

**Homewise Preferred Insurance Company
Insolvency Report
June 30, 2015**

Prepared by:





Receivership information:

Name of Receivership	Homewise Preferred Insurance Company
Case number	2011-CA-002404
Date of Conservation	N/A
Date of Rehabilitation	September 2, 2011
Date of Liquidation	November 4, 2011

Scope:

As provided in the Provider Contract between the “Receiver of the Estate of **Homewise Preferred Insurance Company**” (the Receiver being the Florida Department of Financial Services, Division of Rehabilitation and Liquidation), 2020 Capital Circle, SE, Alexander Building, 3rd Floor, Tallahassee, Florida 32302, hereinafter referred to as “RECEIVER”, and **Carr, Riggs & Ingram, LLC**, whose address is 1713 Mahan Drive, Tallahassee, FL 32308, hereinafter referred to as “PROVIDER”, effective February 6, 2012, Section 5.3.9, SCOPE OF WORK, states:

5.3.9. Prepare insolvency summary reports (“Insolvency Reports”), pursuant to the requirements of 631.398 (3), Florida Statutes.

The authority under which the insolvency report is written is Section 631.398, Florida Statutes, which states as follows:

[Chapter 631](#)

INSURER INSOLVENCY; GUARANTY OF PAYMENT

631.398

Prevention of insolvencies.

—

To aid in the detection and prevention of insurer insolvencies or impairments:

(1)

Any member insurer; agent, employee, or member of the board of directors; or representative of any insurance guaranty association may make reports and recommendations to the department or office upon any matter germane to the solvency, liquidation, rehabilitation, or conservation of any member insurer or germane to the solvency of any company seeking to do an insurance business in this state. Such reports and recommendations are confidential and exempt from the provisions of s. [119.07](#)(1) until the termination of a delinquency proceeding.

(2)

The office shall:

(a)

Report to the board of directors of the appropriate insurance guaranty association when it has reasonable cause to believe from any examination, whether completed or in process, of any member insurer that such insurer may be an impaired or insolvent insurer.

(b)

Seek the advice and recommendations of the board of directors of the appropriate insurance guaranty association concerning any matter affecting the duties and responsibilities of the office in relation to the financial condition of member companies and companies seeking admission to transact insurance business in this state.

(3)

The department shall, no later than the conclusion of any domestic insurer insolvency proceeding, prepare a summary report containing such information as is in its possession relating to the history and causes of such insolvency, including a statement of the business practices of such insurer which led to such insolvency.

History.

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ss. 28, 39, ch. 83-38; ss. 187, 188, ch. 91-108; s. 4, ch. 91-429; ss. 2, 6, ch. 93-118; s. 385, ch. 96-406; s. 1351, ch. 2003-261.

The locations and dates of our review of files in the RECEIVER's possession were as follows:

Our review of files in the RECEIVER's possession began in February, 2012 in conjunction with a forensic analysis engagement and continued through January, 2013. Approximately two days were spent reviewing hard copy files in the offices of Florida Department of Financial Services. One day was spent reviewing files at the office of the Company's audit firm. All other review procedures were conducted at the office of the PROVIDER through examination of electronic files provided by the RECEIVER and hard copy documents provided by vendors and banking institutions.

Business

Historical information related to the company is as follows:

Homewise Preferred Insurance Company ("the Company") (TIC 20-4791515) was incorporated in the State of Florida on May 31, 2006, received its Certificate of Authority on May 31, 2006.

The Company represented itself as a homeowner's and comprehensive dwelling fire insurer, providing coverage in the States of Florida and Texas.

According to audited financial statements and tax returns examined, the Company is a wholly-owned subsidiary of Homewise Holdings, Inc. (HHI) and is affiliated with Homewise Management Company (HMC) and Homewise Insurance Company (HWIC), which are also wholly-owned subsidiaries of HHI.

