



EXAMINATION REPORT
OF

GUARANTEE INSURANCE COMPANY

NAIC Company Code: 11398

FORT LAUDERDALE, FLORIDA

as of
December 31, 2015

BY THE
FLORIDA OFFICE OF INSURANCE REGULATION

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March 3, 2017

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

Dear Commissioner:

Pursuant to your instructions, in compliance with Section 624.316, Florida Statutes, Rule 69O-138.005, Florida Administrative Code, and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted an examination as of December 31, 2015, of the financial condition and corporate affairs of

Guarantee Insurance Company
401 E. Las Olas Blvd., Suite 1540
Fort Lauderdale, Florida 33301

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, 2015 and commenced with planning at the Florida Office of Insurance Regulation (Office) on April 4, 2016 to April 8, 2016. The fieldwork started on April 11, 2016 and concluded as of March 3, 2017. The Company was last examined on a limited-scope basis by representatives of the Office. The last full-scope examination covered the period of January 1, 2007 through December 31, 2010.

The examination was a multi-state examination conducted in accordance with the NAIC Financial Condition Examiners Handbook (Handbook). The Handbook requires that the examination be planned and performed to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company, and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statements of Statutory Accounting Principles (SSAP).

This examination report includes significant findings of fact, as mentioned in Section 624.319, Florida Statutes, and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (for example, subjective conclusions or proprietary information), are not included within the examination report but separately communicated to other regulators and/or the Company.

SUMMARY OF SIGNIFICANT FINDINGS

Current Examination Findings

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

Letters of Credit

New India Assurance Company, LTD's (NIAC) letter of credit reported on Schedule F – Part 5 – Provision for Unauthorized Reinsurance, was not in compliance with Rule 69O-144.005(6)(c), Florida Administrative Code, which states that the letter of credit shall contain a statement to the effect that the obligation of the qualified U.S. financial institution under the letter of credit is in no way contingent upon reimbursement with respect thereto.

The following companies' reinsurance letters of credit reported on Schedule F – Part 5 – Provision for Unauthorized Reinsurance were not in compliance with Rule 69O-144.005(6)(d), Florida Administrative Code, which states that "the term of the letter of credit shall be for at least one year and shall contain an "evergreen clause" that prevents the expiration of the letter of credit without due notice from the issuer. "The evergreen clause" shall provide for a period of no less than sixty (60) days' notice prior to expiration date or nonrenewal.

Aioi Insurance Company, Ltd
Kyoei Mutual Fire & Marine Insurance
Mill Ri Gruppo Riassicurativo
New India Assurance Company, Ltd
Scottish & York Holdings
Sparebank 1 Skadeforsikring Aktieskab
Traders General Insurance
Uni Mutual General Insurance Company
Victoria Reinsurance

The following companies' reinsurance letters of credit reported on Schedule F – Part 5 – Provision for Unauthorized Reinsurance were not in compliance with Rule 69O-144.005(6)(e), Florida

Administrative Code, which states that “the letter of credit shall be subject to and governed by the laws of the state of Florida.”

Aioi Insurance Company, Ltd
Caledonian Spc 104 – Active
Caledonian Spc 145
Kyoei Mutual Fire & Marine Insurance
Mill Ri Gruppo Riassicurativo
New India Assurance Company, Ltd
OD 102
Scottish & York Holdings
Sparebank 1 Skadeforsikring Aktieskab
Tokio Millennium
Traders General Insurance
Uni Mutual General Insurance Company
Victoria Reinsurance

The Company asserts the letters of credit were in compliance with the customs and laws of the original state when the letters of credit were originated.

Corporate Governance

The December 31, 2015 General Ledger reported receivables accounts "Employee Advances" and "Due from S. Mariano" (Steven Mariano). Employee Advances Account 0-000-16200, was credited for \$318 on November 19, 2015 and November 30, 2015, the account was debited \$318 for a balance of \$0 at December 31, 2015. The Company indicated that this was due to a repayment of an advance by Guarantee Insurance Group (GIG) deposited into the Company's bank account. On October 2015, Account 0-000-18095, S. Mariano, was debited and credited on five separate transactions totaling \$887,266.66. On December 30, 2015, the account was credited \$887,267.00, to correct reimbursements to S. Mariano. The Company indicated that this transaction was inadvertently made from the Company rather than GIG. Section 625.332(1)(c), Florida Statutes, prohibits direct or indirect notes or other evidence of indebtedness of any director, officer, or controlling stockholder of the insurer. As of December 31, 2015, these transactions were evidenced as corrected; however, they indicate a lack of adequate internal

controls, corporate governance and management review over financial reporting and company transactions

Holding Company Registration Statement

The Company's holding company registration statements were not in compliance with Rule 69O-143.046 (2)(e), Florida Administrative Code, Registration of Insurers, concerning the disclosure of transactions between registered insurers and any affiliates. There was no disclosure of the First Lien Term Loan Agreement between Patriot Services, Inc., Patriot Risk Services, Inc., et al, as the borrowers, Patriot National Insurance Group, Inc., et al, as guarantors and Pennant Park Investment Corporation, et al, as lenders on the applicable holding company registration statement.

Losses and Loss Adjustment Expenses

The reserve for Losses and Loss Adjustment Expenses was deficient by \$14,041,000.

Prior Examination Findings

The following is a summary of material adverse findings, significant non-compliance findings or material changes in the financial statements in the Office's prior examination report as of December 31, 2010, along with resulting action taken by the Company in connection therewith.

Affiliated Agreements

The Investigative Services Agreement with Patriot Recovery, Inc. was not in compliance with SSAP No. 96, in that it did not contain provisions for a timely settlement of accounts involved or a precise due date for those amounts.

Resolution: This agreement was amended and complied with SSAP No. 96.

The Company did not maintain written agreements with certain affiliated persons, entities and/or related parties as required by paragraph 15, of Florida Consent Order 88129-06, filed December 29, 2006. The affiliated parties lacking written agreements consisted of: Patriot National Insurance Group, Inc., Patriot General Agency, and Del Pizzo & Associates.

