REPORT ON EXAMINATION

OF

HOMESITE INSURANCE COMPANY OF FLORIDA

BOSTON, MASSACHUSETTS

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 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, 2011, of the financial condition and corporate affairs of:

HOMESITE INSURANCE COMPANY OF FLORIDA
301 S. BRONOUGH STREET, SUITE 200
TALLAHASSEE, FLORIDA 32301

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, 2008, through December 31, 2011. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2007. This was a coordinated examination with several other States within the Homesite Group Incorporated (the Group or HGI):

Homesite Insurance Company (Connecticut)
Homesite Indemnity Company (Kansas)
Homesite Insurance Company of the Midwest (North Dakota)
Homesite Insurance Company of Georgia (Georgia)
Homesite Insurance Company of Illinois (Illinois)
Homesite Insurance Company of California (California)
Homesite Insurance Company of New York (New York)
Homesite Lloyds of Texas (Texas)

The lead states on this examination were the States of Connecticut and North Dakota. This examination commenced with planning at the Office on April 17, 2012, to April 20, 2012. The fieldwork commenced on April 23, 2012, and concluded as of August 30, 2012.

This financial examination was an association 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 or exceptions noted during this examination as of December 31, 2011.

Prior Exam Findings

There were no findings, exceptions or corrective action to be taken by the company for the examination as of December 31, 2007.

SUBSEQUENT EVENTS

Effective January 1, 2012, HGI added Homesite Insurance Company of Florida to the Homesite Pool.

The following were the member company participation percentages in effect as of January 1, 2012.

	Pooling Percentages
Homesite Insurance Company of the Midwest	32.0
Homesite Insurance Company	26.0
Homesite Insurance Company of California	11.0
Homesite Indemnity Company	12.0
Homesite Insurance Company of New York	5.0
Homesite Insurance Company of Georgia	4.0
Homesite Insurance Company of Illinois	3.0
Homesite Insurance Company of Texas	3.0
Homesite Insurance Company of Florida	4.0
Pool Total	100%

On December 1, 2011, the Company notified the Office that it intended to stop writing all new and renewal lines of insurance in the state. The Office approved Consent Order # 123459-12 on February 29, 2012 which states the Company intends to surrender its Florida Certificate of Authority (COA) as a result of the Company nonrenewal of its property/casualty insurance policies.

HISTORY

General

The Company was incorporated on December 29, 2000 and received its COA in Florida on August 23, 2001 to write various property and casualty lines. The Company was issued a Permit to form as an authorized domestic insurer on December 1, 2000. The immediate parent of the Company is Homesite Securities Company LLC, (HSC) a Delaware limited liability company. HSC is wholly owned by Homesite Group Incorporated (HGI).

The Company was authorized to transact homeowners multi peril and inland marine insurance coverage in Florida on August 23, 2001 and continues to be authorized as of December 31, 2011.

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, 2011, the Company's capitalization was as follows:

Number of authorized common capital shares	100,000
Number of shares issued and outstanding	10,000
Total common capital stock	$100,000
Par value per share	$10.00

The Company was owned by Homesite Securities Company LLC, which is in turn owned by Homesite Group Incorporated.

Surplus Debentures

The Company did not have any surplus debentures during the period of this examination.

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

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

CORPORATE RECORDS

The recorded minutes of the Shareholder(s), Board 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 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 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, 2011, were:

Directors

Name and Location	Principal Occupation
Fabian John Fondriest Concord, Massachusetts	CEO, Homesite of Florida CEO, Homesite Group, Inc.
Kenneth Francis Flaherty Westmont, Illinois	Vice President National Financial Services, LLC.
Douglas Andrew Batting Boston, Massachusetts	President, Homesite of Florida COO, Homesite Group, Inc.
Anthony Matthew Scavongelli Duxbury, Massachusetts	Secretary and General Counsel Homesite of Florida
Michael David Lorion Millbury, Massachusetts	CFO, Homesite of Florida
Mike Thomas Southworth Springfield, Illinois	Attorney Hart, Southworth & Witsman

Samuel Joe Witsman Springfield, Illinois	Attorney Hart, Southworth & Witsman

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

Senior Officers

Name	**Title**
Fabian John Fondriest	Chief Executive Officer
Douglas Andrew Batting	President
Michael David Lorion	Chief Financial Officer, Treasurer and Vice President
Anthony Matthew Scavongelli	General Counsel, Secretary and Vice President
Andrew Allison McElwee, Jr.	Executive Vice President

