

REPORT ON EXAMINATION
OF
ST. JOHNS INSURANCE COMPANY, INC.
ORLANDO, FLORIDA
AS OF
DECEMBER 31, 2011

BY THE
FLORIDA OFFICE OF INSURANCE REGULATION

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August 30, 2012

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 690-138.005, 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, 2011, of the financial condition and corporate affairs of:

**ST. JOHNS INSURANCE COMPANY, INC.
6675 WESTWOOD BOULEVARD, SUITE 360
ORLANDO, FLORIDA 32821**

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, 2007, through December 31, 2011. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2006. This examination commenced with planning at the Office on May 28, 2012, to June 1, 2012. The fieldwork commenced on June 25, 2012, and concluded as of August 30, 2012.

This financial examination was a multi-state 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.

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 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.

Prior Exam Findings

The following is a summary of significant adverse findings contained in the Office's prior examination report as of December 31, 2006, along with resulting action taken by the Company in connection therewith.

General

The Company had not written insurance coverage in the following lines of business for a period of two years: Fire, Allied lines, Commercial multi-peril, Other liability and Mobile home multi-peril. Section 624.430(1), Florida Statutes, requires any insurer who does not write any premiums in a kind or line of insurance within a calendar year shall have that kind or line of insurance removed from its certificate of authority. **Resolution: The Company removed the lines of business that it no longer writes from its certificate of authority.**

SUBSEQUENT EVENTS

The Company's statutory deposit with the State of South Carolina consisted of a U. S. Treasury Bond with a par value of \$150,000 at December 31, 2011. This U. S. Treasury Bond matured on March 15, 2012, and was replaced with a U. S. Treasury Note with a par value of \$150,000, an interest rate of 1.25%, and a maturity date of March 15, 2014.

HISTORY

General

The Company was incorporated in Florida on November 25, 2003, and commenced business on December 24, 2003, as St. Johns Insurance Company, Inc.

The Company was authorized to transact the following insurance coverage in Florida on December 31, 2011:

- Allied lines
- Fire
- Homeowners multi peril
- Inland marine
- Other liability

The Articles of Incorporation were amended during the period covered by this examination. The amendment addressed the following items: changed the Company's address; changed the value of the Company's 35,000 shares of common stock from \$1 per share to \$100 per share; and changed the registered agent. On October 18, 2008, an amendment to the Articles of Incorporation was filed with the Office and was approved on October 22, 2008.

Dividends to Stockholders

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

Capital Stock and Capital Contributions

As of December 31, 2011, the Company's capitalization was as follows:

Number of authorized common capital shares	35,000
Number of shares issued and outstanding	15,000
Total common capital stock	\$1,500,000
Par value per share	\$100.00

The following table reflects changes to the Company's capital and surplus during the period of this examination:

Description	Capital Stock	Gross Paid In and Contributed Surplus
December 31, 2006 balance	\$ 1,000	\$ 43,574,000
2007 Changes	-	-
2008 Changes	1,499,000	3,501,000
2009 Changes	-	20,500,000
2010 Changes	-	8,000,000
2011 Changes	-	6,700,000
December 31, 2011 balance	<u>\$ 1,500,000</u>	<u>\$ 82,275,000</u>

Control of the Company was maintained by its parent, St. Johns Financial Holding Company, Inc., who owned 100% of the stock issued by the Company. St. Johns Financial Holding Company, Inc. in turn, was 80% owned by St. James Financial Holding Company, Inc., a New Jersey company, and 20% owned by Seibels, Bruce & Company, a South Carolina company. St. James Financial Holding Company, Inc. was formerly known as Braishfield Holding Company, Inc.

Surplus Notes

On December 30, 2004, the Company issued a \$1,500,000 surplus note in return for cash to its parent, St. Johns Financial Holding Company. The surplus note had an interest rate of prime plus 2% with a maturity date of December 31, 2009. Interest was payable quarterly beginning April 1, 2005. The Company was required to obtain approval from the Office prior to all principal and interest payments. In June 2006, the Company obtained a \$20,000,000 surplus note from the State Board Administration of Florida. The rate of interest was based on the 10 year U. S. Treasury Note and adjusted quarterly. The term of the surplus note was 20 years.

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. However, the Office approved by Consent Order 90653-07-CO signed on July 2, 2007, the acquisition of an 8% indirect interest in the Company by Vincent J. Dowling, Jr. on December 11, 2006.

CORPORATE RECORDS

The recorded minutes of the Shareholder(s), Board of Directors (Board) and certain internal committees were reviewed for the period of this 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 and including the authorization of investments as required by Section 625.304, Florida Statutes.

