

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

**LAKE MARY, FLORIDA**

**AS OF**  
**DECEMBER 31, 2010**

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

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March 16, 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, 2010, of the financial condition and corporate affairs of:

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

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

## **SCOPE OF EXAMINATION**

This examination covered the period of January 1, 2006, through December 31, 2010. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2005. This examination commenced with planning at the Office on January 3, 2012, to January 5, 2012. The fieldwork commenced on January 24, 2012, and concluded as of March 16, 2012.

This financial examination was 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.

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

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

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

## **SUMMARY OF SIGNIFICANT FINDINGS**

### **Current Exam Findings**

There were no material adverse findings, significant non-compliance findings, or material changes in the financial statements noted during this examination.

### **Prior Exam Findings**

The following is a summary of significant adverse findings contained in the Office's prior examination report as of December 31, 2005, along with resulting action taken by the Company in connection therewith.

On May 19, 2005, the Board of Directors appointed an Audit Committee of four members. Although none of the voting members were actively involved in daily operations, three of the voting members had relationships with the Company, including ownership. **Resolution: The Company still retains the same four members. Due to the size of the Company and the fact that the members are not involved in the daily operations, they are able to act in their duties in an independent manner.**

The Company failed to file the Claims Agreement with Frontline Insurance Managers, Inc., (Frontline) effective October 1, 2005, with the Office for prior approval, as required by Rule 69O-

143.047, Florida Administrative Code. **Resolution: The Company filed the Claims Agreement with Frontline Insurance Managers, Inc. (Frontline) with the Office.**

The Company failed to disclose the Claims Agreement in the Company's December 31, 2005 Holding Company Registration Statement, as required by Rule 69O-143.046, Florida Administrative Code. **Resolution: The Company disclosed the Claims Agreement in the 2010 Holding Company Registration Statement on February 28, 2011 as required by Rule 69O-143.046, Florida Administrative Code.**

The Company failed to file the Cost Sharing Agreement with PWC Financial, Inc. (PWC) and Frontline, effective January 1, 2005, with the Office for prior approval, as required by Rule 69O-143.047, Florida Administrative Code. **Resolution: The Company filed the Cost Sharing Agreement with PWC and Frontline with the office as required by Rule 69O-143.047, Florida Administrative Code.**

None of the Company's letters of credit used to collateralize the Company's reinsurance recoverable from unauthorized reinsurers at December 31, 2005, fully complied with all of the provisions pertaining to letters of credit as required by Section 624.610, Florida Statutes, and Rule 69O-144.005, Florida Administrative Code. **Resolution: The Company's letters of credit used to collateralize the Company's reinsurance recoverable from unauthorized reinsurers at December 31, 2010, fully complied with all of the provisions pertaining to letters of credit as required by Section 624.610, Florida Statutes, and Rule 69O-144.005, Florida Administrative Code.**

The reinsurance intermediary broker utilized by the Company was not licensed in the State of Florida, as required by Section 626.7492(3)(a)1, Florida Statutes. **Resolution: The reinsurance intermediary broker, Frontline, was licensed in the State of Florida as required by Section 626.7492(3)(a)1, Florida Statutes.**

The Company did not have a contract with its reinsurance intermediary broker, as required by Section 626.7492(4), Florida Statutes. **Resolution: The Company entered into a contract effective May 16, 2007, with its reinsurance intermediary broker and submitted the contract to the Office on December 16, 2007, in response to Consent Order 89531-07-CO, filed October 29, 2007.**

The Company did not comply with certain duties for insurers using the services of a reinsurance intermediary broker, as required by Section 626.7492(6), Florida Statutes. **Resolution: The Company complied with certain duties for insurers using the services of a reinsurance intermediary broker, as required by Section 626.7492(6), Florida Statutes.**

Rule 690-137.001(4), Florida Administrative Code, requires insurers to follow the NAIC Accounting Practices and Procedures Manual and the NAIC Annual Statement Instructions in completing annual and quarterly statements. The Company failed to disclose the Claims Agreement and Cost Sharing Agreement in the Company's Annual Statement, as required by SSAP No. 25 - Accounting for and Disclosure about Transactions with Affiliates and Other Related Parties. **Resolution: The Company disclosed the Claims Agreement and Cost Sharing Agreement in the Company's Annual Statement.**



## **SUBSEQUENT EVENTS**

On December 28, 2011, the Company received a capital contribution of \$5,000,000 from its parent, PWC Financial, Inc.

