

REPORT ON EXAMINATION

OF

**HERITAGE PROPERTY & CASUALTY
INSURANCE COMPANY**

CLEARWATER, FLORIDA

AS OF

DECEMBER 31, 2014

BY THE

FLORIDA OFFICE OF INSURANCE REGULATION

TABLE OF CONTENTS

LETTER OF TRANSMITTAL	-
SCOPE OF EXAMINATION.....	1
SUMMARY OF SIGNIFICANT FINDINGS	2
CURRENT EXAM FINDINGS.....	2
PRIOR EXAM FINDINGS.....	4
GENERAL	5
DIVIDENDS TO STOCKHOLDERS.....	6
CAPITAL STOCK AND CAPITAL CONTRIBUTIONS.....	6
SURPLUS NOTES	7
ACQUISITIONS, MERGERS, DISPOSALS, DISSOLUTIONS, AND PURCHASE OR SALES THROUGH REINSURANCE	7
CORPORATE RECORDS	7
CONFLICT OF INTEREST.....	7
MANAGEMENT AND CONTROL.....	8
MANAGEMENT	8
DIRECTORS.....	8
SENIOR OFFICERS	9
AFFILIATED COMPANIES	10
ORGANIZATIONAL CHART	11
MANAGEMENT GENERAL AGENCY AGREEMENT	12
COST ALLOCATION AGREEMENT	12
VENDOR SERVICES AGREEMENT.....	13
REINSURANCE AGREEMENT.....	13
TERRITORY AND PLAN OF OPERATIONS.....	13
TREATMENT OF POLICYHOLDERS	14
REINSURANCE.....	14
ASSUMED	14
CEDED	15
ACCOUNTS AND RECORDS	18
CUSTODIAL AGREEMENT	18
INDEPENDENT AUDITOR AGREEMENT	18
INVESTMENT ADVISORY AGREEMENT	19
REINSURANCE INTERMEDIARY AUTHORIZATION AGREEMENT.....	19
REGULATORY AND COUNCILING SERVICES AGREEMENT.....	19
INFORMATION TECHNOLOGY REPORT	19
STATUTORY DEPOSITS	20
FINANCIAL STATEMENTS PER EXAMINATION.....	21

ASSET.....	22
LIABILITIES, SURPLUS AND OTHER FUNDS	23
STATEMENT OF INCOME	24
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS.....	25
COMMENTS ON FINANCIAL STATEMENTS.....	26
LIABILITIES	26
CAPITAL AND SURPLUS	26
SUMMARY OF RECOMMENDATIONS.....	27
CONCLUSION.....	28

March 17, 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:

Heritage Property & Casualty Insurance Company
2600 McCormick Drive, Suite 300
Clearwater, Florida 33759

hereinafter referred to as the "Company". Such report of examination is herewith respectfully submitted.

SCOPE OF EXAMINATION

This examination covered the period of January 1, 2014, through December 31, 2014. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) covering the period of January 1, 2013 through December 31, 2013. This examination commenced with planning at the Office on August 24, 2015 to August 27, 2015. The fieldwork commenced on September 8, 2015, and concluded on March 17, 2016. This is the Company's second year examination.

This financial examination is a statutory financial examination conducted in accordance with the Financial Condition Examiners Handbook, Accounting Practices and Procedures Manual and annual statement instructions promulgated by the NAIC as adopted by Rules 69O-137.001(4) and 69O-138.001, Florida Administrative Code, with due regard to the statutory requirements of the insurance laws and rules of the State of Florida. No other states participated in the examination.

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

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

Office Notification and Filings

During the period under review, there were changes to two officers and one director. The Company was not in compliance with Section 628.261, Florida Statutes, by not providing the Office with written notice of any change of personnel among the directors or principal officers of the insurer within 45 days of such change. Additionally, the Office still has not received a current biographical affidavit for Joe Peiso, Vice President of Compliance, which had not been filed with the Office in accordance with the requirements of Section 628.261, Florida Statutes.