Conflict of Interest

The Company adopted a policy statement requiring annual disclosure of conflicts of interest in accordance with the NAIC Financial Condition Examiners Handbook adopted by Rule 690-138.001, 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, 2011, were:

Directors

Name and Location	Principal Occupation
Reese Irwin Bowen Orlando, Florida	President, St. Johns Insurance Company, Inc.
Michael Allen Culbertson Cola, South Carolina	President, Seibels Bruce & Company
Robert Patrick Lucas Orlando, Florida	COO, Director, St. James Financial Holding Company, Inc.
James Joseph McCahill Orlando, Florida	President, CEO, Director, St. James Financial Holding Company, Inc.
Christopher John McHattie Morris Township, New Jersey	President, CEO, Director, Self-employed

The Board in accordance with the Company's bylaws appointed the following senior officers:

Senior Officers

Name	Title
Reese Irwin Bowen	President
Russell Beck	Executive Vice President
Edward David Falzarano	Secretary and Treasurer
Scot Edward Moore	Chief Financial Officer

The Company's Board appointed an internal committee. The following is the principal internal board committee and their members as of December 31, 2011:

Audit Committee

Christopher John McHattie ¹
Robert Patrick Lucas
Reese Irwin Bowen

¹ Chairman

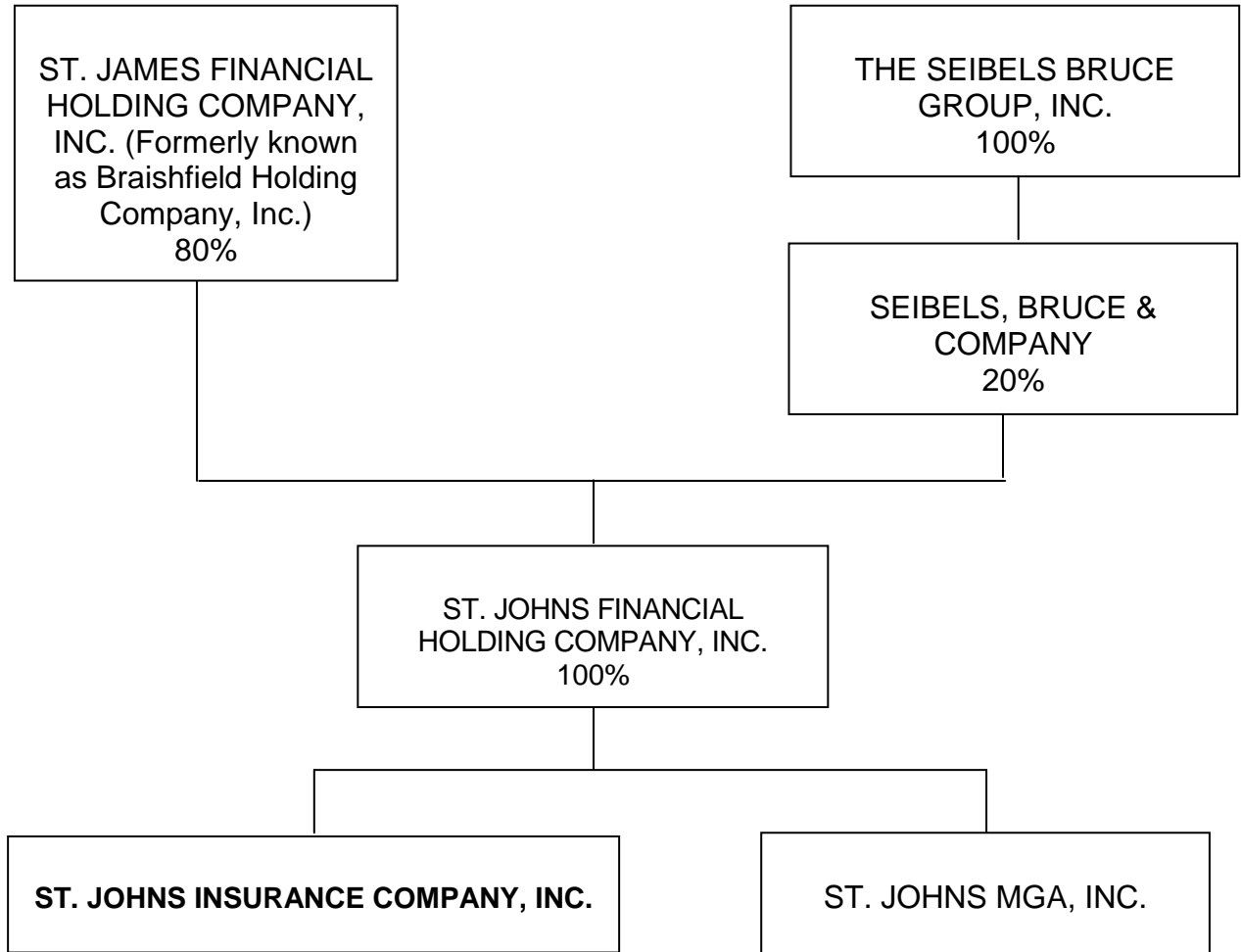
Affiliated Companies

The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code. The latest holding company registration statement was filed with the State of Florida on March 1, 2012, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

