Certified Public Accountant or accounting firm retained to conduct the annual audit set forth in this rule.

Company failed to file CPA Awareness Letters for 2010, 2011, and 2012.

Company was not in compliance with Section 717.117, Florida Statutes, due to failure to provide documentation (Report of Unclaimed Property).

Prior Examination Findings

The following is a summary of material adverse findings, significant non-compliance findings or material changes in the financial statements in the Office's prior examination report as of December 31, 2009, along with resulting action taken by the Company in connection therewith.

Company Stock

The stock of the Company has been pledged as collateral in connection with a loan entered into by the Company's parent, American Integrity Insurance Group, LLC (AIIG), in 2007. The loan was not disclosed in the annual statement.

The Company was not in compliance with Section 624.424 (1) (a), Florida Statutes, and Rule 690-137.001 (4) (a), Florida Administrative Code, which require that the annual statement be prepared in conformity with the NAIC Annual Statement Instructions for Property-Casualty Companies. The annual statement instructions require disclosure of transactions which involve guarantees or undertakings for the benefit of an affiliate or related party in Note 10 of the annual statement. We recommend that the Company comply with Section 624.424 (1) (a), and Rule 690-317.001 (4) (a), Florida Administrative Code and disclose the aforementioned loan, pledging the stock of the Company as collateral, as required in Note 10 of the Notes to Financial Statement of the annual statement until such time as the loans have been repaid or the stock is no longer pledged as collateral. **Resolution:** The loan agreement was amended on May 31, 2010, removing the Company from any obligation, pledge, or collateralization.

Pledged Assets

Assets and revenues of the Company were pledged as collateral for a loan entered into by American Integrity Insurance Group, LLC (AIIG) in 2007.

The Company was not in compliance with the provisions of Section 625.012 (16), Florida Statutes, which describes admitted assets as those "...deemed by the office to be available for the payment of losses and claims." As pledged assets, those assets were not available for the payment of losses and claims.

The Company was not in compliance with Statement of Statutory Accounting Principles 4, Paragraph 2. As pledged assets, the Company is not able to control others' access to those assets.

These assets and revenues do not meet the requirements for admitted assets. We recommend that the loan be amended to specifically exclude all assets of the Company, in compliance with Section 625.012 (16), Florida Statutes and Statement of Statutory Accounting Principles 4, Paragraph 2. **Resolution:** The loan agreement was amended on May 31, 2010, removing the Company from any obligation, pledge, or collateralization.

Collateralized Money Market Account

Based upon the confirmation received from Compass Bank, \$100,000 of the balance of a money market account was identified as collateral against the issuance and use of certain purchase cards utilized by two senior officers for the payment of expenses.

The Company was not in compliance with the provisions of 625.012 (16), Florida Statutes, which describes admitted assets as those "...deemed by the office to be available for the payment of losses and claims." We recommend that any reported account balance which has been pledged as collateral be non-admitted until such time as it is no longer pledged.

Resolution: Subsequent the filing of the December 31, 2009 Examination Report, the Company was properly removed and replaced by American Integrity MGA, LLC (AIMGA) .

COMPANY HISTORY

General

The Company is a domestic, stock company that is licensed only in Florida. The Company was incorporated under Florida law on July 20, 2006, and commenced business on September 13, 2006.

The Company's business was comprised of assumptions from Citizens Property Insurance Corporation (Citizens), subsequent renewals written directly, and new business written through independent agents. As of December 31, 2014, the Company had 197,627 policies in force: 54,725 of those policies were assumed from Citizens and the remaining 142,902 were from direct voluntary business.

The Company was authorized to transact insurance coverage(s) of Fire, Homeowners Multi-Peril and Mobile Home Multi-Peril on September 13, 2006 and Mobile Home Physical Damage on March 10, 2010, and continued to be authorized in these lines of business as of December 31, 2014.

Dividends to Stockholders

The Company did not declare or pay dividends to its stockholder in 2014.