Operating Results: According to the Company's audited financial statements for the years 2006 through 2010, and for the six-month period ended June 30, 2011, the operating results (statutory basis) of the Company were as follows:

	Year 2006	Year 2007	Year 2008
Premiums earned, net	\$ 92,359	\$ 6,910,233	\$38,891,252
Net underwriting income (loss)	\$ (786,668)	\$ (2,122,126)	\$(4,746,340)
Net income (loss)	\$ (506,934)	\$ (1,887,498)	\$(3,021,861)
Ending capital/surplus	\$ 9,667,254	\$ 17,117,004	\$22,924,895

	Year 2009	Year 2010
Premiums earned, net	\$ 22,810,636	\$ 4,889,290
Net underwriting income (loss)	\$ (9,520,433)	\$ (15,672,963)
Net income (loss)	\$ (5,866,799)	\$ (15,403,860)
Ending capital/surplus (deficit)	\$ 17,288,501	\$ 4,316,441

Management

The officers and directors of the Company at December 31, 2010 were as follows:

President/CEO – Dale Stephen Hammond

Vice President/CFO – Timothy Lyons Journy

Secretary/General Counsel – Diane Eileen Falcone

Other Directors- Timothy A. Paddock
Stephen C. Backman
Dorothy A. Brink
Stephen M. Sandford

Background/Events of Impact

HMC provided nearly all operating and management services for HWIC and the Company, by contracting with outsourced vendors. HMC also paid the salaries and benefits for the executives and managers of the group of affiliated Homewise companies. HWIC and the Company provided the cash to HMC to meet the demands of the outsourcing contracts and the salaries and benefits.

The heavy flow of cash out of the Company and HWIC to HMC weakened both insurance companies and ultimately contributed to their insolvency. It appears that the management company outsourced nearly all management functions and paid nearly \$37 million in fees to service providers and consultants, yet also paid out over \$23 million in salaries and benefits, during the years 2009-2011.

The flow of cash out of the Company and HWIC to the management company was not limited to the management fees. Millions of dollars were also transferred from the insurance companies to the management company and recorded in due to/due from accounts. The fee formula in the MGA agreement became less relevant to the flow of cash because the formula was adjusted by changes in the fee percentage and by forgiveness of fees, which appears to have been subjectively applied. The companies' independent audit firm noted this was done without authorization by the board of directors.

Assuming value was received for the large fees paid to outside service providers and consultants, the purpose of the large amount of salaries and benefits also paid by the management company is unclear.

The year 2009 appears to be the year that the Company and HWIC were significantly weakened with over \$63 million cash outflows to the management company, which was used to pay \$35 million of fees to service providers and consultants, \$22 million in commissions, and \$9 million in salaries and wages. With significant increases in claims losses in 2009-2010, the Company and HPIC could only provide approximately \$25 million in cash to the management company in 2010. Commissions fell to \$17 million and fees paid fell to \$10 million, yet salaries and benefits still remained above \$8 million. Even in 2011, as losses accumulated and cash dwindled, salaries and benefits paid by the management company were over \$6 million.

Loss Reserves

An analysis and investigation of the loss reserve methodologies of the Company and HWIC was performed and revealed that loss reserves for sinkhole claims were often underestimated and that claim payment amounts often substantially exceeded the initially recorded reserves. This was particularly prevalent in 2010 as the financial position of the companies deteriorated.

Loans from Reinsurers

On February 22, 2010, HHI issued secured promissory notes totaling \$13,195,508 to its reinsurance broker and several of its reinsurers in exchange for cash. Subsequently, additional loans were effectuated that brought the total amount of promissory notes to approximately \$15 million.

Concurrent with the issuance of these notes, HHI pledged all of its assets, including its ownership interests in all of its subsidiaries and any assets acquired after the effective date of the debt agreements.

These debt agreements had the effect of removing the premiums payable from the books of the insurance companies and placing notes payable on the books of HHI, effectively increasing the surplus position of the insurance companies by the amount of the decrease in premiums payable plus the additional monies borrowed from the lenders, that was injected into HWIC and the Company.

This arrangement resulted in improved financial position reported on the financial statements of HWIC and the Company, but did not improve financial position for the Homewise group of affiliated companies. Since the only source of cash for the service of debt under this arrangement remained the two insurance companies, even greater demand for cash was placed on HWIC and the Company.

Conclusion

In conclusion, the insolvency of Homewise Preferred Insurance Company appears to be the result of an excessive outflow of cash from the company to Homewise Management Company for the purposes of paying (1) outsourced service providers, (2) significant executive and management salaries and benefits, and (3) debt service. Financial reporting practices such as under reserving sinkhole claims and moving liabilities from the insurance company to an affiliated company in the Homewise group may have delayed the recognition that the insurance company was approaching insolvency.

References

Exhibit 1 - Audited financial statements, Homewise Preferred Insurance Company, Years Ended December 31, 2006 through 2010.