An organizational chart as of December 31, 2011, reflecting the holding company system, is shown on the following page. Schedule Y of the Company's 2011 annual statement provided a list of all related companies of the holding company group.

**ST. JOHNS INSURANCE COMPANY, INC.
ORGANIZATIONAL CHART**

DECEMBER 31, 2011



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

Tax Sharing Agreement

The Company, along with its parent, St. Johns Financial Holding Company, Inc. (St. Johns Holding), filed a consolidated federal income tax return. On December 31, 2011, the method of allocation between the Company and its parent was on a separate entity basis. Each member of the group recorded an inter-company income tax receivable or payable with St. Johns Holding.

Cost Sharing Agreement

The Company entered into a Cost Sharing Agreement with St. James Insurance Group, Inc. effective October 1, 2010. The agreement calls for reimbursement of the cost of services and expenses incurred by one party on behalf of the other. Costs are determined each month and are remitted within fifteen days of the end of the month. Costs reimbursed under this agreement during 2011 amounted to \$3,001,440.

Managing General Agent Agreement and Claims Administration Agreement

The Company entered into a managing general agent agreement (MGA) and claims administration agreement with its affiliate, St. Johns MGA, Inc., effective November 23, 2003. St. Johns MGA, Inc. represented the Company in producing and handling policies in the authorized lines of business. The agreement provided that St. Johns MGA, Inc. had authority to provide services which included but were not limited to: accept applications, issue and service policies, collect premiums, and cancel policies, as well as investigate, evaluate, handle, adjust and settle claims. St. Johns MGA, Inc. charged a \$25 policy fee.

This agreement was replaced with a substantially similar agreement between the same parties that was dated and effective May 9, 2009. Fees incurred under this agreement during 2011, including commissions, amounted to \$70,469,583.

FIDELITY BOND AND OTHER INSURANCE

The Company maintained fidelity bond coverage up to \$3,000,000 with a deductible of \$50,000, which reached the suggested minimum as recommended by the NAIC. The Company also maintained professional liability coverage with limits of \$2,000,000 and a retention of \$200,000. Additionally, the Company was a named insured on a workers compensation policy issued to St. James Insurance Group, Inc. with limits of \$1,000,000.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company's full time employees were eligible to participate in the St. James Insurance Group 401(k) plan with discretionary contributions by St. James Insurance Group, Inc. The Company can also make discretionary contributions to the plan. During January 2012, the Company made a discretionary contribution of \$79,021 to the plan for the year ended December 31, 2011.

TERRITORY AND PLAN OF OPERATIONS

The Company was authorized to transact insurance in the states of Florida and South Carolina.

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 gross written premiums have averaged approximately \$262,000,000 during the examination period as compared to approximately \$147,000,000 during 2006. The Company is the fourth largest insurer in Florida with regards to homeowners' premiums with 174,021 policies in force. The Company has not generated a profit since its inception and has been dependent upon its parent for surplus contributions required to maintain statutory surplus requirements.

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.

	2011	2010	2009	2008	2007
Premiums Earned	18,794,411	10,582,878	2,100,726	32,927,908	43,148,579
Net Underwriting Gain/(Loss)	(7,506,053)	(13,309,887)	(32,342,288)	(15,496,512)	(1,992,549)
Net Income	(4,104,825)	(6,323,073)	(19,739,884)	(8,676,900)	(402,875)
Total Assets	108,535,915	113,837,926	129,015,802	131,310,006	116,262,412
Total Liabilities	62,748,497	69,410,467	84,665,288	85,466,740	66,729,227
Surplus As Regards Policyholders	45,787,418	44,427,459	44,350,514	45,843,266	49,533,185

LOSS EXPERIENCE

The Company has experienced a negative trend regarding its loss experience during the past five years. Listed below is a table that details the Company's one year and two year loss development during the period of this examination.

