

**REPORT ON EXAMINATION**  
**OF**  
**FIRST PROTECTIVE INSURANCE**  
**COMPANY**

**LAKE MARY, FLORIDA**

**AS OF**

**DECEMBER 31, 2013**

**BY THE**  
**FLORIDA OFFICE OF INSURANCE REGULATION**

## TABLE OF CONTENTS

<b>LETTER OF TRANSMITTAL</b> .....	-
<b>SCOPE OF EXAMINATION</b> .....	1
<b>SUMMARY OF SIGNIFICANT FINDINGS</b> .....	2
CURRENT EXAM FINDINGS.....	2
PRIOR EXAM FINDINGS.....	2
<b>HISTORY</b> .....	2
GENERAL .....	2
DIVIDENDS TO STOCKHOLDERS.....	3
CAPITAL STOCK AND CAPITAL CONTRIBUTIONS.....	3
SURPLUS NOTES .....	4
ACQUISITIONS, MERGERS, DISPOSALS, DISSOLUTIONS AND PURCHASE OR SALES THROUGH REINSURANCE .....	4
<b>CORPORATE RECORDS</b> .....	5
CONFLICT OF INTEREST.....	5
<b>MANAGEMENT AND CONTROL</b> .....	6
MANAGEMENT .....	6
AFFILIATED COMPANIES .....	7
SIMPLIFIED ORGANIZATIONAL CHART .....	8
TAX ALLOCATION AGREEMENT.....	9
MANAGEMENT AGREEMENT .....	9
MANAGING GENERAL AGENCY AGREEMENT .....	10
REINSURANCE INTERMEDIARY BROKER SERVICES AGREEMENT.....	11
INTERCREDITOR AGREEMENT .....	11
<b>FIDELITY BOND AND OTHER INSURANCE</b> .....	12
<b>PENSION, STOCK OWNERSHIP AND INSURANCE PLANS</b> .....	12
<b>TERRITORY AND PLAN OF OPERATIONS</b> .....	13
TREATMENT OF POLICYHOLDERS .....	13
<b>COMPANY GROWTH</b> .....	13
PROFITABILITY OF COMPANY .....	14
<b>LOSS EXPERIENCE</b> .....	14
<b>REINSURANCE</b> .....	15
ASSUMED .....	15
CEDED .....	15
<b>ACCOUNTS AND RECORDS</b> .....	17
CUSTODIAL AGREEMENT .....	17
FLOOD INSURANCE SERVICES .....	17
DISCRETIONARY INVESTMENT MANAGEMENT AGREEMENT .....	18

INDEPENDENT AUDITOR AGREEMENT .....	18
<b>INFORMATION TECHNOLOGY REPORT .....</b>	<b>18</b>
<b>STATUTORY DEPOSITS .....</b>	<b>19</b>
<b>FINANCIAL STATEMENTS PER EXAMINATION.....</b>	<b>19</b>
ASSETS .....	20
LIABILITIES, SURPLUS AND OTHER FUNDS .....	21
STATEMENT OF INCOME .....	22
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS .....	23
<b>COMMENTS ON FINANCIAL STATEMENTS.....</b>	<b>24</b>
LIABILITIES .....	24
CAPITAL AND SURPLUS .....	24
<b>CONCLUSION.....</b>	<b>25</b>

March 12, 2015

Kevin M. McCarty  
Commissioner  
Office of Insurance Regulation  
State of Florida  
Tallahassee, Florida 32399-0326

Dear Sir:

Pursuant to your instructions, in compliance with Section 624.316, Florida Statutes, Rule 69O-138.005, Florida Administrative Code, and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted an examination as of December 31, 2013, of the financial condition and corporate affairs of:

**FIRST PROTECTIVE INSURANCE COMPANY  
7131 BUSINESS PARK LANE, SUITE 300  
LAKE MARY, FLORIDA 32746**

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, 2011 through December 31, 2013. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2010. This examination commenced with planning at the Office on September 15, 2014 to September 19, 2014. The fieldwork commenced on September 22, 2014 and concluded as of March 12, 2015.

This financial examination was a multi-state examination conducted in accordance with the Financial Condition Examiners Handbook, Accounting Practices and Procedures Manual and Annual Statement instructions promulgated by the NAIC as adopted by Rules 69O-137.001(4) and 69O-138.001, Florida Administrative Code, with due regard to the statutory requirements of the insurance laws and rules of the State of Florida.