Capital Stock and Capital Contributions

As of December 31, 2014, 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

All of the shares were issued to the Company's parent, AIIG, a privately held Texas corporation, for \$5,000,000. The amount paid for the Company's stock in excess of the par value was reflected in the Company's financial statements as gross paid-in and contributed surplus.

Control of the Company was maintained by AIIG who owned 100% of the stock.

Surplus Notes

On June 27, 2007, the Company entered into a \$7 million surplus note with the Florida State Board of Administration under Florida's Insurance Capital Build-Up Incentive Program. Under the program, which was implemented by the Florida legislature to encourage insurance companies to write additional residential insurance coverage in Florida, the State Board of Administration matched the Company's funds of \$7 million that were earmarked for participation in the program.

The surplus note has a twenty-year term and accrues interest at a rate equivalent to the ten-year U.S. Treasury Bond Rate, adjusted quarterly based on the ten-year Constant Maturity Treasury rate. For the first three years of the term of the surplus note, the Company is required to pay interest only although principal payments can be made during this period. Any payment of principal or interest by the Company on the surplus note must be approved by the Office.

An event of default will occur under the surplus note if the Company (i) defaults in the payment of the surplus note; (ii) fails to meet at least a 2:1 ratio on net premium to surplus (“Minimum Writing Ratio”) requirement by September 1, 2007; (iii) fails to submit quarterly filings to the Office; (iv) fails to maintain at least \$50 million of surplus during the term of the surplus note, except for certain situations; (v) misuses proceeds of the surplus note; (vi) makes any misrepresentation in the application for the program; or (vii) pays any dividend when principal or interest payments are past due under the surplus note.

In September 2010 and December 2010, Allig issued surplus notes in the amounts of \$1.25 million and \$1.5 million, respectively, to the Company as shown on the schedule below.

Date Issued (Int. Rate)	Par Value	Carrying Value	Principal and/or Int. Paid Current Yr.	Total Principal and/or Int. Paid	Date of Maturity
06/27/2007 (2.5%)	\$7,000,000	\$5,147,059	\$556,450	\$3,506,816	03/31/2027
09/21/2010 (5.0%)	\$1,250,000	\$1,250,000		\$36,657	09/21/2020
12/31/2010 (5.0%)	\$1,500,000	\$1,500,000		\$18,750	12/31/2020
TOTAL	\$9,750,000	\$7,897,059	\$556,450	\$3,562,223	

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

The Company had no acquisitions, mergers, 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 below.

Directors

Name and Location	Principal Occupation
David Lewis Clark, Chairman Dallas, Texas	Vice President and Principal Sowell & Company
Steven Edward Smathers Dallas, Texas	Attorney at Law Steven Smathers
Keith Douglas Martin Dallas, Texas	Chief Financial Officer Sowell & Company
Robert Craig Ritchie Tampa, FL	President & Chief Executive Officer American Integrity Insurance Company of Florida
Ernest N. Csiszar Columbia, South Carolina	Adjunct Professor & Former NAIC President

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

Senior Officers

Name	Title
Robert Craig Ritchie	President & Chief Executive Officer
David Lewis Clark	Chairman/Secretary/Treasurer
Keith Douglas Martin	Vice President & Assistant Secretary

Subsequent Event: On February 4, 2016, the Company announced that they recently hired a Vice President of Information Technology (Victor Mandes) and they promoted Stephen Kolk from Pricing Director to Assistant Vice President. Mr. Mandes will assume responsibility for the Company's business intelligence, decision support, IT, database, and quality teams as they develop and enhance market-leading technology solutions that continually improve the user experience. In Mr. Kolk's new role, he will continue to help the pricing team analyze and translate economic, industry and competitive data and trends into optimal pricing strategies and managing the Company's rate filing process.