## **HISTORY**

### **General**

The Company was incorporated on March 16, 1998, under the laws of the State of Florida, as a stock property and casualty insurer. The Company commenced business on April 30, 1998, with the name of First Protective Insurance Company. The Company is a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code.

The Company was authorized to transact the following insurance coverage in Florida on December 31, 2010:

Fire  
Homeowners Multi Peril  
Mobile Home Multi Peril

Allied Lines  
Mobile Home Physical Damage

The Articles of Incorporation were amended during the period covered by this examination. Article III, Capital Stock was amended. This amendment was adopted by the Board of Directors without shareholder action and shareholder action was not required. 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, 2010, the Company's capitalization was as follows:

Number of authorized common capital shares	1,500,000
Number of shares issued and outstanding	100,000
Total common capital stock	\$1,500,000
Par value per share	\$15.00

Control of the Company was maintained by its parent, PWC Financial, Inc. (PWC), which owned 100 percent of the stock issued by the Company.

## **Surplus Debentures**

The Company had the following capital notes, outstanding at December 31, 2010:

- 3% subordinated surplus debenture from PWC, issued December 31, 2003, for \$1,500,000
- 3% subordinated surplus debenture from Frontline, issued December 31, 2005, for \$3,267,500
- 6.5% subordinated surplus debenture from Frontline, issued November 30, 2006, for \$4,000,000.

First Protective shall not make any principal or interest payments with respects to the aforementioned debentures unless such payment is approved in advance by the Office.

## **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, 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 annual 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 Sections 607.1601 and 628.231, Florida Statutes. Directors serving as of December 31, 2010, were:

#### **Directors**

##### **Name and Location**

##### **Principal Occupation**

Lanier Porter  
Longwood, Florida

Chief Executive Officer of the Company

Harold Humphrey  
Miami, Florida

Insurance Agent

Leman Porter  
Heathrow, Florida

President of the Company

Willis T. King, Jr.  
Lake Mary, Florida

Chairman of the Board of Directors

Dwayne Williams  
Winter Springs, Florida

Treasurer of the Company

Emily R. King  
Tampa, Florida

Risk Manager, Frontline  
Insurance Managers, Inc.

Louis V. Vendittelli  
Tampa, Florida

General Counsel of the Company

The Board appointed the following senior officers:

### Senior Officers

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

The Company's Board appointed two internal committees in accordance with Section 607.0825, Florida Statutes. Following were the principal internal board committees and their members as of December 31, 2010:

#### **Audit Committee**

Emily R. King<sup>1</sup>  
Harold Humphrey  
James Accursio  
Mitchell Rabin

#### **Investment Committee**

Willis T. King<sup>1</sup>  
Lanier Porter  
Leman Porter  
Benjamin Treuil  
Dwayne Williams