The Financial Condition Examiners Handbook requires that the examination be planned and performed to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation and management's compliance with Statutory Accounting Principles and Annual Statement instructions when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

This report of examination is confined to significant adverse findings, a material change in the financial statements or other information of regulatory significance or requiring regulatory action. The report comments on matters that involved departures from laws, regulations or rules, or which were deemed to require special explanation or description.

## **SUMMARY OF SIGNIFICANT FINDINGS**

### **Current Exam Findings**

There were no material findings, exceptions or corrective action to be taken by the Company for the examination as of December 31, 2013.

### **Prior Exam Findings**

There were no findings, exceptions or corrective action to be taken by the Company for the examination as of December 31, 2010.

## **HISTORY**

### **General**

The Company was incorporated in Florida on March 16, 1998, and commenced business on April 30, 1998, as First Protective Insurance Company.

The Company was authorized to transact the following insurance coverage in Florida on various dates beginning in 1998 to 2013 and continued to be authorized as of December 31, 2013:

Fire	Allied Lines
Homeowners Multi-Peril	Commercial Multi-Peril
Other Liability	Mobile Home Multi-Peril
Mobile Home Physical Damage	

**Subsequent event:** The Company was authorized to transact Miscellaneous Casualty insurance coverage on May 28, 2014.

The Articles of Incorporation were amended during the period covered by this examination. Article III was amended to authorize the Company to issue not more than five hundred thousand (500,000) shares of common stock having a par value of fifteen dollars (\$15.00) per share. 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	500,000
Number of shares issued and outstanding	200,000
Total common capital stock	\$3,000,000
Par value per share	\$15.00

The Company was wholly owned and controlled by its parent, PWC Financial, Inc. (PWC), which in turn was owned by various shareholders, including Lanier Miles Porter (13%), Willis Thomas King, Jr. (23%), Dwayne Richard Williams (6%), Leman Miles Porter (12%), Louis

Victor Vendittelli (2%), Harold Mack Humphrey (3%), Emily Roberts King (6%), Kathleen Burrows (6%), and all other investors (29%). The parent contributed \$5,000,000 in cash to the Company as of December 28, 2011. The Company issued an additional 100,000 shares of common stock at \$15 par value to the parent, PWC, the sole shareholder, on July 13, 2013, by transferring \$1,500,000 from Paid in Capital to Surplus.

### **Surplus Notes**

The Company had the following surplus debentures outstanding at December 31, 2013:

- 3% subordinated surplus debenture from PWC, issued December 31, 2003, for \$1,500,000
- 3% subordinated surplus debenture from Frontline Insurance Managers, Inc. (Frontline), an affiliated company, issued December 31, 2005, for \$3,267,500
- 6.5% subordinated surplus debenture from Frontline, an affiliated company, issued November 30, 2006, for \$4,000,000.

The Company shall not make any principal or interest payments with respect to the aforementioned debentures unless such payment is approved in advance by the Office. The Boards of PWC and Frontline agreed to forgive the interest due for the surplus notes through December 31, 2013.

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

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



## **CORPORATE RECORDS**

The recorded minutes of the Shareholder, 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:

#### Directors

<b>Name and Location</b>	<b>Principal Occupation</b>
Lanier Miles Porter Longwood, Florida	Chief Executive Officer, First Protective Insurance Company
Leman Miles Porter Heathrow, Florida	President, First Protective Insurance Company
Dwayne Richard Williams Heathrow, Florida	Treasurer, First Protective Insurance Company
Willis Thomas King Summit, New Jersey	Director, First Protective Insurance Company
Harold Mack Humphrey Miami, Florida	Director, PWC Financial, Inc.
Louis Victor Vendittelli Longwood, Florida	General Counsel, First Protective Insurance Company Attorney, Sheehe & Vendittelli, PA
Emily Roberts King Summit, New Jersey	Chairman of the Board, First Protective Insurance Company

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

#### Senior Officers

<b>Name</b>	<b>Title</b>
Lanier Miles Porter	Chief Executive Officer
Leman Miles Porter	President
Dwayne Richard Williams	Treasurer
Benjamin Andrew Treuil	Chief Financial Officer

Following were the principal internal Board committees and their members as of December 31, 2013:

