REPORT ON EXAMINATION

OF

SOUTHERN OAK INSURANCE COMPANY

JACKSONVILLE, FLORIDA

AS OF

DECEMBER 31, 2012

BY THE

FLORIDA OFFICE OF INSURANCE REGULATION

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July 26, 2013

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, 2012, of the financial condition and corporate affairs of:

SOUTHERN OAK INSURANCE COMPANY
200 WEST FORSYTH STREET, SUITE 1200
JACKSONVILLE, FLORIDA 32202

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, 2012. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2007. This examination commenced with planning at the Office on April 01, 2013, to April 05, 2013. The fieldwork commenced on April 22, 2013, and concluded as of July 26, 2013.

This 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 findings or exceptions noted during the examination as of December 31, 2012.

Prior Exam Findings

The following is a summary of significant adverse findings contained in the Office's prior examination report as of December 31, 2007, along with resulting action taken by the Company in connection therewith.

Audit Committee

The Company's audit committee did not have three or more directors. This was not in compliance with Section 624.424(8)(c), Florida Statutes. **Resolution:** On March 3, 2009, the Board elected three directors to serve as the audit committee which complied with the requirements of Section 624.424(8)(c), Florida Statutes.

SUBSEQUENT EVENTS

The Company filed with the Office an amended custodial agreement, executed with Merrill Lynch, dated December 18, 2013, which complies with Rule 69O-143.042, Florida Administrative Code.

HISTORY

General

The Company was incorporated in Florida on November 30, 2004 and commenced business on December 1, 2004 as Southern Oak Insurance Company. It was a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code.

The Company was party to Consent Order 95684-08 requiring it to remove the inland marine line from its certificate of authority as well as requiring the Company to increase its fidelity bond coverage to $350,000. The Company complied with all provisions of the consent order.

The Company was party to Consent Order 109339-10-CO, filed March 12, 2010, requiring the Company to restructure its Managing General Agent (MGA) and Claims Administration fees. By 2010, the MGA agreement had generated approximately $35 million in profits while the Company consistently generated underwriting losses requiring multiple capital infusions. The resultant two amendments to the MGA agreement on April 1, 2010, and January 1, 2011 reduced MGA commissions. The Consent Order also required the Company to reduce its wind exposure in the tri-county area (Dade, Broward and Palm Beach) to less than 30%, which after follow up correspondence with the Office on December 9, 2010, was revised to 35%. As of March 3, 2011, the Company provided evidence to the Office that it reduced its wind exposure to 35%, satisfying the provision.

The Company was party to multiple Consent Orders since 2010 approving the assumption of multi-peril policies in accordance with Citizens Property Insurance Corporation (Citizens) de-population program.

The Company was authorized on December 1, 2004 to transact the lines of business of fire and homeowners multi peril and authorized on February 12, 2009 to transact the line of business of mobile home multi peril in Florida and continued to be authorized in these lines of business as of December 31, 2012.

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

Dividends to Stockholders

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

Capital Stock and Capital Contributions

As of December 31, 2012, the Company's capitalization was as follows:

Number of authorized common capital shares	100,000
Number of shares issued and outstanding	65,001
Total common capital stock	$6,500,100
Par value per share	$100.00

Control of the Company was maintained by its parent, Southern Oak Holding Company, LLC which owns 100% of the Company's common stock.

During the period under examination, the parent contributed $11,749,000, including forgiving an outstanding Surplus Note of $3,100,000 as approved by the Office in 2010. The most recent contribution, in the amount of $2,849,000, occurred during December 2011.

Surplus Notes

In 2010, the Company's parent, Southern Oak Holding Company, forgave a surplus note receivable from the Company in the amount of $3,100,000. The Company had no surplus notes thereafter.

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

The Company had no acquisitions, mergers, disposals, dissolutions, purchase or sales through reinsurance during the period under 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 periodic disclosure of conflicts of interest in accordance with the NAIC Financial Condition Examiners Handbook adopted by Rule 69O-138.001, Florida Administrative Code.