Description	2011	2010	2009	2008	2007
One Year Loss Development (000):					
Development in estimated losses and loss expenses	(4,447)	(3,740)	(3,132)	(2,747)	413
Perrent of development to policyholders' surplus	(10.0)	(8.4)	(6.8)	(5.5)	0.9
Two Year Loss Development (000):					
Development in estimated losses and loss expenses	(5,060)	(5,690)	(4,288)	450	1,148
Perrent of development to policyholders' surplus	(11.4)	(12.4)	(8.7)	1.0	11.3

During 2011, the Company noted a decrease in the settlement amounts related to sinkhole claims. During the five-year period of this examination, the Company's underwriting gain has ranged from (4.6%) in 2007 to (1,539.6%) in 2009.

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

Effective January 1, 2008, the Company executed an Assumption Agreement with Catawba Insurance Company (Catawba), a commonly controlled entity, to assume 100% of Catawba's South Carolina premium and losses written. The Company did not assume any other reinsurance during the period of this examination.

Ceded

During 2011, the Company wrote \$263,508,621 of direct business and ceded \$243,546,718 on a quota share and catastrophe excess of loss basis to non-affiliated authorized and unauthorized reinsurers. The primary reinsurers are Tokio Millennium Re Ltd. and Catlin Insurance Company Ltd., both unauthorized and unaffiliated reinsurers that represent approximately 51% of the total amount ceded.

Unauthorized reinsurers were credited with letters of credit. The letters of credit contained the proper evergreen clause and also the State of Florida governance.

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 Orlando, Florida.

An independent CPA audited the Company's statutory basis financial statements annually for the years 2007, 2008, 2009, 2010 and 2011, 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.

The Company's accounting records were maintained on a computerized accounting system.

The Company and non-affiliates had the following agreements:

Custodial Agreement

The Company maintained a Managing Agency Agreement (custodial agreement) with Branch Banking and Trust Company, Inc. (BB&T) that was executed on December 3, 2003. The agreement was not in compliance with Rule 69O-143.042, Florida Administrative Code. The examiner reviewed the custodial agreement and did not find the following clauses -

- shall be able to withdraw upon demand of the insurance company (subsection (2)(d)).
- shall provide Forms OIR-A1-341 (a), (b) or (c) (rev 12/07) (subsection (2)(i)).
- shall provide written notification to the Office if the custody account has been terminated or if 100% of the account assets in any one custody account have been withdrawn. This notification shall be remitted to the Office within three (3) business days of the receipt by

the custodian of the insurer's written notification of termination or within three (3) business days of the withdrawal of 100% of the account assets (subsection (2)(o)).

Subsequent event: The Company submitted an amendment to the Custody Agreement with BB&T to the Office on September 7, 2012. The amendment addressed all issues previously noted in the initial finding. The amended Custodial Agreement was in compliance with Rule 69O-143.042, Florida Administrative Code.

Independent Auditor Agreement

The Company contracted with an external independent CPA firm to perform the annual audit of its financial statements as required by Rule 69O-137.002 (7) (c), Florida Administrative Code.

INFORMATION TECHNOLOGY REPORT

Denise Mainquist, CISA, of Examination Resources LLC, performed an evaluation of the information technology and computer systems of the Company. Results of the evaluation were noted in the General Information Technology Review 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	<u>\$300,000</u>	<u>\$300,000</u>
TOTAL FLORIDA DEPOSITS		\$300,000	\$300,000
SC	USTBDS, 1.375%, 03/15/12	<u>\$150,000</u>	<u>\$150,423</u>
TOTAL OTHER DEPOSITS		<u>\$150,000</u>	<u>\$150,423</u>
TOTAL SPECIAL DEPOSITS		<u>\$450,000</u>	<u>\$450,423</u>

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2011, 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."

ST. JOHNS INSURANCE COMPANY, INC.

Assets

DECEMBER 31, 2011

	Per Company	Examination Adjustments	Per Examination
Bonds	\$52,798,967		\$52,798,967
Cash and Short-Term Investments	12,104,847		12,104,847
Interest and dividend income due & accrued	335,132		335,132
Agents' Balances:			
Uncollected premium	16,465,161		16,465,161
Deferred premium	11,257,417		11,257,417
Reinsurance recoverable	10,098,538		10,098,538
Current federal and foreign income tax recoverable and interest thereon	1,978,962		0
Net deferred tax asset	3,089,000		1,978,962
Guaranty funds receivable or on deposit	223,920		3,089,000
EDP Equipment	52,753		0
Aggregate write-in for other than invested assets	131,218		223,920
			52,753
			131,218
Totals	<u>\$108,535,915</u>	<u>\$0</u>	<u>\$108,535,915</u>