Resolution: A review of Consent Order 88129-06 was performed and the Company complied with the Consent Order.

COMPANY HISTORY

General

The Company became a Florida domiciled insurance company on December 29, 2006. The Company was originally incorporated and organized in the State of South Carolina on January 25, 1965 and commenced business on April 1, 1965.

The Company was authorized to transact insurance in Florida on March 4, 1977, and is currently authorized for the workers' compensation line of business as of December 31, 2015.

In February 2011, Patriot Risk Management, Inc. (PRM) executed a letter of intent to sell PRM and its subsidiary, PRS Group, Inc. (including Guarantee's claims TPA) to a third party – a substantial portion of the proceeds were used to further strengthen the Company's surplus. However, the TPA operations were subsequently re-acquired by Patriot ownership a few months later.

During 2014, the Company was under the holding company structure with Patriot National Insurance Group, Inc. as the Company's parent, with Steven M. Mariano as the ultimate controlling person. On August 6, 2014, certain entities in the holding company system were restructured in connection with a contemporaneous Loan Agreement and a Stock Purchase Agreement whereby certain of the Company's affiliates agreed to undertake the following changes to their corporate structure in the best interests of the holding company system (August 2014 Restructuring Transaction). Carrier and Technology Solutions, Inc. was contributed by Steven Mariano to Patriot Services, Inc. and CTS Underwriters, Inc. was contributed by Carrier and Technology Solutions, Inc. to Patriot Services, Inc. (PSI). Its corporate name was changed to Patriot Underwriters, Inc. Patriot Claim Services, Inc. and Patriot Recovery Services, Inc. were both contributed by Patriot National Insurance Group, Inc. (PNIG) to PSI. Patriot Care Management, Inc. (PCM) was formed on July 23, 2014 as a Delaware corporation and an immediate holding

company for newly acquired companies: MCRS Holdings, Inc., Managed Care Risk Services Holdings, Inc. (MCRSH) and Managed Care Risk Services, Inc. (MCRS). These three companies were acquired in a Stock Purchase Agreement by PCM from MCMC, LLC, an unrelated third party. Steven Mariano contributed Six Points Ventures III, LLC to PN IG where it became the immediate holding company for Old Guard Re, SPC, which was contributed to Six Points Ventures III, LLC by PSI.

In August 2014, Patriot National, Inc. completed its spin-off under the corporate name of Patriot National, Inc. (PNI). Concurrent with this, Patriot Underwriters, Inc. (PUI) operations were transferred to ownership under PNI and the Company executed a Managing General Agency program agreement whereby PUI took over principally all marketing, underwriting and business operating offices, staff, and equipment for the Company's book of business. The Company retained executive offices and staff as well as underwriting of the remaining Professional Employer Organization book. The former PUI was renamed Guarantee Underwriters, Inc. (GUI) and became dormant. The holding company gave up the name PNI and was renamed Guarantee Insurance Group. Ownership of the new holding company remained with the original shareholders.

After the August 2014 Restructuring Transaction, Steven Mariano's ownership of PNI changed from ninety-one percent (91%) to eighty percent (80%) and Other Investors' ownership of PNI changed from nine percent (9%) to twenty percent (20%). Following the August 2014 Restructuring Transaction certain entities in the holding company system changed their corporate name for branding purposes on September 10, 2014. The name changes were as follows: Old Guard Risk Services, Inc.'s name was changed to Patriot National, Inc. (PNI), MCRSH's name was changed to Patriot Care Services, Inc., MCRS's name was changed to Patriot Care Management, Inc. (PCM), MCRS Holdings, Inc.'s name was changed to Patriot Care Holdings, Inc., PCM's name was changed to Patriot Care, Inc. and PNIG's name was changed to Guarantee Insurance Group, Inc. (GIG). GIG is the ultimate corporate parent of the Company, owned by Steven Mariano Trust (SMT), with Steven Mariano as the ultimate controlling person.

On January 15, 2015, PNI launched an initial public offering on the New York Stock Exchange under the symbol "PN." While the Company is under a different holding company structure, the Company is still affiliated with PNI through common ownership of Steven Mariano.

Dividends

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

Capital Stock and Capital Contributions

As of December 31, 2015, the Company's capitalization was as follows:

Number of authorized common capital shares	60,000
Number of shares issued and outstanding	36,001.2
Total common capital stock	\$3,600,120
Par value per share	\$100.00

There are two certificates outstanding – one for 36,001 and one fractional share for 1/5 of a share.

Control of the Company was maintained by its parent, GIG, which owned one hundred percent (100%) of the stock issued by the Company, which in turn was ninety-six & two tenths percent (96.2%) owned by SMT (with Steven Mariano as the ultimate controlling person). The parent contributed \$84,500,000 in cash and investments to the Company from January 1, 2011 to December 31, 2015.

Surplus Notes

The Company had surplus notes of \$28,601,000 as of December 31, 2015. Of the \$28,601,000, \$28,250,000 was a surplus note payable to GUI and \$351,000 of surplus notes payable were to third parties. In September, 2014, the Office approved the assignment of the \$28,250,000 note from PRS to GUI. Interest on the note accrues at a rate of three percent (3.0%) per annum. The principal amount of the note, together with all accrued and unpaid interest thereon, is due and payable on November 27, 2022, subject to approval from the Office.

Regarding the remaining \$351,000 notes payable to third parties, the notes call for the Company to pay, on or before sixty (60) months from the issue date, the principal amount of the notes and interest quarterly at the rate of three percent (3.0%) per annum. Any payment of interest or repayment of principal is subject to approval from the Office, and may be paid only out of the Company's unassigned surplus and only if the Company's surplus exceeds specified levels.