The Company's Board appointed several internal committees. Following were the principal internal board committees and their members as of December 31, 2011:

Audit Committee	**Investment Committee**
Mike T. Southworth [1]	Michael Lorion [1]
Samuel J. Witsman	Douglas A. Batting
Kenneth F. Flaherty	Fabian J. Fondriest
	James T. Morahan
	Anthony M. Scavongelli

1 Chairman

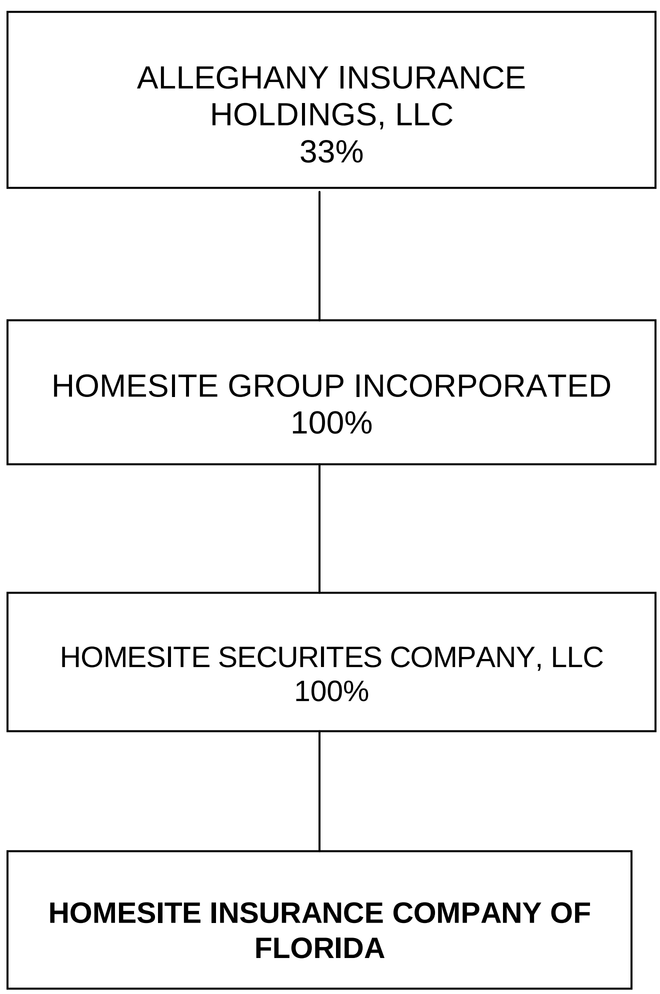
Affiliated Companies

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 February 13, 2012, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code. The Company did not file an updated holding company registration statement to report subsequent changes in affiliates, as required by Rule 69O-143.046 (4), Florida Administrative Code.

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

HOMESITE INSURANCE COMPANY OF FLORIDA
ORGANIZATIONAL CHART

DECEMBER 31, 2011



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

Tax Allocation Agreement

The Company, along with its parent, 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 HGI Incorporated.

Management Agreement

The Company entered into a Management Services Agreement with its parent, HGI, on February 12, 2011. HGI provided personnel, management information systems support, facilities support, procurement support, legal services and other such services mutually agreed upon. All transactions were subject to the ultimate authority of the Company. During the contract period services were provided on a cost allocation/reimbursement basis. HGI was responsible for maintaining accounting records of all services rendered. Premiums of the Company were received by HGI and deposited into a HGI accounts along with premiums of other Company affiliates.

FIDELITY BOND AND OTHER INSURANCE

The Company maintained fidelity bond coverage up to $2,000,000 with a deductible of $25,000, which adequately covered the suggested minimum amount of coverage for the Company as recommended by the NAIC.

The Company also maintained Directors and Officers (D&O) liability insurance coverage with limits of $5,000,000 and deductibles ranging from $10,000 to $100,000.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company had no pension, stock ownership or insurance plans.

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 indicated they will not write any new policies in Florida. Total policyholders' surplus decreased to $7,559,178 at December 31, 2011; a decrease of 15% over 2010. The $1.4 million, decrease in surplus was mainly driven by a net loss of $1.8 million offset by a net increase in deferred income tax and non-admitted assets of $473,025.