ST. JOHNS INSURANCE COMPANY, INC.
Liabilities, Surplus and Other Funds

DECEMBER 31, 2011

	Per Company	Examination Adjustments	Per Examination
Losses	\$17,167,428		\$17,167,428
Reinsurance payable on paid losses and loss adjustment expenses	2,419		2,419
Loss adjustment expenses	3,243,636		3,243,636
Other expenses	194,541		194,541
Taxes, licenses and fees	2,009,838		2,009,838
Unearned premium	40,041,277		40,041,277
Ceded reinsurance premiums payable	(1,254,504)		(1,254,504)
Payable to parent, subsidiaries and affiliates	97,653		97,653
Aggregate write-ins for liabilities	1,246,209		1,246,209
Total Liabilities	\$62,748,497	\$0	\$62,748,497
Common capital stock	\$1,500,000		\$1,500,000
Surplus notes	17,352,941		17,352,941
Gross paid in and contributed surplus	82,275,000		82,275,000
Unassigned funds (surplus)	(55,340,523)		(55,340,523)
Surplus as regards policyholders	\$45,787,418	\$0	\$45,787,418
Total liabilities, surplus and other funds	\$108,535,915	\$0	\$108,535,915

ST. JOHNS INSURANCE COMPANY, INC.
Statement of Income

DECEMBER 31, 2011

Underwriting Income

Premiums earned		\$18,794,411
	Deductions:	
Losses incurred		\$18,256,876
Loss expenses incurred		7,496,037
Other underwriting expenses incurred		547,551
Total underwriting deductions		\$26,300,464
Net underwriting gain or (loss)		(\$7,506,053)

Investment Income

Net investment income earned		\$1,103,063
Net realized capital gains or (losses)		89,486
Net investment gain or (loss)		\$1,192,549

Other Income

Net gain or (loss) from agents' or premium balances charged off		(\$60,075)
Aggregate write-ins for miscellaneous income		3,671
Total other income		(\$56,404)
Net income before dividends to policyholders and before federal & foreign income taxes		(\$6,369,908)
Dividends to policyholders		0
Net Income, after dividends to policyholders, but before federal & foreign income taxes		(\$6,369,908)
Federal & foreign income taxes		(2,265,083)
Net Income		(\$4,104,825)

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year		\$44,427,459
Net Income		(\$4,104,825)
Change in net deferred income tax		(134,300)
Change in non-admitted assets		75,555
Change in surplus notes		(1,176,471)
Surplus adjustments: Paid in		6,700,000
Examination Adjustment		0
Change in surplus as regards policyholders for the year		\$1,359,959
Surplus as regards policyholders, December 31 current year		\$45,787,418

A comparative analysis of changes in surplus is shown below.

ST. JOHNS INSURANCE COMPANY, INC.
Comparative Analysis of Changes in Surplus

DECEMBER 31, 2011

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, 2011, per Annual Statement \$45,787,418

	<u>PER</u> <u>COMPANY</u>	<u>PER</u> <u>EXAM</u>	<u>INCREASE</u> <u>(DECREASE)</u> <u>IN SURPLUS</u>
ASSETS:			
No Adjustment			
LIABILITIES:			
No Adjustment			
Net Change in Surplus:			<u>0</u>
Surplus as Regards Policyholders December 31, 2011, Per Examination			<u><u>\$45,787,418</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses

\$20,411,064

An outside actuarial firm appointed by the Board of Directors, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2011, 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, Brent M. Sallay, FCAS, MAAA of Taylor-Walker & Associates, Inc., 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 \$45,787,418, exceeded the minimum of \$6,044,647 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 **St. Johns Insurance Company, Inc.** as of December 31, 2011, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's surplus as regards policyholders was \$45,787,418, which exceeded the minimum of \$6,044,647 required by Section 624.408, Florida Statutes.

In addition to the undersigned, Scott R. Kalna, CFE, Examiner-In-Charge, of Examination Resources, LLC, Brent M. Sallay, FCAS, MAA, and Randall Ross, ACAS, MAAA, consulting actuaries of Taylor-Walker & Associates, Inc., Denise Mainquist, CISA, of Examination Resources, LLC, Connie Hare, CFE (Certified Fraud Examiner), Financial Examiner/Analyst Supervisor of the Office, and Michael Tomes, Reinsurance/Financial Specialist of the Office and Kethessa Carpenter, CPA, Financial Analyst Supervisor of the Office also participated in the examination.

Respectfully submitted,

Mary M. James, CFE, CPA
Chief Examiner
Florida Office of Insurance Regulation