Exhibit 2 - Organizational Chart: Homewise Insurance Company and its Affiliates

EXHIBIT I

Statutory Basis Financial Statements
and Other Financial Information

HomeWise Preferred Insurance Company

*For the period May 31, 2006 (inception) through December 31, 2006
with Report of Independent Auditors*

Thomas Howell
 Ferguson P.A.

HomeWise Preferred Insurance Company

Statutory Basis Financial Statements
and Other Financial Information

For the period May 31, 2006 (inception) through December 31, 2006

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Report of Independent Auditors

The Board of Directors
HomeWise Preferred Insurance Company

We have audited the accompanying statement of admitted assets, liabilities and capital and surplus - statutory basis of the HomeWise Preferred Insurance Company (the Company), as of December 31, 2006, and the related statutory basis statements of operations, changes in capital and surplus, and cash flows for the period May 31, 2006 (inception) through December 31, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the accompanying financial statements have been prepared in conformity with accounting practices prescribed or permitted by the Florida Office of Insurance Regulation, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities, and capital and surplus of HomeWise Preferred Insurance Company as of December 31, 2006, and the results of its operations and its cash flows for the period May 31, 2006 (inception) through December 31, 2006, on the basis of accounting described in Note 1.

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Our audit was made for the purpose of forming an opinion on the statutory basis financial statements taken as a whole. The supplemental disclosures included in other financial information as of and for the period May 31, 2006 (inception) through December 31, 2006, are presented to comply with the National Association of Insurance Commissioners' *Accounting Practices and Procedures Manual* and are not a required part of the statutory basis financial statements. This other financial information has been subjected to auditing procedures applied in our audit of the statutory basis financial statements and, in our opinion, is fairly stated in all material respects in relation to the statutory basis financial statements taken as a whole.

This report is intended solely for the use of the Board of Directors and management of HomeWise Preferred Insurance Company and state insurance regulatory authorities and should not be used by anyone other than these specified parties.

Thomas Howell Ferguson P.A.

April 4, 2007

HomeWise Preferred Insurance Company

Statement of Admitted Assets, Liabilities and Capital and Surplus - Statutory Basis

December 31, 2006

Admitted assets

Cash and invested assets:

Cash and cash equivalents	\$ 10,041,157
Total cash and invested assets	<u>10,041,157</u>

Accrued investment income	8,041
Premiums receivable, net	1,445,571
Net deferred tax asset	174,541
Other assets	<u>1,239</u>
Total admitted assets	<u><u>\$ 11,670,549</u></u>

Liabilities and capital and surplus

Liabilities:

Loss and loss adjustment expense reserves	\$ 26,437
Unearned premiums, net	1,365,429
Other accrued expenses	80,766
Taxes, licenses, and fees payable	1,098
Federal income taxes payable	21,842
Payable to affiliates	<u>507,723</u>
Total liabilities	<u>2,003,295</u>

Capital and surplus	<u>9,667,254</u>
Total liabilities and capital and surplus	<u><u>\$ 11,670,549</u></u>

See accompanying notes.

HomeWise Preferred Insurance Company

Statement of Operations - Statutory Basis

For the period May 31, 2006 (inception) through December 31, 2006

Underwriting income:	
Premiums earned, net of reinsurance ceded	\$ 92,359
Underwriting expenses:	
Losses and loss adjustment expenses incurred	26,437
Underwriting, acquisition, and other expenses	<u>852,590</u>
Total underwriting expenses	<u>879,027</u>
Net underwriting loss	(786,668)
Net investment income	282,834
Other income	<u>207</u>
Loss before federal income tax expense	(503,627)
Federal income tax expense	<u>3,307</u>
Net loss	<u><u>\$ (506,934)</u></u>

See accompanying notes.

HomeWise Preferred Insurance Company

Statement of Changes in Capital and Surplus - Statutory Basis

For the period May 31, 2006 (inception) through December 31, 2006

	Common Stock		Paid-in Surplus	Unassigned Funds	Total
	Shares	Par Value			
Balance at May 31, 2006 (inception)	-	\$ -	\$ -	-	\$ -
Issuance of common stock	100,000	100,000	9,900,000	-	10,000,000
Change in net deferred income taxes	-	-	-	174,541	174,541
Change in nonadmitted assets	-	-	-	(353)	(353)
Net loss	-	-	-	(506,934)	(506,934)
Balance at December 31, 2006	<u>100,000</u>	<u>\$ 100,000</u>	<u>\$ 9,900,000</u>	<u>\$ (332,746)</u>	<u>\$ 9,667,254</u>

See accompanying notes.