The Company did not provide the Office with executed reinsurance agreements as part of the 2014-2015 Annual Reinsurance Data Call in compliance with Section 624.610, Florida Statutes (Credit for Reinsurance) and as required by Consent Order 127438-12-CO paragraph 22(x).

The Company failed to comply with Section 624.610, Florida Statutes, which requires domestic insurers to provide a summary statement 30 days after confirmation of coverage or 6 months after the effective date. The following reinsurance treaties and/or reinsurance summary statements were not submitted:

- 1) For the Property Excess per Risk Treaty 109893001-14, effective June 27, no 2014 reinsurance treaty and/or reinsurance summary statement was filed.
- 2) For the Factory Mutual Insurance Company Quota Share-Equipment Breakdown Treaty, no 2014 reinsurance summary statement was filed.
- 3) For the American Southern Insurance Company Identity Theft Treaty, no 2014 reinsurance summary statement was filed.
- 4) For the Arch Reinsurance Company Property Facultative Agreement H088080, no 2014 reinsurance summary statement was filed.

The Company did not file a separate report regarding the assets of its captive reinsurer, Osprey Re Ltd. in compliance with Section 624.424(11)(a), Florida Statutes.

The Company did not file the 2014 CPA awareness letter as required by Rule 69O-137.002(6)(b), Florida Administrative Code.

The review of the 2014 Holding Company Registration Statement did not report the surplus contributions to the Company of \$91,105,553 by the parent, Heritage Insurance Holdings, Inc. in accordance with Rule 69O-143.046, Florida Administrative Code.

Prior Exam Findings

The following is a summary of significant adverse findings contained in the Office's prior examination report as of December 31, 2013, along with resulting action taken by the Company in connection therewith.

The Company was not in compliance with Consent Order 127438-12-CO, paragraph 22(b)(1), which states that cost sharing arrangements shall be in accordance with a formal written agreement that contains a requirement of monthly cash settlement of any expenses incurred for the month. The Company's Cost Allocation Agreement states that "any such balances or reimbursements shall be settled within ninety (90) days".

Resolution:

The Company amended the Cost Allocation Agreement effective April 15, 2015, changing the settlement terms to thirty (30) days from ninety (90) days in compliance with Consent Order 127438-12-CO, paragraph 22(b)(1).

HISTORY

General

The Company was incorporated in Florida on August 2, 2012, and commenced business on August 17, 2012, as Heritage Property and Casualty Insurance Company.

The Company was party to Consent Order 127438-12-CO filed August 17, 2012, regarding the application for the issuance of a Certificate of Authority.

The Company was also party to Consent Orders requesting the assumption of selected policies from Citizens Property Insurance Corporation in 2014.

On July 8, 2014, the Company was granted Office approval to expand the scope of its writings under its existing lines of business to include a commercial residential program. On August 29, 2014, the Office granted the Company approval to add the Mobile Home Multi-Peril line of business. In the fourth quarter of 2014, the Company began assuming commercial residential policies from Citizens Property Insurance Corporation.

The Company was authorized to transact fire, allied lines, homeowners multi peril and other liability insurance coverage in Florida on August 17, 2012 and mobile home multi peril insurance coverage in Florida on August 29, 2014 and was authorized in all of the lines of business as of December 31, 2014:

The Articles of Incorporation and the Bylaws were not amended during the period covered by this examination.

Dividends to Stockholders

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

Capital Stock and Capital Contributions

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

Number of authorized common capital share	10,000,000
Number of shares issued and outstanding	1,000,000
Total common capital stock	\$1,000,000
Par value per share	\$1.00

Control of the Company was maintained by its parent, Heritage Insurance Holdings, Inc.