**Audit Committee**

Emily Roberts King <sup>1</sup>  
Harold Mack Humphrey  
Jack Casagrande

**Investment Committee**

Willis Thomas King <sup>1</sup>  
Lanier Miles Porter  
Leman Miles Porter  
Dwayne Richard Williams  
Benjamin Andrew Treuil

<sup>1</sup> Chairman

The Company was not in compliance with Section 624.424(8) (c), Florida Statutes and Rule 69O-137.002(14) (b), Florida Administrative Code. Jack Casagrande served on the Audit Committee, but he was neither a member of the Company's Board of Directors nor a member of the Board of Directors of the insurance holding company group; therefore, he did not qualify to serve on the Audit Committee. **Subsequent event:** Mr. Casagrande resigned from the Audit Committee and another member of the Board took this place on the Audit Committee. The Company is in compliance with Section 624.424(8)(c), Rule 69O-137.002(14) (b), Florida Administrative Code.

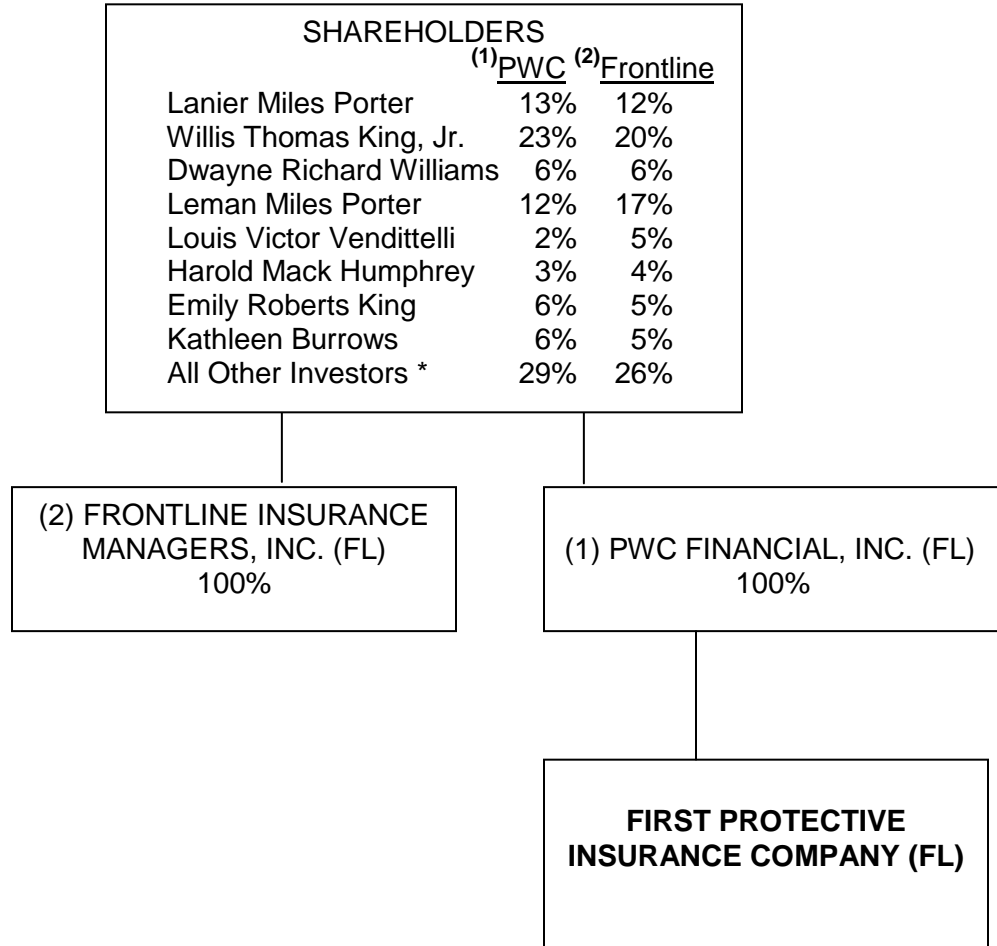
**Affiliated Companies**

The most recent holding company registration statement was filed with the State of Florida on February 24, 2014, as required by Section 628.801, Florida Statutes.

A simplified organizational chart as of December 31, 2013, reflecting the holding company system, is shown on the following page. Schedule Y of the Company's 2013 annual statement provided a list of all related companies of the holding company group.