MANAGEMENT AND CONTROL

Management

The annual shareholder meeting for the election of directors was held in accordance with Section 628.231, Florida Statutes. Directors serving as of December 31, 2012, were:

Directors

Name and Location	Principal Occupation
Stephen John Pajcic, III Jacksonville, Florida	Partner Pajcic & Pajcic
Anne Kelley Pajcic Jacksonville, Florida	Homemaker
Sallyn Shilling Pajcic Jacksonville, Florida	Homemaker
Tony Alexander Loughman Jacksonville, Florida	President Southern Oak Insurance Company
Ronald Everett Natherson, Jr. Jacksonville, Florida	Vice President Southern Oak Insurance Company

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

Senior Officers

Name	Title
Tony Alexander Loughman	President
Ronald Everett Natherson, Jr.	Vice President
Kimberly Ann Chaney	Vice President
Daniel Michael Kutzer	Chief Financial Officer
Stephen John Pajcic, III	Treasurer
Sallyn Shilling Pajcic	Secretary

The Company's Board appointed internal committees. Following were the principal internal board committees and their members as of December 31, 2012:

Executive Committee	**Audit Committee**
Stephen John Pajcic [1]	Stephen John Pajcic [1]
Tony Alexander Loughman	Tony Alexander Loughman
	Anne Kelley Pajcic

[1] Chairman

Affiliated Companies

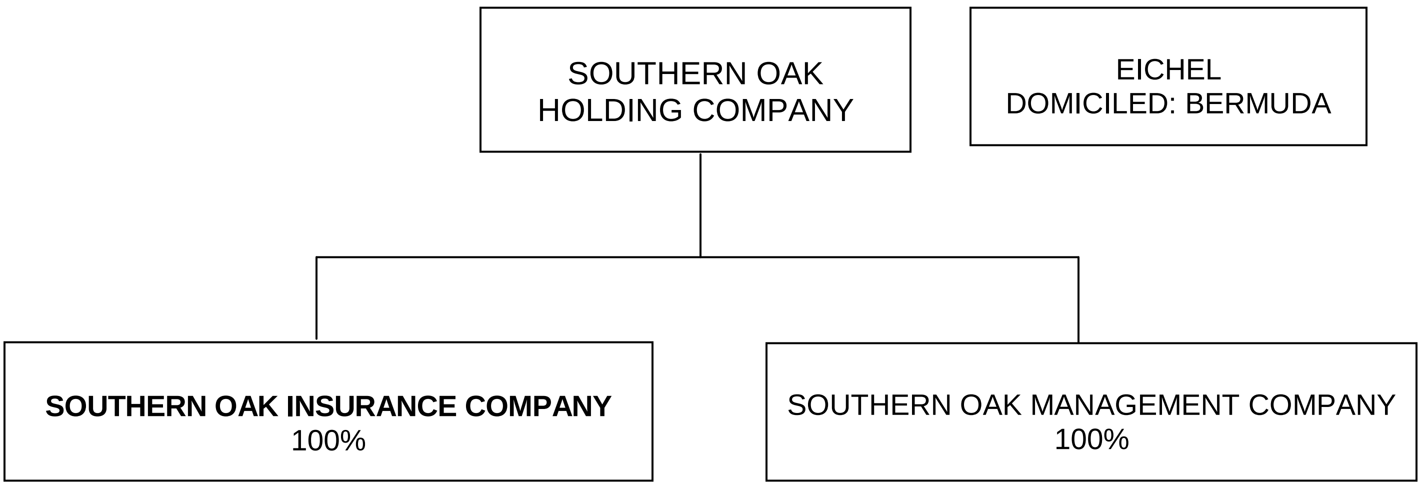
The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code. The latest holding company registration statement was filed with the State of Florida on April 30, 2013, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

A simplified organizational chart as of December 31, 2012, reflecting the holding company system, is shown on the following page. Schedule Y of the Company's 2012 annual statement provided a list of all related companies of the holding company group.