On May 23, 2014 during the period under examination, the parent executed an initial public offering and concurrent private placement, changed its corporate structure from a limited liability company to a C corporation and changed its name to Heritage Insurance Holdings, Inc. (HIH). As a result of this transaction, no shareholder controls in excess of 10% of HIH common shares and the ultimate controlling party is the HIH Board of Directors. Only Bruce Lucas, the parent's Board Chairman, and Vijay Walvekar, also a member of the parent's Board, control in excess of 5% of ownership shares.

Subsequent Event: The Company amended the stock certificate on April 15, 2015 to reflect proper signatures by the Secretary and the President in accordance with its Bylaws, and also the new name of the parent.

During 2014, the parent made contributions to surplus totaling \$91.1 million.

Surplus Notes

The Company issued surplus notes to its parent in the amounts of \$7 million and \$10 million on October 10, 2012 and May 23, 2013, respectively. Both surplus notes earn interest at 8% per annum with no stated maturity. Approval was received from the Office before the Company entered into these agreements. The Company paid a total of \$1,445,479 for interest related to both surplus notes in 2014.

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

Reinsurance

The Company had no acquisitions, mergers, disposals, 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, were:

Directors

Name and Location	Principal Occupation
Bruce Thomas Lucas Palm Harbor, Florida	Chairman and CEO Heritage Property & Casualty Insurance Company
Richard Alexander Widdicombe Tarpon Springs, Florida	President Heritage Property & Casualty Insurance Company
Panagiotis Giorgas Apostalou St. Petersburg, Florida	Owner Florida BP Claims, Central Cleaning Services and Central Parking Services
Trifon Houvardas Trinity, Florida	Investor & Real Estate Broker Foresight Property Services, Foresight Holding, Inc. and Fasco Investments Inc.
Jeffrey Charles Pollick Clearwater, Florida	President Physicians Casualty RRG
Vijay Walvekar Bloomfield Hills, Michigan	Vice President and Controller, Central Home Health Care, Inc.
Nicholas George Pappas (a) Palm Harbor, Florida	Restaurant Owner, Flamestone American Grill and Besa Grill
Irini Barlas (b) Palm Harbor, Florida	Chief Financial and Operating Officer, Megastar Advisors, LLC

(a) Nicholas Pappas was elected to the Board at the April 7, 2014 shareholder meeting.

(b) Irini Barlas was appointed to the Board effective August 10, 2014. All members of the Board are independent with the exception of Bruce Lucas and Richard Widdicombe.

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

Senior Officers

Name	Title
Bruce Thomas Lucas	Chairman and Chief Executive Officer
Richard Alexander Widdicombe	President
Stephen Lowell Rohde	Chief Financial Officer, Secretary and Treasurer
Ernesto Jose Garateix (a)	Chief Operating Officer
Melvin Atwood Russell, Jr.	Chief Underwriting Officer, Executive Vice President
Sharon Ann Binnun	Executive Vice-President, Finance
Paul Graham Neilson	Vice President, Claims
Joseph Rene Peiso	Vice President, Compliance

(a) In 2014 Kent Linder resigned as Chief Operating Officer and was replaced by Ernie Garateix.