Chairman<sup>1</sup>

### **Affiliated Companies**

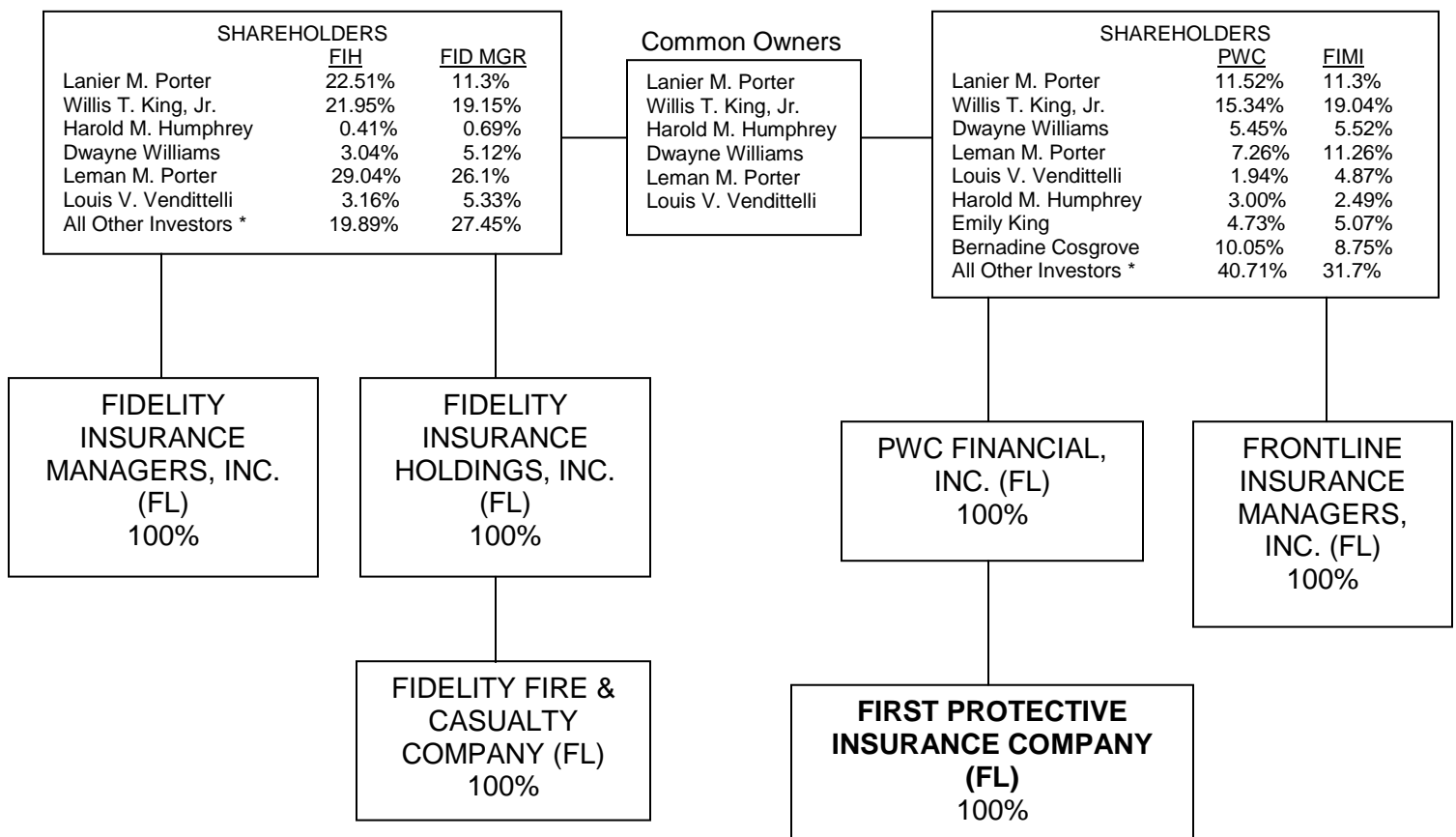
The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code. The latest holding company registration

statement was filed with the State of Florida on February 18, 2011, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

An organizational chart as of December 31, 2010, reflecting the holding company system, is shown below. Schedule Y of the Company's 2010 annual statement provided a list of all related companies of the holding company group.

## FIRST PROTECTIVE INSURANCE COMPANY ORGANIZATIONAL CHART

**DECEMBER 31, 2010**



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

### **Federal Income Tax Allocation Agreement**

The Company filed a separate federal income tax return for the December 31, 2010 reporting year because PWC filed as a sub-chapter S corporation. However, a Tax Allocation Agreement existed between the Company and its parent, PWC, which was amended December 16, 2005, and effective retroactively to include tax year 2004 and was based on separate return calculations with current credit for net losses. The agreement was filed with the Office, as required by Rule 69O-143.047(4), Florida Administrative Code.

### **Management Agreement**

The Company entered into a new management agreement with PWC, effective January 1, 2006. The new management agreement was intended to reflect actual services provided to the Company by PWC and also to reflect the new corporate structure of the Company. Under the terms of the new management agreement, PWC duties included corporate organization, investment management, financial management, accounting and tax services, legal advice, corporate management services, human resource services, corporate expense oversight, benefit plan management, actuarial services, regulatory liaison services, reinsurance services, and other ministerial functions. In exchange for the services provided, PWC received a fee from the Company equal to 5% of the Company's net written premium (gross written premium less return premium). The management agreement was filed with the Office for prior approval, as was required by Rule 69O-143.047, Florida Administrative Code. During 2010, the Company paid PWC \$4,491,946 under the terms of the management agreement.