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

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

CORPORATE RECORDS

The recorded minutes of the Shareholder(s), Board of Directors (Board) and certain internal committees were reviewed for the period under examination. The recorded minutes of the Board documented its meetings and approval of Company transactions and events, in compliance with the Handbook adopted by Rule 69O-138.001, Florida Administrative Code, including the authorization of investments, as required by Section 625.304, Florida Statutes.

The Company's stock certificates are incomplete as the current two stock certificates, numbers 22 and 23 issued in 2014, are invalid given they do not comply with Article XI of the Bylaws, which requires the Company's stock certificates to be "signed by the President and Treasurer or President and Secretary" and "sealed with the seal of the Corporation." These certificates were signed by only one officer, the former CEO, and were not sealed.

Subsequent Event: The Company provided complete stock certificates on June 8, 2017.

Conflict of Interest

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

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, 2015, are shown below:

Directors

Name	City, State	Principal Occupation
Charles Kevin Schuver ^(a)	Fort Lauderdale, Florida	President & Chief Executive Officer, Guarantee Ins. Co.
Michael John Sluka	Fort Lauderdale, Florida	Treasurer, Guarantee Insurance Company
Richard Franklin Allen	Seattle, Washington	Attorney
Ernest Nicolae Csiszar ^(b)	Columbia, South Carolina	Retired
Ronald Patrick Formento ^(c)	Woodridge, Illinois	President, Transport Driver, Inc.

(a) Charles Kevin Schuver resigned as director and was replaced by Charles Timothy Morris, effective November 9, 2016.

(b) Ernest Nicolae Csiszar resigned as director and was replaced by David Alan Skup, effective November 9, 2016.

(c) Ronald Patrick Formento resigned as director and was replaced by Joseph Edward Babin, effective November 9, 2016.

In accordance with the Company's bylaws, the Board appointed the following Senior Officers as of December 31, 2015:

Senior Officers

Name	City, State	Title
Charles Kevin Schuver ^(a)	Fort Lauderdale, Florida	President, Chief Executive Officer, Guarantee Insurance Company
David Alan Skup	Fort Lauderdale, Florida	Chief Financial Officer, Guarantee Insurance Company
Gary William Roche ^(b)	Fort Lauderdale, Florida	Secretary, Guarantee Insurance Company
Michael John Sluka ^(c)	Fort Lauderdale, Florida	Treasurer, Guarantee Insurance Company
Brandon Clinton Driscoll	Fort Lauderdale, Florida	Controller, Guarantee Insurance Company

(a) Charles Kevin Schuver resigned as President and Chief Executive Officer and was replaced by Michael John Sluka, effective November 9, 2016. See (c) below.

(b) Gary William Roche resigned as Secretary and was replaced by Eric Stephen Dawson, effective November 9, 2016.

(c) Michael John Sluka resigned as Treasurer and was replaced by David Alan Skup, effective November 9, 2016.

The Company's Board appointed several internal committees. Following were the principal internal board committees and their members as of December 31, 2015:

Governance Committee

Name	City, State	Title
Richard Franklin Allen ¹	Seattle, Washington	Director, Guarantee Insurance Company
Ronald Patrick Formento	Woodridge, Illinois	Director, Guarantee Insurance Company
Ernest Nicolae Csiszar	Columbia, South Carolina	Director, Guarantee Insurance Company
Charles Timothy Morris	Charleston, South Carolina	Director, Guarantee Insurance Group, Inc.
Charles Kevin Schuver	Fort Lauderdale, Florida	President, Chief Executive Officer, Guarantee Insurance Company

¹ Chairman

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

Audit Committee

Name	City, State	Title
Ernest Nicolae Csiszar ¹	Columbia, South Carolina	Director, Guarantee Insurance Company
Richard Franklin Allen	Seattle, Washington	Director, Guarantee Insurance Company
David Alan Skup	Fort Lauderdale, Florida	Chief Financial Officer, Guarantee Insurance Company

¹ Chairman

Investment Committee

Name	City, State	Title
Charles Timothy Morris ¹	Charleston, South Carolina	Director, Guarantee Insurance Group, Inc.
Richard Franklin Allen	Seattle, Washington	Director, Guarantee Insurance Company
Ernest Nicolae Csiszar	Columbia, South Carolina	Director, Guarantee Insurance Company
Ronald Patrick Formento	Woodridge, Illinois	Director, Guarantee Insurance Company
Charles Kevin Schuver	Fort Lauderdale, Florida	President, Chief Executive Officer, Guarantee Insurance Company

¹ Chairman

Compensation Committee

Name	City, State	Title
Ronald Patrick Formento ¹	Woodridge, Illinois	Director, Guarantee Insurance Company
Richard Franklin Allen	Seattle, Washington	Director, Guarantee Insurance Company
Ernest Nicolae Csiszar	Columbia, South Carolina	Director, Guarantee Insurance Company
Charles Timothy Morris	Charleston, South Carolina	Director, Guarantee Insurance Group
Charles Kevin Schuver	Fort Lauderdale, Florida	President, Chief Executive Officer, Guarantee Insurance Company