HomeWise Preferred Insurance Company

Statement of Cash Flows - Statutory Basis

For the period May 31, 2006 (inception) through December 31, 2006

Operating activities

Premiums collected, net of reinsurance	\$ 11,878
Net investment income received	277,520
Underwriting, acquisition, and other expenses paid	(774,293)
Federal income taxes recovered	<u>18,535</u>
Net cash used in operating activities	<u>(466,360)</u>

Financing and miscellaneous activities

Proceeds from common stock issued	10,000,000
Other cash provided	<u>507,517</u>
Net cash provided by financing and miscellaneous activities	<u>10,507,517</u>

Net increase in cash	10,041,157
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Cash at beginning of period	<u>-</u>
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Cash at end of period	<u><u>\$ 10,041,157</u></u>
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See accompanying notes.

HomeWise Preferred Insurance Company

Notes to Statutory Basis Financial Statements

For the period May 31, 2006 (inception) through December 31, 2006

1. Summary of Significant Accounting Policies

HomeWise Preferred Insurance Company (the Company), a wholly-owned subsidiary of HomeWise Holdings, Inc. (HHI), is domiciled in the state of Florida. The Company was incorporated on May 31, 2006, and received its certificate of authority from the Florida Office of Insurance Regulation (the Office) on May 31, 2006. The Company is affiliated with HomeWise Management Company (HMC) and HomeWise Insurance Company (HIC), which are wholly-owned subsidiaries of HHI.

The Company writes homeowners' coverage exclusively in the state of Florida, an area that is exposed to damage from hurricanes and severe storms. The Company attempts to mitigate its exposure to losses from storms by purchasing catastrophe reinsurance coverage. However, such a storm, depending on its path and severity, could result in losses to the Company exceeding its reinsurance protection and could have a material adverse effect on the financial condition and results of operations of the Company.

Basis of Presentation

The accompanying statutory basis financial statements have been prepared in accordance with statutory accounting practices (SAP) prescribed or permitted by the Office. Such statutory practices require preparation of the financial statements in accordance with the National Association of Insurance Commissioners' (NAIC) *Accounting Practices and Procedures Manual* subject to deviations prescribed by the Office. SAP is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America (GAAP). Such practices vary in certain respects from those under GAAP. The Company's significant accounting practices and the variances from GAAP are summarized below:

- Certain assets designated as "nonadmitted," principally past-due uncollected premiums, prepaid expenses, and other assets not specifically identified as an admitted asset within the *Accounting Practices and Procedures Manual*, are excluded from the accompanying statement of admitted assets, liabilities, and capital and surplus and are charged directly to unassigned surplus. Under GAAP, such assets are included in the balance sheet at net realizable values.
- Loss and loss adjustment expense reserves and unearned premiums ceded to reinsurers have been reported as reductions of the related liabilities rather than as assets as would be required under GAAP.

HomeWise Preferred Insurance Company

Notes to Statutory Basis Financial Statements

1. Summary of Significant Accounting Policies (continued)

Basis of Presentation (continued)

- Cash and short-term investments in the statement of cash flows includes cash, cash equivalents, and investments with remaining maturities of one year or less. Under GAAP, the corresponding caption of cash and cash equivalents includes cash balances and investments with initial maturities of three months or less.
- The costs of acquiring and renewing business are expensed when incurred. Under GAAP, such costs, to the extent recoverable, would be deferred and amortized over the effective period of the related insurance policies.
- Deferred tax assets are limited to 1) the amount of federal income taxes paid in prior years that can be recovered through loss carrybacks for existing temporary differences that reverse by the end of the subsequent calendar year, plus 2) the lesser of the remaining gross deferred tax assets expected to be realized within one year of the financial statement date or 10% of capital and surplus excluding any net deferred tax assets, "electronic data processing" (EDP) equipment and operating software and any net positive goodwill, plus 3) the amount of remaining gross deferred tax assets that can be offset against existing gross deferred tax liabilities. The remaining deferred tax assets are nonadmitted. Deferred taxes do not include amounts for state income taxes. Under GAAP, state income taxes are included in the computation of deferred taxes, a deferred tax asset is recorded for the amount of gross deferred tax assets expected to be realized in future years, and a valuation allowance is established for deferred tax assets not realizable.
- Commissions allowed by reinsurers on business ceded are reported as income when received rather than being deferred and amortized with deferred policy acquisition costs, as required under GAAP. Commissions in excess of the acquisition costs, if any, are deferred and recognized over the policy term consistent with GAAP.