SOUTHERN OAK INSURANCE COMPANY

ORGANIZATIONAL CHART

DECEMBER 31, 2012



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

Managing General Agent Agreement

The Company entered into a Managing General Agency Agreement with its affiliate, Southern Oak Management Company (SOMC) on December 5, 2004. The agreement continues to be in force unless otherwise terminated within the guidelines of the agreement. MGA fees are based on written premium with direct written premium commissions of 24%, assumed premium (Citizens) commissions of 8%, claims services fees of 3%, and a contingent commission of 3% based on favorable loss ratios and expense levels. The Company also pays the MGA a twenty-five dollar per-policy fee and 50% of all salvage and subrogation amounts recovered. The Company remitted $26,700,559 to the MGA during 2012, representing $21,305,201 derived from direct commission and per-policy/subrogation fees, $1,444,492 in commissions from Citizens assumptions, $2,963,150 in claims service fees and $987,716 in contingent commissions.

FIDELITY BOND AND OTHER INSURANCE

The Company maintained fidelity bond coverage up to $800,000 with a deductible of $15,000, which reached the suggested minimum as recommended by the NAIC.

The Company also maintained Directors and Officers (D&O) liability insurance and Insurance Company Professional Liability coverage with limits of $1,000,000 each and deductibles of $50,000 and $150,000 respectively.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company had no employees and therefore no pension, stock ownership or insurance plans. All salaries and benefits were provided through the Company's affiliated MGA.

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 experienced a steady increase in the gross premiums written during the examination period. Gross earned premium grew from approximately $92,000,000 in 2008 to $112,000,000 in 2012. The Company had 62,965 policies in force at December 31, 2012 with a goal of reaching 65,000 by 2013 year-end. The net reserves at December 31, 2012 primarily increased due to the increase in premiums and policy count. Losses and Loss Adjustment Expenses to earned premium ratios decreased from 65% in 2011 to 64% in 2012. The Company realized an increase in net income.

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.

	2012	2011	2010	2009	2008
Premiums Earned	57,743,724	48,675,237	41,489,363	33,737,606	40,360,167
Net Underwriting Gain/(Loss)	1,600,076	93,917	172,440	(5,605,029)	(1,109,981)
Net Income	269,181	(1,146,349)	2,469,685	(2,149,027)	750,170
Total Assets	88,635,927	76,835,053	64,775,777	59,593,700	54,764,713
Total Liabilities	66,170,617	56,589,670	46,069,126	44,550,044	43,809,894
Surplus As Regards Policyholders	22,465,310	20,245,383	18,706,651	15,043,656	10,954,819

LOSS EXPERIENCE

During the examination period, the Company experienced an increase in gross paid losses. Reported losses increased in 2012 related to high risk exposure in the tri-county area (Dade, Broward and Palm Beach). The Company attempted to reduce this exposure by assuming more policies in lower risk areas of the state. Assumed paid losses increased as more policies were taken out from Citizens de-population program.

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

Beginning in 2005, the Office authorized the Company to take out policies from Citizens Property Insurance Corporation under its depopulation plan. These assumed policies remain in effect and retain all their original conditions until the end of the written term. At expiration, the Company can renew the policies under its own terms and conditions. The Company was initially eligible for takeout bonuses at the end of three years after each take out. The last of these bonuses, in the amount of $5,000,000, was realized in 2010. In addition to the Citizens assumptions, which constituted ninety-five percent of its assumed business, the Company directly wrote homeowners policies via a network of independent agents. As of December 31, 2012, the Company held 62,965 policies with gross premiums earned of approximately $112,000,000.

Ceded

The Company purchased catastrophe reinsurance from private reinsurers and the Florida Hurricane Catastrophe Fund (Fund). In determining its exposure to catastrophic risk (i.e., hurricanes) and level of catastrophe reinsurance to carry, management utilized various nationally recognized computer models. For the catastrophe reinsurance program at December 31, 2012, the Company retained $3,000,000 of risk per occurrence with private coverage up to $167,000,000 per event. The coverage attached up to two catastrophic events per year with the second event attaching at $2,000,000. The Company also purchased Top or Drop reinsurance that acts as an additional layer on the aggregate ultimate net loss for a single catastrophic event or will provide aggregate cover for multiple events. This combined with the catastrophe program above and the Fund provided the Company with $299,800,000 in catastrophe reinsurance coverage.