¹ Chairman

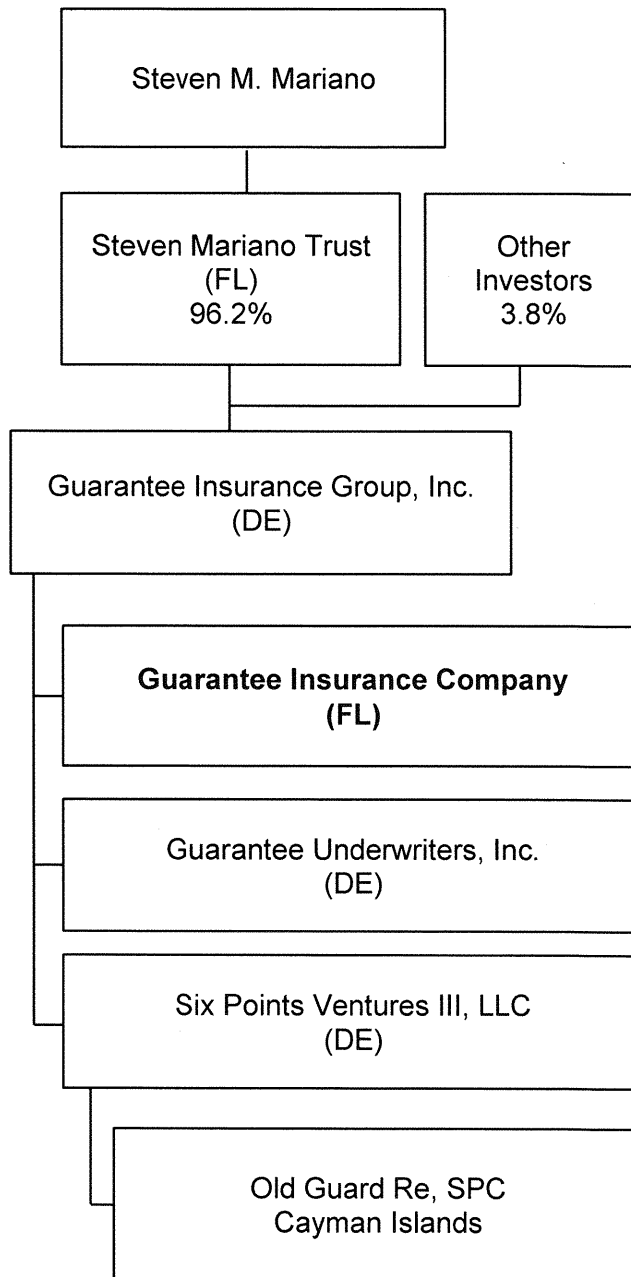
Affiliated Companies

A holding company registration statement was filed with the Office on April 1, 2016, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

The Company's holding company registration statements were not in compliance with Rule 69O-143.046 (2)(e), Florida Administrative Code, Registration of Insurers, concerning the disclosure of transactions between registered insurers and any affiliates. There was no disclosure of the First Lien Term Loan Agreement between PSI, PRS, et al, as the borrowers, PNIG, et al, as guarantors and PPIC, et al, as lenders on the applicable holding company registration statement.

A simplified organizational chart as of December 31, 2015, reflecting the holding company system, is shown on the following page. Schedule Y of the Company's 2015 annual statement provided a list of all related companies of the holding company group.

Guarantee Insurance Company
Simplified Organizational Chart
December 31, 2015



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

Tax Allocation Agreement

The Company, along with GIG, filed a consolidated federal income tax return. On December 31, 2015, the method of allocation between the Company and GIG was on a separate-entity basis. Each member of the group recorded an inter-company income tax receivable or payable with GIG. Within ninety (90) days of the remittance by GIG of any income tax payment to the taxing authorities, all inter-company tax receivables/payables were settled.

Claims Administration Services Agreement

The Company entered into a Claims Administration Services Agreement, with PRS on January 1, 2012. PRS shall provide claim services on an as needed basis. Fees payable are due within thirty (30) days of receipt of monthly invoices for Claims Services. Fees incurred under this agreement during 2015 amounted to \$6,754,758.

Managed Care Services Agreement

The Company entered into a Managed Care Services Agreement with its affiliate PCM on June 24, 2011. The agreement was amended August 6, 2014, to change the applicable law from South Carolina to Florida, because of the Company's re-domestication and the definition of On-Site Case Management Services was slightly altered. The agreement continues in force indefinitely, unless otherwise terminated within the guidelines of the agreement. Under the terms of the agreement, PCM provided certain managed care services on claims arising out of the policies to the Company and paid a fee for services within thirty (30) days of receipt of the monthly invoices. Fees incurred under this agreement during 2015 amounted to \$42,814,482.

Program Administrator Agreement

The Company entered into a Program Administrator Agreement with PUI on August 6, 2014. Under the terms of the agreement, PUI is appointed as the exclusive general agent for the purpose of underwriting, issuance, and delivery of binders, policies, certificates of issuance or contracts of insurance and amendments and endorsements to the Workers' Compensation Insurance Program to include premium collection. The agreement is terminable by either party giving no less than one hundred and eighty (180) calendar days' written notice.

The commission fees incurred under this agreement are incurred at twenty-three percent (23%) of Gross Written Premiums (GWP). Under the agreement, the transaction reports are submitted monthly and Statements of Agents' Balances are provided no later than fifteen (15) business days following the close of the quarter. The agreement was amended, effective October 23, 2014, to change the commission rate to eighteen percent (18%) of GWP for large deductible policies and twenty-three percent (23%) of GWP for all other policies. Fees incurred under this agreement during 2015 amounted to \$59,848,508.

Subrogation Services Agreement

The Company entered into a Subrogation Services Agreement with its affiliate, Contego Services Group, LLC (Contego), on April 25, 2011, and amended on November 27, 2013. Under the terms of agreement, Contego was granted authority to review assigned claims files for potential subrogation and to pursue and settle subrogation cases on behalf of the Company. Contego is paid a contingency fee on each file recovery. Fees incurred under this agreement during 2015 amounted to \$1,733,083.

Investigation and Loss Control Services Agreement

The Company entered into an investigation services agreement with its affiliate Contego on April 25, 2011. The first amendment to the agreement was effective January 1, 2012, and the second amendment was effective January 1, 2013, and the final amendment was effective November 27, 2013. Contego was to review assigned files or matters which required specialized investigatory services. The agreement provides for the timely settlement of accounts involved on a per file

recovery basis. Payment for services are due within ninety (90) days or less from the date of invoice. The agreement is terminable by giving thirty (30) days written notice to Contego. As of December 31, 2015, fees incurred under this agreement amounted to \$2,421,779.