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

Audit Committee

Ernest N. Csiszar¹
David Lewis Clark

Investment Committee

David Lewis Clark ¹
Keith Douglas Martin

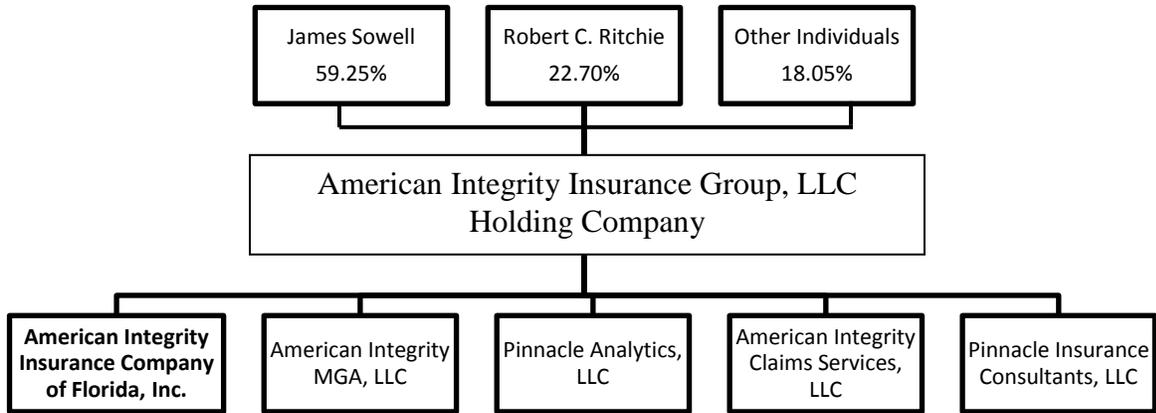
¹ Chairman

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

Affiliated Companies

The Company was a member of an insurance holding company system, and filed the most recent holding company registration statement with the Office on March 1, 2015, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

**American Integrity Insurance Company of Florida
Organizational Chart
December 31, 2014**



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

Cost Allocation Agreement

The Company entered into a Cost Allocation Agreement with American Integrity Insurance Group, LLC, (AIIG) and American Integrity MGA, LLC (AIMGA) on January 1, 2007. The agreement allocated cost based upon the scope of work and responsibilities performed for the benefit of the affiliated company. Fees incurred under this agreement during 2014 amounted to \$576,409.

Management Agreement

The Company entered into a Management Agreement with its parent, AIIG, on June 23, 2006, to provide certain management services. The agreement continues in force for a term of five years and will automatically renew for successive five-year periods, unless otherwise terminated within the guidelines of the agreement. The management fee paid by the Company each month was equal to 2.0% of written premium on new and renewed business. Fees incurred under this agreement during 2014 amounted to \$4,741,654.

Managing General Agent Agreement

The Company entered into a Managing General Agency Agreement with its affiliate, AIMGA, on September 5, 2006. The agreement continues in force for a term of five years and will automatically renew for successive five-year periods, unless otherwise terminated within the guidelines of the agreement. MGA fees were based on 24% of direct written premium (5% for business assumed from Citizens) and included the \$25 policy fee. Claims administration services were included in the agreement. Claims administration fees were calculated according to a fee schedule based on size of claim. The AIMGA has contracted directly with the agency force.

AIMGA has also contracted with West Point Underwriters for policy administration services and the Claims Services for claims adjudication. Fees incurred under this agreement during 2014 amounted to \$50,519,241.

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 Company did not assume any business through reinsurance other than the business obtained from Citizens depopulation program. In 2014, the Company assumed \$2.2 million of written premium from Citizens.

Ceded

Effective December 31, 2013, the Company entered into a quota share agreement that provides coverage for 35% of all losses net of other reinsurance coverages, the aggregate of which shall not exceed 116.6% of net ceded premiums earned for policies covered.