**FIRST PROTECTIVE INSURANCE COMPANY  
SIMPLIFIED ORGANIZATIONAL CHART**

**DECEMBER 31, 2013**



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

### **Tax Allocation Agreement**

The Company filed a separate federal income tax return for the December 31, 2013, reporting year because its parent, PWC, filed as a sub-chapter S corporation. However, a Federal Income Tax Allocation Agreement existed between the Company and PWC. This agreement was amended on December 16, 2005, effective retroactively to include tax year 2004, and based on separate return calculations with current credit for net losses. The agreement was filed with the Office during the prior examination period, as required by Rule 69O-143.047(4), Florida Administrative.

### **Management Agreement**

The Company entered into a management agreement with its parent, PWC on January 1, 2006, to provide certain management services. The agreement continues in force and effect for an indefinite number of successive one-year periods from year to year thereafter unless and until terminated by agreement of the parties or by written notice by either party to the other, to be effective not less than ninety (90) days thereafter. Under the terms of the management agreement, PWC's duties included corporate organization, investment management, financial management, accounting and tax services, legal advice, corporate management services, human resource services, corporate expense oversight, benefit plan management, actuarial services, regulatory liaison services, reinsurance services, and other ministerial functions. In exchange for the services provided, PWC received a fee from the Company equal to 5% of the Company's net written premium. During 2013, the Company paid PWC \$5,438,910 under the terms of the management agreement.

## **Managing General Agency Agreement**

The Company entered into a Managing General Agency Agreement with Frontline on January 1, 2006, to market, underwrite and manage the Company's property and casualty insurance programs. On January 1, 2009, the parties entered into an Amended Managing General Agency Agreement that replaced the agreement of January 1, 2006. **Subsequent Event:** The parties replaced the agreement of January 1, 2009, with the Second Amended Managing General Agency Agreement, effective December 12, 2014. The Second Amended Managing General Agency Agreement was filed with the Office for prior approval, as required by Rule 69O-143.047, Florida Administrative Code. The Company filed the executed copies with the Office on February 17, 2015.

Duties and responsibilities of Frontline in conducting the insurance business included: development of underwriting guidelines and marketing and sales materials, solicitation and evaluation of policy applications, premium and collection, policy cancellation, appointment of sub-producers, and claims servicing. Additional duties included agent licensing, administration, record keeping and reporting, compliance with insurance rules and regulations, provide the Company with all information required for the Company to file policy forms for approval, responsible for its own expenses associated with its performance, hold meetings with the Company, and claims administration and settlement.

Frontline received a fee from the Company for providing underwriting, marketing, and administration services, equal to 10% of the Company's net earned premium. In addition, Frontline received a fee from the Company, for payment of agent commissions. For business written in Florida and Alabama, Frontline received a fee equal to 11.5% of the Company's net written

premium. For business written in South Carolina, Frontline received a fee equal to 12% of the Company's net written premium. For business written in North Carolina, Frontline received a fee equal to 13% of the Company's net written premium. Frontline retained a \$2 installment fee per installment for payments made under the installment payment option offered by the Company. Frontline was also entitled to a \$25 per policy servicing fee, which was collected from the policyholders. Frontline received a fee from the Company equal to 15.5% of the Company's gross incurred loss (the net amount of losses paid, recoveries, and the change in outstanding loss reserves for the month) excluding catastrophe losses in exchange for the claims servicing and administration services provided. Frontline was paid a monthly fee equal to 1% of the Company's gross paid catastrophe losses, plus an inspection/adjusting fee per adjusted claim at the rates to be set each June 1. Furthermore, Frontline is entitled to 40% of any recoveries from subrogation claims brought by the Company. Fees incurred under this agreement during 2013 amounted to \$26,947,936.

### **Reinsurance Intermediary Broker Services Agreement**

The Company entered into an agreement with Frontline, effective May 16, 2007, to provide reinsurance intermediary broker services for the following treaties: property catastrophic excess of loss, property per risk excess of losses, reinstatement premium protection, and multiple line quota share. Frontline received the standard brokerage amount from the reinsurer, based on the gross ceded reinsurance premium for each treaty.