TERRITORY AND PLAN OF OPERATIONS

The Company was authorized to transact insurance in the following states:

Alabama	Arkansas	California
Colorado	Delaware	District of Columbia
Florida	Georgia	Hawaii
Idaho	Indiana	Kentucky
Louisiana	Maine	Maryland
Massachusetts	Michigan	Minnesota
Mississippi	Missouri	Montana
Nebraska	Nevada	New Hampshire
New Jersey	New Mexico	New York
North Carolina	North Dakota	Oklahoma
Oregon	Pennsylvania	South Carolina
South Dakota	Tennessee	Texas
Vermont	Virginia	Washington
West Virginia	Wisconsin	

Treatment of Policyholders

The Company established procedures for handling written complaints in accordance with Section 626.9541(1)(i) 3.a., Florida Statutes. The Company maintained a claims procedure manual that included detailed procedures for handling each type of claim in accordance with Section 626.9541(1)(j), Florida Statutes.

REINSURANCE

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

Rule 69O-144.005(6), Florida Administrative Code, governs letters of credit qualified under Section 624.610(4)(c), Florida Statutes. The letters of credit reported on Schedule F – Part 5 – Provision for Unauthorized Reinsurance were deficient under multiple subsections of this Rule.

Subsection (6)(c) states that the letter of credit shall contain a statement to the effect that the obligation of the qualified U.S. financial institution under the letter of credit is in no way contingent upon reimbursement with respect thereto. Therefore, NIAC's letter of credit was not in compliance with the aforementioned subsection.

Subsection (6)(d) states that "the term of the letter of credit shall be for at least one year and shall contain an "evergreen clause" that prevents the expiration of the letter of credit without due notice from the issuer. The "evergreen clause" shall provide for a period of no less than sixty (60) days' notice prior to expiration date or nonrenewal." Therefore, the following reinsurance letters of credit were not in compliance with the aforementioned subsection.

Aioi Insurance Company, Ltd
Kyoei Mutual Fire & Marine Insurance
Mill Ri Gruppo Riassicurativo
New India Assurance Company, Ltd
Scottish & York Holdings
Sparebank 1 Skadeforsikring Aktieskab
Traders General Insurance
Uni Mutual General Insurance Company
Victoria Reinsurance

Subsection (6)(e) states that "the letter of credit shall be subject to and governed by the laws of the state of Florida" Therefore, the following reinsurance letters of credit were not in compliance with the aforementioned subsection.

Aioi Insurance Company, Ltd
Caledonian Spc 104 – Active
Caledonian Spc 145 Kyoei Mutual Fire & Marine Insurance
Mill Ri Gruppo Riassicurativo
New India Assurance Company, Ltd
OD 102
Scottish & York Holdings
Sparebank 1 Skadeforsikring Aktieskab
Tokio Millennium
Traders General Insurance
Uni Mutual General Insurance Company
Victoria Reinsurance

The Company asserts the letters of credit were in compliance with the customs and laws of the original state when the letters of credit were originated.

Reinsurance Assumed

In the fourth quarter of 2011, the Company terminated its relationship with Ullico Casualty Company (Ullico), but continued to service assumed and ceded in-force business on a run-off basis. During the first quarter of 2012, Ullico was placed into receivership and subsequently, into liquidation, by the Delaware Department of Insurance.

In December 2011, the Company executed an assumed reinsurance relationship with Zurich American Insurance Company (Zurich) which was intended to replace the geographical account reach of the terminated Ullico program.

The Company assumed workers' compensation business from Zurich through a quota share reinsurance treaty that began January 1, 2012, and terminated December 31, 2014. Workers' compensation business written by Scottsdale Insurance was assumed through a quota share reinsurance treaty beginning in 2014 and terminated December 31, 2015. The Company also assumed one workers' compensation policy from Stonewood Insurance through a quota share reinsurance treaty beginning on January 1, 2014 and terminated November 10, 2015.

In April, 2014, the Company entered into a limited state assumed reinsurance relationship with National Casualty Company (Scottsdale) as the Zurich program entered a planned wind-down due to changes in Zurich's business objectives.

Reinsurance Ceded

Quota Share Reinsurance

With respect to alternative market business involving a segregated portfolio cell risk-sharing arrangement, the Company ceded approximately eighty & four tenths percent (80.4%) and sixty-one & eight tenths percent (61.8%) of premiums and losses and loss adjustment expenses, respectively to the segregated portfolio cell reinsurers for 2015, and approximately sixty-six percent (66%) and seventy percent (70%) of premiums and losses and loss adjustment expenses, respectively, in 2014. Individual cession rates ranged from twenty-five percent (25%) to ninety percent (90%) in 2015 and ten percent (10%) to ninety percent (90%) in 2014.

Excess of Loss Reinsurance

The Company has excess of loss reinsurance treaties for their workers' compensation program effective June 1, 2015, that provide per-claim coverage on an occurrence basis which varies by reinsurer. For the treaty years July 1, 2012 through July 1, 2015, the Company maintained a \$2,000,000 excess of loss retention on its Traditional and Alternative Market Business. This was an increase from the \$1,000,000 excess of loss retention maintained for the treaty years July 1, 2011 through July 1, 2012.

Large Deductible Policies

In addition to reinsurance, the Company wrote a substantial number of large deductible workers' compensation policies, which it defines as policies with a deductible of at least \$250,000 per occurrence. Much of the Company's exposure is reinsured to captive reinsurers formed specifically for the purpose of allowing insureds, agents and other investors to participate in the results of the workers' compensation insurance program. While large deductible policies and captive reinsurance recoverables are collateralized, the Company retains the liability to pay claims from dollar one.

ACCOUNTS AND RECORDS

The Company maintained its principal operational offices in Fort Lauderdale, Florida.

The Company and non-affiliates had the following agreements:

Custodial Agreement

The Company maintained a Custodial Agreement with Bank of New York Mellon executed on July 27, 2006, and amended January 18, 2011. The agreement complied with Rule 69O-143.042, Florida Administrative Code.

The Company maintained a Custodial Agreement with Morgan Stanley effective on October 9, 2013 and amended October 21, 2014. The agreement complied with Rule 69O-143.042, Florida Administrative Code.