Other significant accounting practices are as follows:

Cash and Cash Equivalents

Cash and cash equivalents include demand deposits with financial institutions and other highly liquid investments with original maturities of three months or less.

HomeWise Preferred Insurance Company

Notes to Statutory Basis Financial Statements

1. Summary of Significant Accounting Policies (continued)

Concentration of Credit Risk

The Company's financial instruments exposed to concentrations of credit risk consist primarily of its cash and cash equivalents, and premium revenue. The Company maintains its cash and cash equivalents at several quality financial institutions. Bank deposit accounts, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts. The Company believes it is not exposed to any significant credit risk on cash and cash equivalents.

Reinsurance

The accompanying statutory basis financial statements reflect reserves for premiums and losses and loss adjustment expenses (LAE) net of reinsurance ceded. Reinsurance arrangements allow management to control exposure to potential losses arising from large risks. Amounts recoverable from reinsurers are estimated in a manner consistent with the loss and LAE reserves associated with the reinsured policies. Reinsurance premiums, losses, and LAE are accounted for on bases consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts.

Loss and Loss Adjustment Expense (LAE) Reserves

Loss and LAE reserves represent the estimated ultimate net cost of all unpaid reported and unreported losses and LAE. The reserves for unpaid losses and LAE are estimated using individual case-basis estimates for reported losses and actuarial estimates for losses incurred but not yet reported. Those estimates are subject to the effects of trends in loss severity and frequency. Although considerable variability is inherent in such estimates, management believes that the reserves for losses and LAE are adequate. The estimates are continually reviewed and adjusted as necessary as experience develops or new information becomes known; such adjustments are included in current operations. The ultimate settlement of losses and LAE may vary significantly from the estimated amounts included in the financial statements. The Company does not discount its loss and LAE reserves.

The anticipated effect of inflation is implicitly considered when estimating liabilities for losses and LAE. While anticipated price increases due to inflation are considered in estimating the ultimate claim costs, the increase in average severities of claims is caused by a number of factors that vary with the individual type of policy written. Future average severities are projected based on historical trends adjusted for implemented changes in underwriting standards, policy provisions, and general economic trends. Those anticipated trends are monitored based on actual development and the estimated liabilities are modified if necessary.

HomeWise Preferred Insurance Company

Notes to Statutory Basis Financial Statements

1. Summary of Significant Accounting Policies (continued)

Loss and Loss Adjustment Expense (LAE) Reserves (continued)

Loss and LAE reserves are reported net of reinsurance recoverables for unpaid losses and LAE. Losses and LAE ceded through reinsurance are credited against losses and LAE incurred.

Recognition of Premium Revenues

Premiums are recorded as earned on a daily pro rata basis over the contract period that the related policies are expected to be in force. The portion of premiums not earned at the end of the year is recorded as unearned premiums.

Guaranty Fund and Residual Market Pool Assessments

The Company is subject to assessments by a Florida guaranty fund, a residual market pool, and a state catastrophe reinsurance pool, namely the Florida Insurance Guaranty Association, Citizens Property Insurance corporation (Citizens), and the Florida Hurricane Catastrophe Fund (FHCF), respectively. The activities of this fund and these pools include collecting funds from solvent insurance companies to cover losses resulting from the insolvency or rehabilitation of other insurance companies or deficits generated by Citizens and FHCF.

The Company's policy is to recognize its obligation for guaranty fund, Citizens, and FHCF assessments when the Company has the information available to reasonably estimate its liabilities. Guaranty fund, Citizens, and FHCF assessments are generally available for recoupment from policyholders and as such, amounts assessed are recorded as a recoverable asset. As of December 31, 2006, the Company had no outstanding notices of assessment.

Income Taxes

The Company calculates its state and federal income tax liabilities based upon the statutory rates in effect during the year.

Use of Estimates

The preparation of statutory basis financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the statutory basis financial statements and the reported amounts of revenues and expenses during the reporting period. Such estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and described in the financial statements.

HomeWise Preferred Insurance Company

Notes to Statutory Basis Financial Statements

2. Regulatory Requirements

Florida Statute 624.408 requires the Company to maintain minimum capital and surplus of \$4 million and to meet the risk-based capital requirements (See Note 8). Additionally, Florida Statute 624.4095 requires the Company to maintain a ratio of the product of written premiums times 0.90 to surplus of no greater than 10-to-1 for gross written premiums and 4-to-1 for net written premiums. The Company is in compliance with these requirements.