## **Managing General Agent Agreement**

The Company entered into a managing general agent (MGA) agreement with Frontline, effective January 1, 2006. The agreement was intended to reflect actual services provided to the Company by Frontline and also to reflect the new corporate structure of the Company. Under the terms of the MGA agreement, duties included development of underwriting guidelines and marketing and sales materials, solicitation and evaluation of policy applications, premium and collection, policy cancellation, appointment of sub-producers, and claims servicing. In exchange for the underwriting, marketing, and administration services provided, Frontline received a fee from the Company equal to 10% of the Company's net written premium (gross written premium less return premium). In addition, for payment of agent commissions, Frontline received a fee from the Company equal to 10.5% of the Company's net written premium. Frontline was also entitled to a \$25 per policy servicing fee, which was collected from the policyholders. In exchange for the claims servicing and administration services provided, Frontline received a fee from the Company equal to 15.5% of the Company's gross incurred loss (the net amount of losses paid, recoveries, and the change in outstanding loss reserves for the month). Furthermore, Frontline is entitled to 30% of any recoveries from subrogation claims brought by the Company. The MGA agreement was filed with the Office for prior approval, as required by Rule 69O-143.047, Florida Administrative Code. During 2010, the Company paid Frontline \$10,189,368. The Company also paid a commission expense of \$9,433,087 and an installment fee expense of \$42,566 in 2010.

## **Reinsurance Brokerage Agreement**

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

## **FIDELITY BOND AND OTHER INSURANCE**

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

The Company was also named insured on a commercial property and general liability policy, workers' compensation and employer's liability policy, commercial umbrella liability policy, and business auto policy.

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

There was not any pension, stock ownership or insurance plans in place at the Company during the period of this examination.

## **TERRITORY AND PLAN OF OPERATIONS**

The Company was authorized to transact insurance only in the State of Florida.



## **Treatment of Policyholders**

The Company established procedures for handling written complaints in accordance with Section 626.9541(1) (j), Florida Statutes.

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

## **COMPANY GROWTH**

The Company's surplus has increased since the prior examination, from \$5,460,833 as of December 31, 2005 to \$16,155,044. Since December 31, 2005, the Company entered into a \$4 million subordinated surplus debenture with Frontline, dated September 30, 2006. In addition, the Company's increase in surplus was attributable to the Company's reduced reliance on reinsurance from 2008 to 2010 thereby increasing net premiums written. Furthermore, the Company has experienced favorable results from quiet storm seasons from late 2008 to 2010 resulting in the ability to generate net income of \$2,647,643 during the aforementioned period.

## Profitability of Company

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

	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
Premiums Earned	43,960,271	44,465,166	21,767,980	14,301,995	14,182,147
Net Underwriting Gain/(Loss)	1,355,102	(2,183,650)	3,782,299	(589,283)	(1,032,903)
Net Income	2,251,257	(1,044,003)	1,440,390	871,221	906,854
Total Assets	61,077,857	62,285,633	67,306,390	26,347,480	45,977,389
Total Liabilities	44,922,813	47,372,099	51,391,427	13,689,975	34,340,473
Surplus As Regards Policyholders	16,155,044	14,913,534	15,914,963	12,657,505	11,636,916

## LOSS EXPERIENCE

The Company has experienced unfavorable results within the loss and expense ratio since the prior examination. This is due primarily to the Company's participation in and commutation of quota share agreements over the five year period. The Company's loss ratio since 2008 has been in line with industry standards, primarily due to calm storm years. The Company's expense ratio has exceeded industry standards for each year with the exception of 2008. In 2008, the Company was party to an 80% quota share agreement. Overall, the Company's combined ratios are above 100%, but have shown improvement from 2009 to 2010.

## **REINSURANCE**

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

### **Assumed**

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

### **Ceded**

The Company ceded catastrophe risks on an excess of loss basis to certain Lloyd's syndicates and other commercial reinsurers. Under the catastrophe excess of loss agreements, the Company had retention of \$1.5 million and coverage of up to \$100 million, with the provision for one reinstatement. In addition, the Company purchased reinstatement premium protection. The Company also entered into a reimbursement contract with the Florida Hurricane Catastrophe Fund which provided 90% coverage of up to \$193 million of losses per catastrophe. Combined, the Company had \$293 million of catastrophe loss reinsurance coverage.

In addition, between January 1, 2010, and December 31, 2010, the Company held a quota share agreement with a cession rate of 10%. The Company commuted the 10% agreement and entered into a 50% quota share agreement effective December 31, 2010, for non catastrophe risks with Liberty Paris Syndicate placed through Cross Atlantic Intermediaries.