The Company purchased reinsurance from Oak Leaf Re (Oak Leaf), which is organized as a segregated cell of Horseshoe Re of Bermuda. As an unauthorized, unaffiliated reinsurer, Oak Leaf is collateralized with funds deposited into a trust account and secured by an appropriate trust agreement with the Company as named beneficiary. The source of the collateral funds is from the sale proceeds of 12-month catastrophe (CAT) bonds issued by Oak Leaf as well as policy premium. The owners of the Company were the original purchasers of the CAT bonds. In 2012, there were three classes of CAT bonds, which coincided with the reinsurance layers. The total bond issuance was $28,215,107, and the CAT bonds were not triggered by a Catastrophic event.

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 Jacksonville, Florida.

An independent CPA audited the Company's statutory basis financial statements annually for years 2008, 2009, 2010, 2011 and 2012, 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 books and records are maintained by electronic processing equipment. The accounting system, which was fully automated, produced a general ledger, subsidiary ledgers and other reports as required for the preparation of financial statements and other management and regulatory reporting. The Company's accounting records provided an adequate audit trail.

The Company and non-affiliates had the following agreements:

Custodial Agreement

The Company received an amended custodial agreement with Merrill Lynch executed on June 25, 2008. The agreement did not contain the following required provisions of Rule 69O-143.042, Florida Administrative Code. Particularly, paragraphs (j), that the bank maintain adequate insurance protection for each of the Company's custodied securities, (m) that the custodian will not be liable for any failure to take any action required to be taken under the agreement in the event and to the extent that the taking of such action is prevented or delayed by war, (n) that in the event that the custodian gains entry in a clearing corporation through an agent, there shall be an agreement between the custodian and the agent under which the agent shall be subject to the same liability for loss of custodied securities as the custodian, provided, and (o) that the custodian shall provide written notification to the Office if the custodial agreement with the insurer has been terminated or if 100% of the account assets in any one custody account have been withdrawn. **Subsequent Event:** The Company filed with the Office an amended custodial agreement, executed with Merrill Lynch, dated December 18, 2013, which complies with Rule 69O-143.042, Florida Administrative Code.

Program Management Agreement

The Company maintained a program management agreement with McNeill Group, which was executed on April 15, 2005 and is renewable for one year successive terms. McNeil Group provides program management services including underwriting consulting, marketing and accounting.

Intermediary Agreement

During the period covered by the examination, the Company maintained a reinsurance intermediary agreement with Towers Watson, which automatically renews for one-year successive terms. Towers Watson provided reinsurance consulting and intermediary services, as well as revenue sharing.

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

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

STATUTORY DEPOSITS

The following securities were deposited with the State of Florida as required by Section 624.411, Florida Statutes and with various state officials as required or permitted by law:

State	Description	Par Value	Market Value
FL	Cash	$391,116	$391,116
TOTAL FLORIDA DEPOSITS		$391,116	$391,116
TOTAL SPECIAL DEPOSITS		$391,116	$391,116

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2012, 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."

SOUTHERN OAK INSURANCE COMPANY

Assets

DECEMBER 31, 2012

	Per Company	Examination Adjustments	Per Examination
Bonds	$47,056,509		$47,056,509
Stocks:			
Common	12,003,408		12,003,408
Cash and Short-Term Investments	17,487,829		17,487,829
Receivables for Securities	186,741		186,741
Investment income due and accrued	601,807		601,807
Uncollected premium	5,757,293		5,757,293
Amounts recoverable from reinsurers	362,733		362,733
Other amounts receivable under contracts	(158,718)		(158,718)
Current federal and foreign income tax recoverable and interest thereon	174,258		174,258
Net deferred tax asset	3,330,710		3,330,710
Receivables from parent, subsidiaries and affiliates	1,057,929		1,057,929
Aggregate write-in for other than invested assets	775,428		775,428
Totals	$88,635,927	$0	$88,635,927