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
Premiums Earned	902,607	1,217,043	1,361,895	1,982,244
Net Underwriting Gain/(Loss)	(2,391,569)	(5,242)	(2,445,072)	(529,070)
Net Income	(1,801,245)	246,905	(1,231,862)	(111,178)
Total Assets	11,519,281	11,727,607	12,498,168	12,402,324
Total Liabilities	3,960,103	2,771,777	3,870,941	2,804,598
Surplus As Regards Policyholders	7,559,178	8,955,830	8,627,227	9,597,726

LOSS EXPERIENCE

Losses and loss adjustment expenses increased significantly during the examination period despite the reduction in premiums written.

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

As part of its catastrophe management program, HGI and its insurance company affiliates purchase external reinsurance intended to limit the net underwriting exposure of all pool and non-pool participants.

The following reinsurance agreements were in place as of December 31, 2011:

The Company maintained per risk coverage of $1.5 million excess of $1 million. The treaty was contracted each year and became effective on July 1, 2011. The Company retained and was liable for the first $1 million of ultimate net loss as respects any one risk, each loss. The reinsurer was then liable for the amount by which such ultimate net loss exceeded the Company's retention, but the liability of the reinsurer shall not exceed $1.5 million as respects any one risk, each loss, and $1.5 million as respects all risks involved in any one loss occurrence. Loss payments under this treaty reduced the limit of coverage afforded by the amounts paid, but the limit of coverage shall be reinstated from the time of the occurrence of the loss. For the first $1.5 million reinstated there shall be no additional premium. The second reinstatement was 100% of the premium.

Effective January 1, 2011, the Company entered into a 10.5% quota share arrangement with a pool of six reinsurers (direct and through brokers). Pool members receive premium on new and renewal policies on an attaching basis and absorb 100% of non-Property Claim Services (PCS) catastrophe related losses. PCS was a unit of Insurance Services Office (ISO). For reinsurance through brokers, the Company received a ceding commission equal to a flat 40.25% of the premium and an additional 5% allowance for loss adjustment expenses, while absorbing catastrophe losses which received a PCS Catastrophe Code from ISO. For the direct reinsurer, a sliding scale commission was used with a provisional commission set at 41% and a 5% allowance for loss adjustment expenses. The broker quota share was a one year agreement and the direct quota share agreement was a three year agreement. Both the direct and broker quota share agreements were on an attaching basis.

The Company's catastrophe treaty consists of three layers. The treaty was contracted each year with a start date of April 1st and was effective for a term of one year. The following summarizes the program effective as of April 1, 2011:

> $70,000,000 excess of $30,000,000 per occurrence
> $100,000,000 excess of $100,000,000 per occurrence
> $200,000,000 excess of $200,000,000 per occurrence (excluding Homesite Insurance of Florida and Homesite Insurance Company of California)

Within the 3rd layer, losses associated with Homesite Insurance Company of Florida or Homesite Insurance Company of California qualify towards the retention but were excluded from the limit.

HGI reviews the accumulation of catastrophic exposure on a monthly basis using various catastrophe models.

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 Boston, Massachusetts.

An independent CPA audited the Company's statutory basis financial statements annually for the years 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 system. The Company's balance sheet accounts were verified with the line items of the annual statement submitted to the Office.

The Company and non-affiliates had the following agreements:

Custodial Agreement

The Company had a custodial agreement with JP Morgan Chase. The 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

Joe Dietrick, AES, CISA, CFE, CPA 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	TSY INFL IX N/B	$ 317,316	$ 317,316
TOTAL FLORIDA DEPOSITS		317,316	317,316
TOTAL SPECIAL DEPOSITS		$317,316	$317,316

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."