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

Irini Barlas (1)
Vijay Walvekar
Trifon Houvardas

Investment Committee

Bruce Thomas Lucas (1)
Richard Alexander Widdicombe
Stephen Lowell Rohde

¹ Chairman

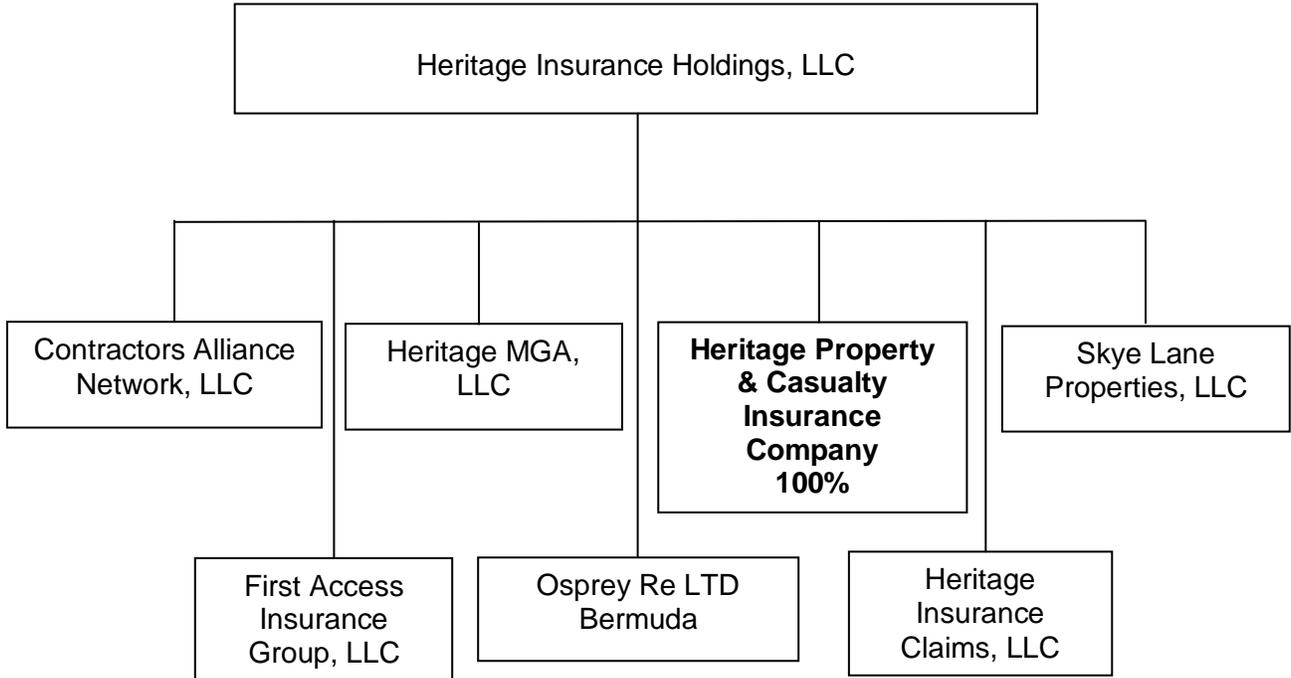
The Company maintained an audit committee, as required by Section 624.424(8) (c), Florida Statutes.

Affiliated Companies

The most recent holding company registration statement was filed with the State of Florida on March 12, 2015, as required by Section 628.801, Florida Statutes.

An organizational chart as of December 31, 2014, reflecting the holding company system, is shown on the following page. Schedule Y of the Company's 2014 Annual Statement provided a list of all related companies of the holding company group.

**HERITAGE PROPERTY & CASUALTY INSURANCE COMPANY
ORGANIZATIONAL CHART
DECEMBER 31, 2014**



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

Managing General Agency Agreement

The Company entered into an exclusive Managing General Agency Agreement with Heritage MGA, LLC (MGA) effective July 1, 2014, replacing the prior MGA agreement with MGA dated August 6, 2012. Under the terms of this agreement, the MGA provides underwriting, policy administration, claims administration services and executive management services to the Company. The agreement continues in force with automatic renewals for successive one-year periods, unless otherwise terminated within the guidelines of the agreement. MGA fees are based on (i) twenty-three percent (23%) of direct written premiums and (ii) four percent (4%) of earned assumed premiums for all business originated or produced and services rendered, negotiated, or retained by the Manager. Additionally, claims-related services are based on three and one-half percent (3.5%) of earned premium under this agreement. Fees paid under this agreement during 2014 amounted to \$61.4 million and \$10.9 million for MGA and claims administration services, respectively.