### **Intercreditor Agreement**

The Company and its affiliate, Fidelity Fire & Casualty Company, entered into a Commercial Promissory Note transaction with another affiliated company, Heathrow Land Holdings, LLC,

(Heathrow) whereby the companies loaned Heathrow \$2,200,000 and \$2,400,000, respectively. The loan was secured by a mortgage on commercial real estate owned by Heathrow Land Holdings, LLC through a mortgage and security agreement. The Company and Fidelity Fire & Casualty Company executed an intercreditor agreement establishing an equal priority lien mortgage on the property. Rental income earned on the property by Heathrow will be used to fund the mortgage loan payments. The transactions were approved by the Office on October 28, 2013.

### **FIDELITY BOND AND OTHER INSURANCE**

The Company maintained fidelity bond coverage up to \$800,000 with a deductible of \$25,000, which reached the suggested minimum as recommended by the NAIC.

The Company also maintained insurance company professional liability coverage with a limit of \$5,000,000 and retention of \$150,000, in addition to directors and officers and private liability insurance coverage with an aggregate limit of \$1,000,000.

### **PENSION, STOCK OWNERSHIP AND INSURANCE PLANS**

There were no pension, 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 in the following states:

Alabama	Florida	Delaware
South Carolina	North Carolina	Maryland

### 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's surplus increased since the prior examination, from \$16,155,044 as of December 31, 2010, to \$26,948,415 as of December 31, 2013. The Company received a \$5,000,000 capital contribution from its parent, PWC in 2011. In 2013, the Company issued an additional 100,000 shares of common stock at \$1,500,000 to the parent, PWC, the sole shareholder, by transferring \$1,500,000 from Paid in Capital to Surplus.

Written premium increased 21% from the prior examination, while net written premiums decreased by 10%. The Company ceded more premiums than it retained. The Company reported that a rate increase of 15%, effective November 2012, was offset by an increase in ceded premium and a decrease in policy count to produce almost neutral net revenue, year-over-year (i.e. net premium written of \$31 million in 2012, increased by 3% to \$32 million in 2013). Contingent commissions of

\$7 million related to the 50% quota share reinsurance contract were realized in 2013. Furthermore, the Company experienced favorable results from quiet storm seasons from late 2010 to 2013 resulting in the ability to generate net income of \$4,332,679 during the aforementioned period.

### **Profitability of Company**

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

	<b>2013</b>	<b>2012</b>	<b>2011</b>
Premiums Earned	31,980,354	31,411,222	28,751,310
Net Underwriting Gain/(Loss)	988,592	2,112,614	(148,517)
Net Income	1,420,186	2,805,419	107,074
Total Assets	78,149,495	71,564,598	62,980,546
Total Liabilities	51,201,081	46,790,397	41,550,380
Surplus As Regards Policyholders	26,948,415	24,774,201	21,430,167

### **LOSS EXPERIENCE**

The liability for loss adjustment expenses increased by 285% from 2012 to 2013, primarily due to the Company's continuing efforts to evaluate general loss classification types and establish accurate standard loss adjustment expenses reserves.

The Company's pure loss ratio in 2013 was 10% and 13.8% lower than industry average for Homeowners and Fire lines of business, respectively. This is primarily due to the Company's reinsurance programs that reduce its exposure to severe losses. The Company's combined ratios decreased below 100% to 93% beginning in 2012 and increased by 3% to 96% in 2013, showing improvement from the combined ratio of 101% in 2011.

## **REINSURANCE**

The reinsurance agreements reviewed complied with NAIC standards with respect to the standard insolvency clause, arbitration clause, transfer of risk, reporting and settlement information deadlines.

### **Assumed**

The Company did not assume any reinsurance during the period of this examination.

### **Ceded**

The Company ceded catastrophe risks on an excess of loss basis to certain Lloyd's syndicates and other commercial reinsurers. Under the catastrophe excess of loss agreements, the Company had retention of \$2 million and coverage of up to \$128 million, with the provision for one reinstatement. In addition, the Company purchased reinstatement premium protection.

The Company also entered into a reimbursement contract with the Florida Hurricane Catastrophe Fund which provided 90% coverage of up to \$169 million of losses per catastrophe with maximum losses of \$188 million. Combined, the Company had \$297 million of catastrophe loss reinsurance coverage.

The Company participated in a 50% multiple line quota share reinsurance agreement for non-catastrophe risks effective December 31, 2010, with Liberty Syndicates, Paris.

The Company participated in an automatic facultative excess agreement with General Reinsurance Corporation effective March 1, 2013, placing insured property business in excess of \$2.5 million to \$11 million. The liability for the reinsurer is not to exceed \$45 million with respect to all losses combined for all risks involved in one loss occurrence during the term of the agreement.