The Company maintained a Custodial Agreement with UBS Financial Services executed on June 18, 2012. The agreement complied with Rule 69O-143.042, Florida Administrative Code.

Investment Management Agreement

The Company utilized an Investment Management Agreement with Morgan Stanley, entered into on October 9, 2013, and amended on October 21, 2014.

The Company utilized an Investment Management Agreement with General Re – New England Asset Management, Inc., entered into on May 1, 2011.

Broker Authorization Contract

The Company utilized a broker authorization with TigerRisk Partners, LLC, effective on June 1, 2015. TigerRisk Partners, LLC is a designated broker to negotiate, place and service the kind and amounts of reinsurance. Contract is terminable by either party giving notice via certified mail. Funds collected are held in fiduciary capacity. All funds due will be remitted within thirty (30) days after receipt.

Independent Auditor Agreement

An independent CPA, BDO, Fort Lauderdale, FL, audited the Company's statutory basis financial statements annually for the years 2013, 2014 and 2015, in accordance with Section 624.424(8), Florida Statutes. Supporting work papers were prepared by the CPA firm as required by Rule 69O-137.002, Florida Administrative Code.

CORPORATE GOVERNANCE

The December 31, 2015 General Ledger reported receivables accounts "Employee Advances" and "Due from S. Mariano" (Steven Mariano). Employee Advances Account 0-000-16200, was credited for \$318 on November 19, 2015 and November 30, 2015, the account was debited \$318 for a balance of \$0 at December 31, 2015. The company indicated that this was due to a repayment of an advance by GIG deposited into the Company's bank account. On October 2015, Account 0-000-18095, S. Mariano, was debited and credited on five separate transactions totaling \$887,266.66. On December 30, 2015, the account was credited \$887,267.00, to correct reimbursements to S. Mariano. The Company indicated that this transaction was inadvertently made from the Company rather than GIG. Section 625.332(1)(c), Florida Statutes, prohibits direct or indirect notes or other evidence of indebtedness of any director, officer, or controlling stockholder of the insurer, except as to policy loans authorized under Section 625.321, Florida Statutes. As of December 31, 2015, these transactions were evidenced as corrected; however, they indicate a lack of adequate internal controls, corporate governance and management review over financial reporting and company transactions.

INFORMATION TECHNOLOGY REPORT

Scott Langstein, CISA of Cerebres, 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 and with various state officials as required or permitted by law:

State	Description		Par Value	Market Value
FL	BOND	5.0%	\$ 325,000	\$ 409,533
FL	BOND	5.0%	80,000	84,720
FL	BOND	4.3%	250,000	267,275
FL	BOND	5.0%	75,000	76,770
FL	BOND	5.0%	95,000	99,361
FL	USTNTS	1.6%	400,000	407,480
FL	USTNTS	0.4%	90,000	90,018
FL	USTNTS	0.6%	650,000	646,620
FL	BOND	3.5%	<u>250,000</u>	<u>261,275</u>
TOTAL FLORIDA DEPOSITS			\$ 2,215,000	\$ 2,343,051
GA	USTNTS	1.4%	\$ 85,584	\$ 85,335
MO	USTNTS	1.50%	100,000	99,516
MO	USTNTS	1.4%	285,000	285,613
MO	USTNTS	0.4%	5,000	5,002
MO	USTNTS	0.6%	250,000	246,620
MO	USTNTS	1.9%	530,000	533,021
MO	USTNTS	1.4%	30,000	30,104
MT	USTNTS	1.4%	25,000	25,099
NC	USTNTS	1.4%	300,000	301,182
NV	USTNTS	1.5%	300,000	298,170
OR	USTNTS	1.6%	205,000	206,394
OR	USTNTS	1.4%	<u>70,000</u>	<u>69,957</u>
TOTAL OTHER DEPOSITS			\$ 2,185,584	\$ 2,186,012
TOTAL DEPOSITS FOR POLICYHOLDERS			\$ 4,400,584	\$ 4,529,063
CA	USTNTS	0.4%	\$ 28,000	\$ 28,000
DE	USTNTS	1.38%	750,000	752,348
DE	USTNTS	0.6%	249,000	247,902
DE	USTNTS	0.4%	136,000	136,031
DE	USTNTS	1.4%	110,000	110,433
FL	BOND	5.0%	250,000	297,913
FL	BOND	5.0%	250,000	297,913
FL	BOND	5.1%	200,000	212,447
FL	BOND	5.0%	70,000	74,375
FL	BOND	5.0%	185,000	190,025
FL	BOND	5.0%	85,000	89,100
FL	BOND	5.0%	250,000	301,268
FL	BOND	5.0%	250,000	305,015
FL	USTNTS	1.9%	982,000	969,568
FL	USTNTS	1.5%	750,000	753,458
FL	USTNTS	0.6%	8,000	7,965
FL	USTNTS	0.4%	1,000	1,000
FL	USTNTS	1.6%	400,000	402,328
FL	USTNTS	1.0%	650,000	646,672
FL	BOND	5.0%	575,000	684,060
ID	USTNTS	1.5%	250,000	251,153
IN	USTNTS	2.0%	100,000	100,500
MA	USTNTS	0.4%	100,000	100,023
MT	USTNTS	0.4%	25,000	25,006
NM	USTNTS	0.4%	105,000	105,025
OR	USTNTS	1.5%	110,000	110,050
SC	BOND	5.1%	300,000	333,528
TN	BOND	5.0%	120,000	125,741
TX	USTNTS	0.6%	103,000	102,884
TX	USTNTS	0.8%	2,000,000	1,982,960
VA	USTNTS	0.4%	<u>510,000</u>	<u>510,117</u>
TOTAL OTHER DEPOSITS			\$ 9,902,000	\$ 10,254,805
TOTAL DEPOSITS			\$ 14,302,584	\$ 14,783,868

FINANCIAL STATEMENTS

The examination does not attest to the fair presentation of the financial statements included herein. If an adjustment is identified during the course of the examination, the impact of such adjustment will be documented separately following the Company's financial statements. Financial statements, as reported and filed by the Company with the Florida Office of Insurance Regulation, are reflected on the following pages.