Cost Allocation Agreement

The Company entered into a Cost Allocation Agreement with its parent, MGA and Heritage Insurance Claims, LLC on August 9, 2012. The methods of allocations used were the direct allocation rule and the revenue allocation rule. The agreement was amended effective April 15, 2015 to include the remaining affiliated companies in the holding group (Osprey Re LTD, Contractors Alliance Network LLC, First Access Insurance Group LLC, and Skye Lane Properties LLC.), and change the settlement terms to thirty (30) days from ninety (90) days.

Vendor Services Agreement

The Company entered into an agreement for vendor services with Contractors Alliance Network, LLC (CAN) on August 20, 2013, to exclusively manage the Company's network of approved claims handling vendors. Under this agreement CAN provides or arranges for contractors and loss mitigation and repair services such as water mitigation, mold remediation, fire restoration and management services for the Company. The agreement continues in force until December 31, 2015 and automatically renews for successive one-year periods, unless otherwise terminated within the guidelines of the agreement. The fees paid by the Company varies by type of loss mitigation or repair service. Total fees incurred under this agreement during 2014 amounted to \$12,601,728.

Reinsurance Agreement

On June 1, 2014 the Company entered into a reinsurance contract with its captive reinsurance affiliate, Osprey Re, LTD, and the Company ceded premium in the amount of \$6 million for the 2014-2015 contract year. The terms and limits of Osprey's responsibilities are detailed under "Reinsurance".

TERRITORY AND PLAN OF OPERATIONS

As of December 31, 2014, the Company was authorized to transact insurance only in the State of Florida.

Subsequent Event: The Company was admitted in North Carolina effective August 11, 2015.

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, transfer of risk, reporting and settlement information deadlines.

Assumed

The Company has assumed policies under a policy assumption agreement with Citizens Property Insurance Corporation (Citizens) since the organization of the Company in 2012, exclusively under the provisions of the state approved depopulation program designed to reduce Florida's exposure to property loss.

As of December 31, 2014, the Company had assumed, net of cancellations, an aggregate of approximately 155,000 policies through participation in the Citizens depopulation program. Citizens generally offers depopulations on a monthly basis. Since December 2012 through December 31 2014, the Company participated in thirteen (13) depopulations through Consent Orders filed with the Office. During 2014, the Company assumed premiums of \$153.1 million under seven (7) separate assumed reinsurance transactions.

Subsequent Event: The Company assumed policies through three (3) more take-outs in 2015.

Ceded

As of December 31, 2014, the Company's ceded reinsurance program consisted of catastrophe excess of loss reinsurance provided by agreements with various commercial reinsurers through reinsurance intermediary Willis Re, as well as with their affiliate Osprey Re LTD. The Company also participated in the Florida Hurricane Catastrophe Fund (FHCF). The Company retains aggregate catastrophe losses from all events exceeding its reinsurance coverage.

The Company's reinsurance was segmented into layers of coverage to protect for excess property catastrophe losses and loss adjustment expenses (LAE). The Company's 2014-2015 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.

On April 17, 2014, the Company entered into a catastrophe reinsurance agreement with Citrus Re Ltd., a newly-formed Bermuda special purpose insurer, which provides for three (3) years of coverage from catastrophe losses caused by certain named storms, including hurricanes, beginning on June 1, 2014. The limit of coverage of \$150.0 million is fully collateralized by a reinsurance trust account for the benefit of the Company. The Company pays a periodic premium to Citrus Re Ltd. during this three-year risk period.

On April 24, 2014, the Company entered into a second catastrophe reinsurance agreement with Citrus Re Ltd. providing for \$50 million of coverage on substantially similar terms as the agreement described above.