The Company obtained reinsurance for the personal umbrella coverage written from General Reinsurance Corporation effective January 1, 2013 until terminated, with a 5% retention of the first \$1 million of each occurrence and minimum limit of \$300 thousand. Reinsurer limits are 95% of the first \$1 million of each occurrence, and 100% of the difference, between the policy limit and the first \$1 million of each occurrence.

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 Lake Mary, Florida.

The Company maintained its general ledger through Fiserv accounting software. The Company also utilized Fiserv SIS component based application that automated processing for policy issuance, billing and collection, claims management, and management statistics.

The Company and non-affiliates had the following agreements:

### **Custodial Agreement**

The Company maintained a custodial agreement with Merrill Lynch, Pierce, Fenner & Smith Incorporated executed on April 2, 2012. The agreement was in compliance with Rule 69O-143.042, Florida Administrative Code.

### **Flood Insurance Services**

The Company entered into an agreement with Torrent Technologies, Inc. effective January 1, 2008. The purpose of the agreement was to provide access to the technology used to administer and service flood insurance through the National Flood Insurance Program, for a portion of the net premiums written and incurred losses. As of December 31, 2013, the fee structure was 5.5% of written premiums for policy administration and .75% of written premiums plus 1.25% of incurred losses for claims administration.

### **Discretionary Investment Management Agreement**

The Company entered into an agreement with Blackrock Investment Managers, LLC effective June 8, 2010. The purpose of the discretionary investment management agreement was to provide brokerage services to the Company, at a fee of 22 basis points on the portfolio.

### **Independent Auditor Agreement**

An independent CPA audited the Company's statutory basis financial statements annually for the years 2011, 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**

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	\$ 1,000,000	\$ 1,000,000
FL	Interest	482,024	482,024
TOTAL FLORIDA DEPOSITS		1,482,024	1,482,024
NC	Charlotte NC, 5%, 01/15/2031	\$ 100,000	\$ 101,658
NC	New Hanover Cnty NC, 5%, 12/01/2027	100,000	109,980
NC	North Carolina ST, 4.75%, 05/01/2029	100,000	105,701
NC	First Amer, TOF, n/a, n/a	4,875	4,875
NC	Interest	15,794	
SC	CD, 0.33%, 10/09/2014	<u>125,000</u>	<u>125,000</u>
TOTAL OTHER DEPOSITS		<u>445,669</u>	<u>447,214</u>
TOTAL SPECIAL DEPOSITS		<u>\$ 1,927,693</u>	<u>\$ 1,929,238</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."

**FIRST PROTECTIVE INSURANCE COMPANY**

**Assets**

**DECEMBER 31, 2013**

	<b>Per Company</b>	<b>Examination Adjustments</b>	<b>Per Examination</b>
Bonds	\$43,913,108		\$43,913,108
Stocks:			
Common	4,588,399		4,588,399
Mortgage loans on real estate:			
first liens	2,390,640		2,390,640
Cash and Short-Term Investments	13,161,859		13,161,859
Other investments	3,381,495		3,381,495
Receivable for securities	11,031		11,031
Investment income due and accrued	429,913		429,913
Premiums and considerations:			
Uncollected premium	1,488,736		1,488,736
Deferred premium	5,843,169		5,843,169
Reinsurance:			
Amounts recoverable from reinsurers	3,400		3,400
Other amounts receivable under reinsurance contracts	1,901,064		1,901,064
Net deferred tax assets	943,043		943,043
Aggregate write-in for other than invested assets	93,638		93,638
	<hr/>		
Totals	\$78,149,495	\$0	\$78,149,495
	<hr/> <hr/>		