SOUTHERN OAK INSURANCE COMPANY
Liabilities, Surplus and Other Funds

DECEMBER 31, 2012

	Per Company	Examination Adjustments	Per Examination
Losses	$14,620,993		$14,620,993
Loss adjustment expenses	3,415,000		3,415,000
Other expenses	46,861		46,861
Taxes, licenses and fees	818,276		818,276
Unearned premium	45,049,961		45,049,961
Advance premiums	2,229,821		2,229,821
Ceded reinsurance premiums payable	(1,351,179)		(1,351,179)
Funds held under reinsurance treaties	51,746		51,746
Amounts withheld	369,890		369,890
Payable for securities	160,698		160,698
Aggregate write-ins for liabilities	758,550		758,550
Total Liabilities	$66,170,617	$0	$66,170,617
Common capital stock	$6,500,100		$6,500,100
Gross paid in and contributed surplus	11,749,000		11,749,000
Unassigned funds (surplus)	4,216,210		4,216,210
Surplus as regards policyholders	$22,465,310	$0	$22,465,310
Total liabilities, surplus and other funds	$88,635,927	$0	$88,635,927

SOUTHERN OAK INSURANCE COMPANY
Statement of Income

DECEMBER 31, 2012

Underwriting Income	
Premiums earned	$57,743,724
Deductions:	
Losses incurred	$22,197,947
Loss expenses incurred	14,676,311
Other underwriting expenses incurred	19,269,390
Aggregate write-ins for underwriting deductions	0
Total underwriting deductions	$56,143,648
Net underwriting gain or (loss)	$1,600,076
Investment Income	
Net investment income earned	($1,185,771)
Net realized capital gains or (losses)	230,214
Net investment gain or (loss)	($955,557)
Other Income	
Net gain or (loss) from agents' or premium balances charged off	($9,512)
Finance and service charges not included in premiums	168,869
Aggregate write-ins for miscellaneous income	(43,101)
Total other income	$116,256
Net income before dividends to policyholders and before federal & foreign income taxes	$760,775
Dividends to policyholders	0
Net Income, after dividends to policyholders, but before federal & foreign income taxes	$760,775
Federal & foreign income taxes	491,594
Net Income	$269,181
Capital and Surplus Account	
Surplus as regards policyholders, December 31 prior year	$20,245,383
Net Income	$269,181
Net unrealized capital gains or losses	0
Change in net unrealized capital gains or (losses)	615,081
Change in deferred income tax	212,898
Change in nonadmitted assets	1,066,328
Change in provision for reinsurance	56,439
Surplus adjustments: Paid in	0
Aggregate write-ins for gains and losses in surplus	0
Examination Adjustment	
Change in surplus as regards policyholders for the year	$2,219,927
Surplus as regards policyholders, December 31 current year	$22,465,310

SOUTHERN OAK INSURANCE COMPANY
Comparative Analysis of Changes in Surplus

DECEMBER 31, 2012

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, 2012, per Annual Statement				$22,465,310
	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, 2012, Per Examination				$22,465,310

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses $18,035,993

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, 2012, 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, Leigh Halliwell, FCAS, MAAA of L. J. Halliwell, LLC, 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 $22,465,310 exceeded the minimum of $6,477,489 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 **Southern Oak Insurance Company** as of December 31, 2012, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's surplus as regards policyholders was $ 22,465,310, which exceeded the minimum of $6,477,489 required by Section 624.408, Florida Statutes.

In addition to the undersigned, Tracy Gates, CFE, CPA, CISA, Examiner-In-Charge, Travis Harrison, CPA, and Shera Hebert, Participating Examiners, of Highland Clark, LLC participated in the examination. Additionally, Leigh Halliwell, FCAS, MAAA, of L. J. Halliwell, LLC, was consulting actuary and Tracy Gates, CISA, of Highland Clark served as the IT Specialist. Jonathan Frisard, Kyra Brown, APIR, Syntia King, APIR, and Samita Lamsal of the Office, participated in the examination.

Respectfully submitted,

____
Robin Brown, CFE
Chief Examiner
Florida Office of Insurance Regulation