The following describes the layers of the Company's 2014-2015 reinsurance program:

- For the first catastrophic event, the Company had a primary retention on the first \$9.0 million of losses and loss adjustment expenses. For a second catastrophic event, the Company's primary retention equaled to the first \$2.0 million of losses and LAE. For subsequent catastrophic events, the Company's primary retention was equal to \$2.0 million per event.
- For the first catastrophic event, The Company's captive reinsurance affiliate, Osprey, was responsible for \$6.0 million. For a second catastrophic event, Osprey was responsible for \$4.0 million. Osprey has no primary retention beyond the second catastrophic event.
- Immediately above the Company's retention, the Company purchased \$185.0 million of reinsurance from third party reinsurers. Through the payment of a reinstatement premium, the Company is able to reinstate the full amount of this reinsurance one time. To the extent that \$185.0 million or a portion thereof is exhausted in a first catastrophic event, the Company purchased reinstatement premium protection insurance to pay the required premium necessary for the reinstatement of this coverage. A portion of this coverage wraps around the FHCF layer and provides coverage alongside such layer.
- The FHCF coverage includes an estimated maximum provisional limit of 90% of \$484.0 million, or \$435.0 million, in excess of the Company's retention and private reinsurance of \$181.0 million.
- Immediately above the FHCF layer is the coverage provided by the reinsurance agreement with Citrus Re Ltd., which provides coverage for \$150.0 million in excess of \$621.0

million. However, to the extent the FHCF coverage is partially or entirely exhausted by a first catastrophic event, Citrus Re Ltd. provides coverage of \$150.0 million in excess of the private reinsurance coverage of \$200.0 million.

- The layer immediately above the Citrus Re Ltd. layer provides, in the aggregate, coverage for \$100.0 million in excess of \$725.0 million. In this layer, 50% of the layer, or \$50.0 million of coverage, is provided by the Citrus Re-2 Bonds, and \$25.0 million is provided through Osprey. The remaining \$25.0 million of coverage in this layer is provided by the aggregate coverage layer described below commencing upon the exhaustion of Osprey's retention.

- In addition to the layers described above, the Company purchased \$105.0 million of aggregate reinsurance coverage in excess of \$825.0 million for a first catastrophic event. Of the \$105.0 million of total aggregate coverage, \$25.0 million covered losses and LAE in the immediately preceding layer. Osprey has a \$20.0 million participation in the second aggregate layer.

For a first catastrophic event, the Company's reinsurance program provided total coverage for \$990.0 million of losses and loss adjustment expenses. The Company also purchased reinstatement premium protection insurance to provide an additional \$185.0 million of coverage. The aggregate reinsurance layer also provided coverage for second and subsequent events to the extent not exhausted in prior events. In total, the Company purchased \$1,175.0 million of potential reinsurance coverage, including the Company's retention, for multiple catastrophic events.

There were no ceded incurred losses during the year ended December 31, 2014.

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 Clearwater, Florida.

The Company and non-affiliates had the following agreements:

Custodial Services Agreement

The Company maintained a custodial agreement with Bank of America, NA executed on October 11, 2012. The agreement was in compliance with Rule 69O-143.042, Florida Administrative Code.

Independent Auditor Agreement

An independent CPA, Grant Thornton, LLP audited the Company's statutory basis financial statements for 2014, in accordance with Section 624.424(8), Florida Statutes. Supporting work papers were prepared by the CPA as required by Rule 69O-137.002, Florida Administrative Code.

Investment Advisory Agreement

The Company's investment transactions were carried out under the oversight of Merrill Lynch Wealth Management and governed by the Company's investment policy according to the terms established by the investment advisory agreement.

Reinsurance Intermediary Authorization Agreement

On February 12, 2014, the Company entered into a reinsurance intermediary agreement with Willis Re Inc., replacing the prior agreement with Guy Carpenter, LLC. The agreement met the requirements of Section 626.7492(4)(5), Florida Statutes.

Regulatory and Counseling Services Agreement

Under this agreement Colodny, Fass, Talenfeld, Karlinsky, Abate & Webb, P.A. provides insurance regulatory services, counsel and advice to the Company.