The Company ceded risk on a per risk excess of loss and per occurrence catastrophe basis to the Florida Hurricane Catastrophe Fund (FHCF) and various unrelated reinsurers. For the year ended December 31, 2014, the excess of loss treaties generally provided coverage on ultimate net losses of \$599,000,000 in excess of \$6 million for the first occurrence (\$823,500,000 for all occurrences) with the FHCF providing coverage for 90% of losses from qualifying catastrophic events in excess of \$107,894,542 up to a maximum of \$257,970,613.

Effective June 1, 2014 and 2013, the Company executed reinsurance premium protection agreements to reinsure the reinstatement premium payment obligations which accrue to the Company under the commercial catastrophe excess of loss agreements for first event coverage. The coverage is limited to 100% of the original contracted reinsurance placement.

Effective June 15, 2013, the Company entered into an agreement that provides 100% of the Company's liability for business classified as home systems protection and service line failures, for amounts up to \$50,000 and \$10,000, respectively, for any one accident any one policy. The agreement is continuous until terminated.

ACCOUNTS AND RECORDS

The Company maintained its principal operational offices in Tampa, Florida.

The Company and non-affiliates had the following agreements:

Investment Advisory Agreement

The Company maintained an investment advisory agreement with Credit Suisse Asset Management, LLC (Credit Suisse) entered into on March 27, 2007. Under this agreement, Credit Suisse directed and supervised the investments within established account objectives and guidelines established by the Company.

Custodial Agreement

The Company maintained a custodial agreement with The Bank of New York Mellon (Bank of New York) entered into on June 5, 2008. Under the terms of the agreement, the Company appoints Bank of New York as its custodian to hold its securities. The agreement complied with Rule 690-143.042, Florida Administrative Code.

Special Claims Services Agreement

Effective June 22, 2008, the Company entered into a special claims services agreement with SIU Compliance Solutions, Inc. (SIU). Under the terms of the agreement, SIU provides specific special investigation services on claims involving suspected fraud. This agreement was terminated in May 2013 and the Company began performing these services internally.

Independent Auditor Agreement

An independent CPA, Thomas Howell Ferguson, audited the Company's statutory basis financial statements annually for all years of the examination (2010, 2011, 2012, 2013, 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 McMurray, CISSP, CISA, AES, and Tom Hayden, CIS, AES, IT Specialist of Risk & Regulatory Consulting, LLC (RRC) 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 were deposited with the State of Florida as required by Section 624.411, Florida Statutes.

State	Description	Par Value	Market Value
FL	Cash	<u>\$ 339,600</u>	<u>\$ 339,600</u>
TOTAL SPECIAL DEPOSITS		<u><u>\$ 339,600</u></u>	<u><u>\$ 339,600</u></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:

American Integrity Insurance Company of Florida

Assets

December 31, 2014

	Per Company	Examination Adjustments	Per Examination
Bonds	\$122,184,556		\$122,184,556
Stocks:			
Common			0
Real Estate:			
Properties			
occupied by Company			0
Other properties			0
Cash and Short-Term Investments	36,176,865		36,176,865
Other investments			0
Aggregate write-in for invested assets			0
Agents' Balances:			
Uncollected premium	3,846,007		3,846,007
Deferred premium	8,672,634		8,672,634
Reinsurance recoverable	5,167,657		5,167,657
Net deferred tax asset	4,747,602		4,747,602
EDP Equipment	40,660		40,660
Interest and dividend income due & accrued	453,937		453,937
Aggregate write-in for other than invested assets	(5,378,818)		(5,378,818)
	<hr/>		
Totals	\$175,911,100	\$0	\$175,911,100
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American Integrity Insurance Company of Florida
Liabilities, Surplus and Other Funds
December 31, 2014