Guarantee Insurance Company

Assets

December 31, 2015

	Per Company	Examination Adjustments	Per Examination
Bonds	\$90,612,101		\$90,612,101
Stocks:			
Preferred	2,143,328		2,143,328
Common	19,587,494		19,587,494
Real Estate:			
Properties			
Held for production of income	2,458,627		2,458,627
Other properties	0		0
Cash and Short-Term Investments	32,954,882		32,954,882
Other investments	6,639,814		6,639,814
Aggregate write-in for invested assets	0		0
Investment Income	641,190		641,190
Agents' Balances:			
Uncollected premium	19,003,009		19,003,009
Deferred premium	111,495,241		111,495,241
Reinsurance recoverable	9,426,309		9,426,309
Funds held by reinsurers	26,085,649		26,085,649
Other amounts recoverable	47,896,578		47,896,578
Federal and foreign income tax	1,398,666		1,398,666
Net deferred tax asset	3,180,000		3,180,000
Aggregate write-in for other than invested assets	20,162,035		20,162,035
Totals	<u>\$393,684,923</u>	<u>\$0</u>	<u>\$393,684,923</u>

Guarantee Insurance Company
Liabilities, Surplus and Other Funds
December 31, 2015

	Per Company	Examination Adjustments	Per Examination
Losses	\$95,958,144	\$14,041,000	\$109,999,144
Reinsurance payable	2,075,000		\$2,075,000
Loss adjustment expenses	(851,342)		(\$851,342)
Commissions payable	216,002		\$216,002
Other expenses	12,613,993		12,613,993
Taxes, licenses and fees	6,380,455		6,380,455
Unearned premium	21,764,686		21,764,686
Ceded reinsurance premiums payable	54,103,000		54,103,000
Funds held under reinsurance treaties	121,467,000		121,467,000
Amounts withheld	19,568,501		19,568,501
Provision for reinsurance	6,390,614		6,390,614
Payable to parent, subsidiaries and affiliates	70,254		70,254
Aggregate write-ins for liabilities	7,109,825		7,109,825
Total Liabilities	\$346,866,132	\$14,041,000	\$360,907,132
Common capital stock	\$3,600,120		\$3,600,120
Surplus Notes	28,601,000		\$28,601,000
Gross paid in and contributed surplus	201,843,628		201,843,628
Unassigned funds (surplus)	(187,225,957)	(14,041,000)	(201,266,957)
Surplus as regards policyholders	\$46,818,791	(\$14,041,000)	\$32,777,791
Total liabilities, surplus and other funds	\$393,684,923	\$0	\$393,684,923

Guarantee Insurance Company
Statement of Income and Capital and Surplus Account
December 31, 2015

Underwriting Income	
Premiums earned	\$83,662,680
Deductions:	
Losses incurred	\$48,034,693
Loss expenses incurred	13,670,654
Other underwriting expenses incurred	19,604,148
Aggregate write-ins for underwriting deductions	0
Total underwriting deductions	<u>\$81,309,495</u>
Net underwriting gain or (loss)	\$2,353,185
Investment Income	
Net investment income earned	\$2,644,776
Net realized capital gains or (losses)	288,457
Net investment gain or (loss)	<u>\$2,933,233</u>
Other Income	
Net gain or (loss) from agents' or premium balances charged off	\$2,847,254
Finance and service charges not included in premiums	0
Aggregate write-ins for miscellaneous income	616
Total other income	<u>\$2,847,870</u>
Net income before dividends to policyholders and before federal & foreign income taxes	\$8,134,288
Dividends to policyholders	67,632
Net Income, after dividends to policyholders, but before federal & foreign income taxes	<u>\$8,066,656</u>
Federal & foreign income taxes	<u>(1,019,078)</u>
Net Income	<u><u>\$9,085,734</u></u>
Capital and Surplus Account	
Surplus as regards policyholders, December 31 prior year	\$47,457,035
Net Income	\$9,085,734
Net unrealized capital gains or losses	(7,488,491)
Change in net deferred income tax	(3,141,299)
Change in non-admitted assets	(6,162,898)
Change in provision for reinsurance	568,710
Change in excess statutory over statement reserves	0
Surplus adjustments: Paid in	6,500,000
Aggregate write-ins for gains and losses in surplus	0
Examination Adjustment	(14,041,000)
Change in surplus as regards policyholders for the year	<u>(\$14,679,244)</u>
Surplus as regards policyholders, December 31 current year	<u><u>\$32,777,791</u></u>

Guarantee Insurance Company
Reconciliation of Capital and Surplus
December 31, 2015

Capital/Surplus Change during Examination Period

Surplus at December 31, 2010, per Examination			\$25,199,790
	Gain in Surplus	Loss in Surplus	
Net Income (loss)		\$46,869,674	
Change in net unrealized capital gain (loss)		\$11,076,039	
Change in net unrealized foreign exchange capital gain (loss)	\$24,509		
Change in net deferred income tax	\$124,006		
Change in non-admitted assets		\$28,574,582	
Change in provision for reinsurance		\$4,233,371	
Change in surplus notes	\$27,750,000		
Change in paid in surplus	\$84,500,000		
Aggregate write-ins for gains and losses in surplus		\$25,848	
Examination Adjustment		\$14,041,000	
Total Gains and Losses	\$112,398,515	\$104,820,514	
Net increase (or decrease)			\$7,578,001
Surplus at December 31, 2015, per Examination			\$32,777,791

Guarantee Insurance Company
Comparative Analysis of Changes in Surplus
December 31, 2015

Analysis of Changes in Surplus
 Surplus at December 31, 2015,
 per Annual Financial Statement

	<u>Increase</u>	<u>Decrease</u>	\$46,818,791
Losses	\$0	(\$14,041,000)	
Net increase (or decrease)			<u>(\$14,041,000)</u>
Surplus at December 31, 2015, after adjustment			<u>\$32,777,791</u>

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses

Daniel A. Reppert, FCAS, MAAA, of Financial Risk Analysts, LLC, appointed by the Board, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2015, 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, Greg Wilson, FCAS, MAAA, Lewis & Ellis, Inc., reviewed the loss and loss adjustment expense work papers provided by the Company. The Office consulting actuary presented an opinion that the losses, as shown in the 2015 annual statement, were deficient by \$14,041,000.