INFORMATION TECHNOLOGY REPORT

Tracy Gates, CFE, CISA of Highland Clark, LLC performed an evaluation of the information technology and computer systems of the Company. Results of the evaluation were noted in the Information Technology Report provided to the Company.

STATUTORY DEPOSITS

The following securities were deposited with the State of Florida as required by Section 624.411,

Florida Statutes:

STATE	Description	Par Value	Market Value
FL	Cash	\$300,000	\$300,000
	Cash Interest	9,159	9,159
TOTAL FLORIDA DEPOSITS		<u>\$309,159</u>	<u>\$309,159</u>
TOTAL OTHER DEPOSITS		<u>0</u>	<u>0</u>
TOTAL SPECIAL DEPOSITS		<u>\$309,159</u>	<u>\$309,159</u>

FINANCIAL STATEMENTS

The examination does not attest 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:

Heritage Property & Casualty Insurance Company

Asset

December 31, 2014

	Per Company	Examination Adjustments	Per Examination
Bonds	\$281,989,970		\$281,989,970
Stocks:			
Preferred	15,096,124		\$15,096,124
Common	19,546,878		19,546,878
Mortgage Loans on Real Estate:			
First Liens	6,849,298		6,849,298
			0
Cash and Short-Term Investments	134,694,213		134,694,213
Other investments	512,197		512,197
Aggregate write-in for invested assets	0		0
Investment Income Due and Accrued	2,617,174		2,617,174
Agents' Balances:			
Uncollected premium	2,438,403		2,438,403
Deferred premium	17,744,567		17,744,567
Net deferred tax asset	14,660,169		14,660,169
EDP Equipment	0		0
Receivable from parents, subsidiaries and affiliates	589,111		589,111
Aggregate write-in for other than invested assets	0		0
Totals	\$496,738,104	\$0	\$496,738,104

Heritage Property & Casualty Insurance Company
Liabilities, Surplus and Other Funds
December 31, 2014

	Per Company	Examination Adjustments	Per Examination
Losses	\$37,156,000		\$37,156,000
Reinsurance payable on paid losses	\$44,000		\$44,000
Loss adjustment expenses	14,312,225		14,312,225
Other expenses	515,578		515,578
Taxes, licenses and fees	2,780,292		2,780,292
Current federal and foreign income taxes	8,280,652		8,280,652
Unearned premium	194,343,130		194,343,130
Advance Premium	5,142,891		5,142,891
Ceded reinsurance premiums payable	15,452,000		15,452,000
Remittances and items not allocated	1,089,982		1,089,982
Payable to parent, subsidiaries and affiliate	10,037,853		10,037,853
Payable for securities	13,344,402		13,344,402
Aggregate write-ins for liabilities	21,527,234		21,527,234
Total Liabilities	\$324,026,239	\$0	\$324,026,239
Common capital stock	\$1,000,000		\$1,000,000
Surplus notes	17,000,000		17,000,000
Gross paid in and contributed surplus	110,105,553		110,105,553
Unassigned funds (surplus)	44,606,312		44,606,312
Surplus as regards policyholders	\$172,711,865	\$0	\$172,711,865
Total liabilities, surplus and other funds	\$496,738,104	\$0	\$496,738,104

Heritage Property & Casualty Insurance Company
Statement of Income
December 31, 2014
Underwriting Income

Premiums earned	\$221,299,723
Deductions:	
Losses incurred	\$72,049,280
Loss expenses incurred	30,841,653
Other underwriting expenses incurred	93,644,827
Aggregate write-ins for underwriting deductions	1,445,479
Total underwriting deductions	\$197,981,239
Net underwriting gain or (loss)	\$23,318,484

Investment Income

Net investment income earned	\$3,772,522
Net realized capital gains or (losses)	242,857
Net investment gain or (loss)	\$4,015,379