HOMESITE INSURANCE COMPANY OF FLORIDA
Assets
DECEMBER 31, 2011

	Per Company	Examination Adjustments	Per Examination
Bonds	$8,687,113		$8,687,113
Stocks:			
Common	880,296		880,296
Cash and Short-Term Investments	768,942		768,942
Investment income due and accrued	69,737		69,737
Agents' Balances:			
Uncollected premium	(15,789)		(15,789)
Deferred premium	209,377		209,377
Reinsurance recoverable	220,882		220,882
Net deferred tax asset	698,723		698,723
Totals	$11,519,281	$0	$11,519,281

HOMESITE INSURANCE COMPANY OF FLORIDA
Liabilities, Surplus and Other Funds
DECEMBER 31, 2011

	Per Company	Examination Adjustments	Per Examination
Losses	$1,634,737		$1,634,737
Loss adjustment expenses	394,505		394,505
Commissions payable, contingent commissio	25,756		25,756
Other expenses	(1,725)		(1,725)
Taxes, licenses and fees	182,977		182,977
Current federal and foreign income taxes	461,178		461,178
Unearned premium	953,911		953,911
Advance premium	50,321		50,321
Ceded reinsurance premiums payable	(13,091)		(13,091)
Amounts withheld or retained by company	4,049		4,049
Provision for reinsurance	38,400		38,400
Payable to parent, subsidiaries and affiliates	193,104		193,104
Aggregate write-ins for liabilities	35,981		35,981
Total Liabilities	$3,960,103	$0	$3,960,103
Aggregate write-ins for special surplus funds	$117,918		117,918
Common capital stock	100,000		100,000
Gross paid in and contributed surplus	9,804,780		9,804,780
Unassigned funds (surplus)	(2,463,520)		(2,463,520)
Surplus as regards policyholders	$7,559,178	$0	7,559,178
Total liabilities, surplus and other funds	$11,519,281	$0	$11,519,281

HOMESITE INSURANCE COMPANY OF FLORIDA
Statement of Income
DECEMBER 31, 2011

Underwriting Income	
Premiums earned	$902,607
Deductions:	
Losses incurred	$2,225,765
Loss expenses incurred	652,941
Other underwriting expenses incurred	415,470
Aggregate write-ins for underwriting deductions	0
Total underwriting deductions	$3,294,176
Net underwriting gain or (loss)	($2,391,569)
Investment Income	
Net investment income earned	$230,531
Net realized capital gains or (losses)	93,851
Net investment gain or (loss)	$324,382
Other Income	
Net gain or (loss) from agents' or premium balances charged off	($6,699)
Finance and service charges not included in premiums	4,206
Aggregate write-ins for miscellaneous income	0
Total other income	($2,493)
Net income before dividends to policyholders and before federal & foreign income taxes	($2,069,680)
Dividends to policyholders	0
Net Income, after dividends to policyholders, but before federal & foreign income taxes	($2,069,680)
Federal & foreign income taxes	(268,435)
Net Income	($1,801,245)
Capital and Surplus Account	
Surplus as regards policyholders, December 31 prior year	$8,955,830
Net Income	($1,801,245)
Net unrealized capital gains or losses	(80,032)
Change in net deferred income tax	501,046
Change in nonadmitted assets	(28,021)
Change in provision for reinsurance	11,600
Surplus adjustments: Paid in	0
Aggregate write-ins for gains and losses in surplus	0
Change in surplus as regards policyholders for the year	($1,396,652)
Surplus as regards policyholders, December 31 current year	$7,559,178

A comparative analysis of changes in surplus is shown below.

HOMESITE INSURANCE COMPANY OF FLORIDA
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				$7,559,178
	PER COMPANY	PER EXAM	INCREASE (DECREASE) IN SURPLUS	
ASSETS: No adjustment				
LIABILITIES: No adjustment				
Net Change in Surplus:				0
Surplus as Regards Policyholders December 31, 2011, Per Examination				$7,559,178

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses $2,029,242

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, John Purple, FCAS, MAAA of Risk Regulatory Consultants, 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 $7,559,178, exceeded the minimum of $5,000,000 required by Section 624.408, Florida Statutes.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Homesite Insurance Company of Florida** 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 $7,559,178, which exceeded the minimum of $5,000,000 required by Section 624.408, Florida Statutes.

In addition to the undersigned, Stanley Kaplan, CFE, CPA, Examiner-In-Charge, of Examination Resources, LLC participated in the examination. In addition, John Purple, FCAS MAAA, consulting actuary of Risk Regulatory Consultants, Joe Deitrick, AES, CISA CFE, CPA, IT Manager of Jennan Enterprises, LLC and Tracy Gates, CISA, CPA, Exam Manager with Highland Clark also participated in the examination.

Respectfully submitted,

____
Mary James, CFE, CPM
Chief Examiner
Florida Office of Insurance Regulation