The Company also participated in an automatic facultative excess agreement with General Reinsurance Corporation, placing insured property business above \$2.5 million to a maximum of

\$4.7 million. The liability for the reinsurer is not to exceed \$20 million with respects to all losses combined for all risks involve in one loss occurrence during the term of the agreement.

The reinsurance contracts were reviewed by the Company's appointed actuary and were utilized in determining the ultimate loss opinion.

## **ACCOUNTS AND RECORDS**

The Company maintained its principal operational offices in Lake Mary, Florida.

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

The Company and non-affiliates had the following agreements:

### **Custodial Agreement**

The Company maintained a custodial agreement with the Marshall & Ilsley Trust Company executed on May 20, 2009. The agreement was in compliance with Rule 69O-143.042, Florida Administrative Code. **Subsequent Event:** As of June 30, 2011, Marshall & Ilsley Trust Company was no longer the custodian for the Company's assets. Effective June 30, 2011, the Company entered into a custodial agreement with Merrill Lynch Wealth Management. However, the Company could not provide evidence of a custodial agreement, and evidence that the custodial agreement was in compliance with Rule 69O-143.042, Florida Administrative Code. On June 27, 2012, the Company provided a copy of the Merrill Lynch Wealth Management custodial agreement.

### **Flood Insurance Services**

The Company entered into an agreement with Torrent Technologies Inc. effective January 1, 2008. The purpose of the agreement was to provide access to the technology used to administer and service flood insurance through the National Flood Insurance Program, for a portion of the net premiums written and incurred losses. As of December 31, 2010, the fee structure was 5.5% of written premiums for policy administration and .75% of written premiums plus 1.25% of incurred losses for claims administration. The Company paid Torrent Technologies Inc. \$274,973 in 2010.

### **Discretionary Investment Management Agreement**

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

### **Independent Auditor Agreement**

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**

ParenteBeard 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	Cash	\$ 1,403,691	\$ 1,403,691
TOTAL SPECIAL DEPOSITS		<u>\$1,403,691</u>	<u>\$1,403,691</u>

## FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2010, and the results of its operations for the year then ended as determined by this examination. Adjustments made as a result of the examination are noted in the section of this report captioned, "Comparative Analysis of Changes in Surplus."

**FIRST PROTECTIVE INSURANCE COMPANY**

**Assets**

**DECEMBER 31, 2010**

	<b>Per Company</b>	<b>Examination Adjustments</b>	<b>Per Examination</b>
Bonds	\$13,260,472		\$13,260,472
Stocks:			
Common	5,054,400		5,054,400
Cash and short-term Investments	34,017,102		34,017,102
Investment income due and accrued	173,100		173,100
Uncollected premium	1,257,520		1,257,520
Deferred premium	5,035,513		5,035,513
Reinsurance recoverable	938,923		938,923
Current federal and foreign income tax recoverable and interest	652,938		652,938
Net deferred tax asset	544,000		544,000
Receivable from parents, subsidiaries and affiliates	74,326		74,326
Aggregate write-in for other than invested assets	69,563		69,563
	<hr/>		<hr/>
Totals	\$61,077,857	\$0	\$61,077,857

**FIRST PROTECTIVE INSURANCE COMPANY**  
**Liabilities, Surplus and Other Funds**  
**DECEMBER 31, 2010**

	Per Company	Examination Adjustments	Per Examination
Losses and loss adjustment expenses	\$9,995,979		\$9,995,979
Other expenses	38,846		38,846
Current federal and foreign income taxes	223,021		223,021
Unearned premium	16,348,886		16,348,886
Advance premium	2,807,654		2,807,654
Ceded reinsurance premium payable	11,308,555		11,308,555
Funds held by company under reinsurance treaties	841,234		841,234
Remittances and items not allocated	215,992		215,992
Payable to parent, subsidiaries and affiliates	2,140,536		2,140,536
Aggregate write-ins for liabilities	1,002,110		1,002,110
<b>Total Liabilities</b>	<b>\$44,922,813</b>	<b>\$0</b>	<b>\$44,922,813</b>
Common capital stock	\$1,500,000		\$1,500,000
Surplus notes	8,767,500		\$8,767,500
Gross paid in and contributed surplus	5,875,000		5,875,000
Unassigned funds (surplus)	12,544		12,544
<b>Surplus as regards policyholders</b>	<b>\$16,155,044</b>	<b>\$0</b>	<b>\$16,155,044</b>
<b>Total liabilities, surplus and other funds</b>	<b>\$61,077,857</b>	<b>\$0</b>	<b>\$61,077,857</b>