Other Income

Net gain or (loss) from agents' or premium balances charged off	\$14,446
Finance and service charges not included in premiums	0
Aggregate write-ins for miscellaneous income	217,079
Total other income	\$231,525

Net income before dividends to policyholders and before federal & foreign income taxes	\$27,565,389
Dividends to policyholders	0
Net Income, after dividends to policyholders, but before federal & foreign income taxes	\$27,565,389
Federal & foreign income taxes	17,727,348
Net Income	\$9,838,041

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year	\$63,054,969
Net Income	\$9,838,041
Net unrealized capital gains or losses	620,645
Change in net deferred income tax	7,985,458
Change in non-admitted assets	107,199
Change in provision for reinsurance	0
Change in excess statutory over statement reserves	0
Surplus adjustments: Paid in	0
Aggregate write-ins for gains and losses in surplus	0
Surplus Paid in	91,105,553
Change in surplus as regards policyholders for the year	\$109,656,896
Surplus as regards policyholders, December 31 current year	\$172,711,865

Heritage Property & Casualty Insurance Company

Comparative Analysis of Changes in Surplus

December 31, 2014

The following is a reconciliation of Surplus as regards policyholders between that reported by the Company and as determined by the examination.

Surplus as Regards Policyholders
December 31, 2014, per Annual Statement \$172,711,865

	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS: No Adjustment			
LIABILITIES: No Adjustment			
Net Change in Surplus:			<u>0</u>
Surplus as Regards Policyholders December 31, 2014, Per Examination			<u><u>\$172,711,865</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses	\$ 51,468,225
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An outside actuarial firm appointed by the Board of Directors, Paul Erickson, Insurance Services Office, Inc. rendered an opinion that the amounts carried in the balance sheet as of December 31, 2014, made a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

The Office consulting actuary, Dennis Henry, FCAS, MAAA of The Actuarial Advantage, 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 \$172,711,865 exceeded the minimum of \$27,252,548 required by Section 624.408, Florida Statutes. The Company policyholder's surplus has increased \$109.6 million since year-end 2013 and represents a 173.9% increase. The increase was the result of capital contributions from the parent company to support the Company's growth.

SUMMARY OF RECOMMENDATIONS

Office Notification and Filing

We recommend that the Company properly provide written notice to the Office of any change in personnel among the directors or principal officers of the Company within forty-five (45) days of such change in accordance to Section 628.261, Florida Statutes. Additionally, we recommend that a biographical affidavit be directly filed with the Office along with copies of fingerprints, and authority for release of information in regard to the investigation of such person's background, pursuant to Section 628.261, Florida Statutes.

We recommend that the Company file a separate report regarding the assets of its captive reinsurer, Osprey Re Ltd. in compliance with Section 624.424(11)(a), Florida Statutes.

We recommend the Company file the CPA awareness letter annually as required by Rule 69O-137.002(6)(b), Florida Administrative Code.

We recommend that the Company report and fully disclose material transactions in the Holding Company Registration Statement in accordance to Rule 69O-143.046, Florida Administrative Code.

CONCLUSION

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

Per examination findings, the Company's surplus as regards policyholders was \$172,711,865 which exceeded the minimum of \$27,252,548 required per entity by Section 624.408, Florida Statutes.

In addition to the undersigned, Travis Harrison, CPA, Examiner in Charge, Tracy Gates, CFE, CISA, IT specialist, Mark Jaster, CFE, and Sam Hebert, Participating Examiner, of Highland Clark, LLC, also participated in the examination. Members of the Office who participated in the examination include Jeff Rockwell, Financial Examiner/Analyst Supervisor and Connie Hare, AFE, Financial Examiner/Analyst Supervisor Examination Managers, and Marie Stuhlmuller, Financial Specialist, Participating Examiner. Additionally, Dennis Henry, FCAS, MAAA, consulting actuary of The Actuarial Advantage, is recognized for participation in the examination.

Respectfully submitted,

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