The consulting actuary performed an independent analysis of the Company's ultimate losses and loss adjustment expense (LAE). Ultimate losses and allocated LAE were analyzed on a combined basis. Unpaid loss and LAE were calculated using paid loss data that is net of salvage and subrogation actually received. Volatility in the underlying data used in the actuarial analysis has increased projection uncertainty. A review of the September 30, 2016 quarterly statement showed adverse development of the year-end 2015 reserves. The consulting actuary received the Company's 2015 Annual Statement and the 2015 Statement of Actuarial Opinion with the accompanying December 31, 2015 actuarial report from the independent actuary, along with the September 30, 2016 quarterly statement.

Capital and Surplus

As of December 31, 2015, the amount of \$32,777,791 in capital and surplus reported by the Company exceeded the minimum of \$25,391,393 required by Section 624.408, Florida Statutes.

SUBSEQUENT EVENTS

Acquisitions & Mergers

On October 6, 2016, the Office approved the re-domestication of Ashmere Insurance Company (Ashmere) from the state of Illinois to the state of Florida and its subsequent acquisition by National Fidelity Insurance Holdings, Inc. (National Fidelity). Control of Ashmere was effected, pursuant to a Stock Purchase Agreement, dated as of September 17, 2014, subsequently amended on March 6, 2015, August 27, 2015 and December 28, 2015, and amended and restated on October 12, 2016 (collectively, the "Purchase Agreement"), between National Fidelity and Guilford Holdings, Inc., a Delaware corporation (hereinafter referred to as "the Seller"). A copy of the purchase agreement was submitted to the Office with the acquisition application dated as of April 17, 2016. Pursuant to the Office's Consent Order, CASE NO.: 197614-16-CO, approving the transactions, National Fidelity and Ashmere acknowledge that Ashmere will be an affiliate of Guarantee Insurance Company. Ashmere commenced operations in Florida on December 1, 2016.

Investigation and Loss Control Services Agreement

The Company entered into a Loss Control Services Agreement with Patriot Risk Consultants, Inc. (PRC) January 1, 2016. Under the terms of the agreement, PRC is engaged to perform loss control services for the Company. The agreement is terminable by the Company by giving thirty (30) days written notice to PRC. Fees for services are charged to the Company by PRC as a percentage of reference premium. For purposes of loss control services, PRC may charge up to 0.0075 percent of reference premium (0.75% of reference premium = gross written premium before adjustment for experience and scheduled credit/debit modifications, State/NCCI (National Council on Compensation Insurance) safety credit and other allowable credits, premium discounts, deductible credits, expense constants and policy fees but excludes any applicable large deductible credits) for any given annual period.

2017 Target Examination

The Office is continuing to review affiliated transactions, internal controls and corporate governance as well as the adequacy of reserves established for the Company's high deductible workers' compensation policies.

ULLICO

The Company is in negotiations with the Delaware Receiver of Ullico Casualty Insurance Company to determine the extent of its liability to the Receiver. The result of these negotiations may have a material effect on the financial condition of the Company.

SUMMARY OF RECOMMENDATIONS

Letters of Credit

We recommend that the Company amend the letters of credit to comply with Rule 69O-144.005(6), Florida Administrative Code, and include the language in the applicable subsections identified in the finding located within the “Summary of Significant Findings” section of this examination report.

Corporate Governance

We recommend that the Company establish, provide and utilize adequate and effective internal controls, corporate governance and management review over financial reporting and company transactions, including affiliated transactions, to prevent future violation of Section 625.332, Florida Statutes, which prohibits indebtedness of any director, officer, or controlling stockholder of the Company.

Holding Company Registration Statement

We recommend that the Company comply with the following provisions, “Registration of Insurers” by disclosing agreements between registered insurers and any affiliates in the holding company registration statement and submit agreements to the Office for review and approval prior to execution, in compliance with Rule 69O-143.046(3)(c), Florida Administrative Code.

Losses

We recommend that the Company adequately reserve for losses as required by Section 625.041(1) and Section 625.101, Florida Statutes.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Guarantee Insurance Company** as of December 31, 2015, consistent with the insurance laws of the State of Florida.

Per examination annual financial statements, the Company's surplus as regards policyholders was \$32,777,791 which exceeded the minimum of \$25,391,393 required by Section 624.408, Florida Statutes.

In addition to the undersigned, Ryne Davison, CFE, Examiner-in-Charge, and Amy Carter, CPA, CFE, Junjie "JJ" Pan, CFE, Participating Examiners, of Lewis & Ellis, Inc., also participated in the examination. Members of the Office who participated in the examination include Jonathan Frisard, Financial Examiner/Analyst Supervisor, Examination Manager, Connie Hare, AFE, CFE (Fraud), Financial Examiner/Analyst Supervisor, Examination Manager, and Kyra Brown, MBA, APIR, Financial Examiner/Analyst Supervisor, Participating Examiner. Additionally, Greg Wilson, FCAS, MAAA and Kathryn Koch, ACAS, MAAA of Lewis & Ellis, Inc., and Scott Langstein, CISA, IT Specialist of Cerebres, LLC, are recognized for participation in the examination.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Brian Sewell", written in a cursive style.

Brian Sewell, CFE, MCM

Chief Examiner

Florida Office of Insurance Regulation