	Per Company	Examination Adjustments	Per Examination
Losses	\$17,069,734		\$17,069,734
Loss adjustment expenses	6,258,008		6,258,008
Other expenses	537,012		537,012
Taxes, licenses and fees	(231,283)		(231,283)
Current federal and foreign income taxes	(1,166,622)		(1,166,622)
Unearned premium	59,455,696		59,455,696
Advance premium	3,975,835		3,975,835
Ceded reinsurance premiums payable	30,397,196		30,397,196
Amounts withheld	2,837,742		2,837,742
Remittances and items not allocated	362,759		362,759
Payable to parent, subsidiaries and affiliates	582,243		582,243
Aggregate write-ins for liabilities	383,277		383,277
Total Liabilities	\$120,461,597	\$0	\$120,461,597
Common capital stock	\$1,000		\$1,000
Surplus notes	\$7,897,059		7,897,059
Gross paid in and contributed surplus	14,249,000		14,249,000
Unassigned funds (surplus)	33,302,444		33,302,444
Surplus as regards policyholders	\$55,449,503	\$0	\$55,449,503
Total liabilities, surplus and other funds	\$175,911,100	\$0	\$175,911,100

American Integrity Insurance Company of Florida
Statement of Income and Capital and Surplus Account
December 31, 2014

Underwriting Income

Premiums earned		\$101,547,531
	Deductions:	
Losses incurred		\$33,667,320
Loss expenses incurred		12,838,668
Other underwriting expenses incurred		33,648,376
Aggregate write-ins for underwriting deductions		0
Total underwriting deductions		\$80,154,364
Net underwriting gain or (loss)		\$21,393,167

Investment Income

Net investment income earned		\$1,185,169
Net realized capital gains or (losses)		326,067
Net investment gain or (loss)		\$1,511,236

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		\$22,904,403
Dividends to policyholders		0
Net Income, after dividends to policyholders, but before federal & foreign income taxes		\$22,904,403
Federal & foreign income taxes		7,747,111
Net Income		\$15,157,292

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year		\$41,068,892
Net Income		\$15,157,292
Net unrealized capital gains or losses		0
Change in net deferred income taxes		(184,796)
Change in non-admitted assets		(180,121)
Change in surplus notes		(411,764)
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		\$14,380,611
Surplus as regards policyholders, December 31 current year		\$55,449,503

American Integrity Insurance Company of Florida
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	\$55,449,503
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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:			_____
Surplus as Regards Policyholders December 31, 2014, Per Examination			\$55,449,503

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses

An actuarial firm, Christopher Gross Consulting, 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's consulting actuary, Edward 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 \$55,449,503, exceeded the minimum of \$8,714,255 required by Section 624.408, Florida Statutes.

SUMMARY OF RECOMMENDATIONS

Appointed Actuary

We recommend that the Board of Directors ensure that appointments of opining actuaries be completed on a timely basis.

Compliance with State Laws and Regulations

We recommend that the Company file with the Office a CPA Awareness Letter by December 31 of the year subject to audit, to comply with Rule 69O-137.002, Florida Administrative Code.

We recommend that the Company provide documentation, Report of Unclaimed Property to verify compliance with Section 717.117, Florida Statutes.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of American Integrity Insurance Company of Florida as of December 31, 2014, consistent with the insurance laws of the State of Florida.

Example: Per examination findings, the Company's surplus as regards policyholders was \$55,449,503, which exceeded the minimum of \$8,714,255 required by Section 624.408, Florida Statutes.

In addition to the undersigned, John J. D'Amato, CPA, CFE, MCM, Director & Examiner-in-Charge; Abbie Teshale, CFE, Senior Associate & Examiner; Phil McMurray, CISSP CISA AES, Director & IT Specialist; Tom Hayden, CISA, AES, Manager & IT Specialist; and Ed Zonenberg, FCAS, Supervisory & Actuarial Specialist, Participating Examiners, of Risk & Regulatory Consulting, LLC (RRC), also participated in the examination. Members of the Office who participated in the examination include Connie Hare, AFE, Financial Examiner/Analyst Supervisor, Examination Manager; and Paula Bowyer, Financial Examiner/Analyst II, Participating Examiner.

Respectfully submitted,

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