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

**DECEMBER 31, 2010**

**Underwriting Income**

Premiums earned		\$43,960,271
	<b>Deductions:</b>	
Losses incurred		\$20,442,810
Loss expenses incurred		4,029,406
Other underwriting expenses incurred		18,132,953
Aggregate write-ins for underwriting deductions		0
Total underwriting deductions		\$42,605,169
Net underwriting gain or (loss)		\$1,355,102

**Investment Income**

Net investment income earned		\$643,220
Net realized capital gains or (losses)		102,672
Net investment gain or (loss)		\$745,892

**Other Income**

Net gain or (loss) from agents' or premium balances charged off		(\$50,054)
Finance and service charges not included in premiums		85,132
Aggregate write-ins for miscellaneous income		5,264
Total other income		\$40,342
Net income before dividends to policyholders and before federal & foreign income taxes		\$2,141,337
Dividends to policyholders		0
Net Income, after dividends to policyholders, but before federal & foreign income taxes		\$2,141,337
Federal & foreign income taxes		(109,920)
Net Income		\$2,251,257

**Capital and Surplus Account**

Surplus as regards policyholders, December 31 prior year		\$14,913,533
Net Income		\$2,251,257
Change in net unrealized capital gains or losses		(208,338)
Change in net deferred income tax		(579,365)
Change in non-admitted assets		(722,043)
Capital changes: transferred from surplus (Stock Dividend)		1,400,000
Surplus adjustments: Paid in		500,000
Surplus adjustments: Paid in transferred from surplus (Stock Dividend)		(1,400,000)
Examination Adjustment		0
Change in surplus as regards policyholders for the year		\$1,241,511
Surplus as regards policyholders, December 31 current year		\$16,155,044

A comparative analysis of changes in surplus is shown below.

**FIRST PROTECTIVE INSURANCE COMPANY**  
**Comparative Analysis of Changes in Surplus**

**DECEMBER 31, 2010**

Surplus as Regards Policyholders  
December 31, 2010, per Annual Statement \$16,155,044

	<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			\$0
LIABILITIES:			
No Adjustment			\$0
Net Change in Surplus:			<u>0</u>
Surplus as Regards Policyholders December 31, 2010, Per Examination			<u><u>\$16,155,044</u></u>

## COMMENTS ON FINANCIAL STATEMENTS

### Liabilities

#### Losses and Loss Adjustment Expenses \$10,755,979

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, 2010, made a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

The Office consulting actuaries, Ronald T. Kuehn, FCAS, MAAA, CPCU, ARM, FCA and Todd H. Dashoff, ACAS, MAAA, ARM of Huggins Actuarial Services, Inc, reviewed the loss and loss adjustment expense (LAE) work papers provided by the Company. As a result of the review, the Company's Loss and LAE on a gross basis were found to be \$1,039,000 deficient and on a net basis of \$760,000 deficient. This did not result in an adjustment to surplus because it is 4.7% of surplus. Adjustments are made when the impact is 5% or more of surplus.

### Capital and Surplus

The amount reported by the Company of \$16,155,044, exceeded the minimum of \$4,318,070 required by Section 624.408, Florida Statutes.

## CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **First Protective Insurance Company, Inc.** as of December 31, 2010, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was \$16,155,044, which exceeded the minimum of \$4,318,070 required by Section 624.408, Florida Statutes.

In addition to the undersigned, John Romano, CPA, AFE Examiner-In-Charge; Leon Pressman, IT Manager; and Participating Examiners, Jennifer Cox and Richard Sowalsky, all with ParenteBeard LLC participated in the examination. In addition, Ronald T. Kuehn, FCAS, MAAA, CPCU, ARM, FCA and Todd H. Dashoff, ACAS, MAAA, ARM of Huggins Actuarial Services, Inc., Michael Tomes, Financial Examiner/Analyst II, and Vetrecia Smith, Financial Specialist of the Office also participated in the examination.

Respectfully submitted,

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Kethessa Carpenter, CPA  
Examination Manager  
Florida Office of Insurance Regulation