**FIRST PROTECTIVE INSURANCE COMPANY**  
**Liabilities, Surplus and Other Funds**

**DECEMBER 31, 2013**

	Per Company	Examination Adjustments	Per Examination
Losses	\$8,305,194		\$8,305,194
Loss adjustment expenses	3,382,490		3,382,490
Other expenses	29,456		29,456
Taxes, licenses and fees	410,081		410,081
Current federal income tax	315,214		315,214
Unearned premium	16,375,117		16,375,117
Advance premium	2,748,271		2,748,271
Funds held under reinsurance treaties	325,861		325,861
Ceded reinsurance premiums payable	16,166,685		16,166,685
Payable to parent, subsidiaries and affiliates	2,592,679		2,592,679
Aggregate write-ins for liabilities	550,032		550,032
<b>Total Liabilities</b>	<b>\$51,201,080</b>	<b>\$0</b>	<b>\$51,201,080</b>
Common capital stock	\$3,000,000		\$3,000,000
Surplus notes	8,767,500		8,767,500
Gross paid in and contributed surplus	9,375,000		9,375,000
Unassigned funds (surplus)	5,805,915		5,805,915
Surplus as regards policyholders	\$26,948,415	\$0	\$26,948,415
<b>Total liabilities, surplus and other funds</b>	<b>\$78,149,495</b>	<b>\$0</b>	<b>\$78,149,495</b>

**FIRST PROTECTIVE INSURANCE COMPANY**  
**Statement of Income**

**DECEMBER 31, 2013**

**Underwriting Income**

Premiums earned		\$31,980,354
	<b>Deductions:</b>	
Losses incurred		\$12,870,585
Loss expenses incurred		5,109,594
Other underwriting expenses incurred		13,011,583
Aggregate write-ins for underwriting deductions		0
Total underwriting deductions		<u>\$30,991,762</u>
Net underwriting gain or (loss)		\$988,592

**Investment Income**

Net investment income earned		\$1,011,381
Net realized capital gains or (losses)		<u>129,474</u>
Net investment gain or (loss)		\$1,140,855

**Other Income**

Net gain or (loss) from agents' or premium balances charged off		(\$17,358)
Finance and service charges not included in premiums		82,241
Aggregate write-ins for miscellaneous income		0
Total other income		<u>\$64,883</u>
Net income before dividends to policyholders and before federal & foreign income taxes		\$2,194,330
Dividends to policyholders		<u>0</u>
Net Income, after dividends to policyholders, but before federal & foreign income taxes		\$2,194,330
Federal & foreign income taxes		<u>774,144</u>
Net Income		<u><u>\$1,420,186</u></u>

**Capital and Surplus Account**

Surplus as regards policyholders, December 31 prior year		\$24,774,201
Net Income		\$1,420,186
Change in net unrealized capital gains or (losses)		798,754
Change in provision for reinsurance		0
Change in net deferred income tax		(43,906)
Change in non-admitted assets		(820)
Capital changes: Paid in		1,500,000
Surplus adjustments: Paid in		<u>(1,500,000)</u>
Change in surplus as regards policyholders for the year		<u>\$2,174,214</u>
Surplus as regards policyholders, December 31 current year		<u><u>\$26,948,415</u></u>

**FIRST PROTECTIVE 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	\$26,948,415
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	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:			
No Adjustment			\$0
LIABILITIES:			
No Adjustment			\$0
Net Change in Surplus:			0
Surplus as Regards Policyholders December 31, 2013, Per Examination			\$26,948,415

## COMMENTS ON FINANCIAL STATEMENTS

### Liabilities

**Losses and Loss Adjustment Expenses** \$11,687,684

An outside actuarial firm appointed by the Board 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 actuaries, Robert W. Gardner, FCAS, MAAA, Eugene G. Thompson, ACAS, MAAA, and Michael W. Morro, ACAS, MAAA of INS Consultants, 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 \$26,948,415, exceeded the minimum \$5,000,000 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 First Protective 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 \$26,948,415, which exceeded the minimum of \$5,000,000 required by Section 624.408, Florida Statutes.

In addition to the undersigned, Colette M. Hogan Sawyer, CFE, Examiner-In-Charge, of INS Regulatory Insurance Services, Inc., Robert W. Gardner, FCAS, MAAA, Eugene G. Thompson, ACAS, MAAA, and Michael W. Morro, ACAS, MAAA, consulting actuaries with INS Consultants, Inc., and Kevin Ralston, CISA, IT Examiner and Claude B. Granese, CPA, IT Manager both with INS Services, Inc., and Tracy D. Gates, CISA, CFE, CPA, Highland Clark, LLC, Examination Manager, participated in the examination. Additionally, Kyra D. Brown, Financial Specialist, Luke Stavenau, Financial Examiner/Analyst I, and Mikhael Goldgisser, Financial Examiner/Analyst I, all of the Office participated in the examination.

Respectfully submitted,

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Robin Brown, CFE  
Chief Examiner  
Florida Office of Insurance Regulation