Additionally, the Company is required to maintain a deposit pursuant to Florida Statutes with the state of Florida to help secure the payment of claims. A cash deposit in the amount of \$304,798 has been assigned to the Office to satisfy this requirement. This amount is included in cash and cash equivalents in the accompanying statement of admitted assets, liabilities, and capital and surplus at December 31, 2006.

3. Investment Income

Major categories of the Company's net investment income for the period May 31, 2006 (inception) through December 31, 2006, are summarized as follows:

Cash and cash equivalents	\$ 285,354
Investment expenses	<u>(2,520)</u>
Net investment income	<u>\$ 282,834</u>

4. Premiums Receivable

Premiums receivable includes amounts due from insureds for billed premiums and amounts due from the Company's managing general agent for premiums collected from policyholders. The Company nonadmits balances due from insureds and deferred installments for the portion of the receivable that is more than 90 days past due that exceeds its related unearned premium. Premiums receivable is charged to bad debt expense in the period determined uncollectible. Recoveries received on amounts previously charged-off are credited to bad debt expense in the period received.

Premiums receivable at December 31, 2006 consists of the following:

Premiums receivable, gross	\$ 1,445,924
Nonadmitted premiums receivable	<u>(353)</u>
Premiums receivable, net	<u>\$ 1,445,571</u>

HomeWise Preferred Insurance Company

Notes to Statutory Basis Financial Statements

5. Loss and Loss Adjustment Expense (LAE) Reserves

The following table provides a reconciliation of the beginning and ending reserve balances for losses and LAE, net of reinsurance recoverables at December 31, 2006.

	<i>(in thousands)</i>
Loss and LAE reserves at beginning of year	\$ -
Losses and LAE incurred related to:	
Current year	26
Prior years	<u>-</u>
	26
Losses and LAE paid related to:	
Current year	-
Prior years	<u>-</u>
	-
Loss and LAE reserves at end of year	<u>\$ 26</u>

There are no anticipated reinsurance recoverables on unpaid losses and LAE at December 31, 2006. There are no reinsurance recoverables on paid losses and LAE at December 31, 2006.

6. Reinsurance

Certain premiums and benefits are ceded to other insurance companies under various reinsurance agreements. The reinsurance agreements provide the Company with increased capacity to write larger risks and maintain its exposure to loss within its capital resources. As of December 31, 2006, the Company's reinsurance program consisted of excess of loss reinsurance for catastrophic events. Following is a summary of the reinsurance coverage.

In 2006, the catastrophic excess of loss coverage was provided by an agreement with and coverage provided by the FHCF. The FHCF provided coverage for 90% of the losses from qualifying catastrophic events. The Company's retention and FHCF coverage limits are determined based on the total insured value of inforce policies during the hurricane season (June 1 through November 30). The Company's significant production of premiums commenced subsequent to November 30, 2006. Accordingly, the Company's FHCF retention and coverage limits were minimal.

The FHCF provides coverage for named hurricanes only and provides no coverage after the one time limit is exhausted. Reinsurance premiums for the FHCF are paid on a total insured value basis. In the event of a loss assessment, the Company may recoup the assessments from its policyholders.

HomeWise Preferred Insurance Company

Notes to Statutory Basis Financial Statements

6. Reinsurance (continued)

The Company's reinsured risks are treated, to the extent of the reinsurance, as though they are risks for which the Company is not liable. However, the Company remains contingently liable in the event the FHCF does not meet its obligations under the reinsurance agreement. Given the financing structure of FHCF, management believes this possibility to be remote.

At December 31, 2006, the Company did not commute any reinsurance nor did it enter into or engage in any loss portfolio transfer for any lines of business.

The effects of reinsurance on premiums written and earned for the period May 31, 2006 (inception) through December 31, 2006, are as follows:

	<u>Written</u>	<u>Earned</u>
Direct premiums	\$ 1,458,799	\$ 93,365
Ceded premiums	<u>(1,011)</u>	<u>(1,006)</u>
Net premiums	<u>\$ 1,457,788</u>	<u>\$ 92,359</u>

At December 31, 2006, no individual reinsurer owed the Company an unsecured amount that was greater than 3% of the Company's surplus.

7. Income Taxes

Income before federal income taxes differs from taxable income principally due to differences in loss and LAE reserves and unearned premiums for tax and statutory basis financial reporting purposes.

State income taxes are classified as taxes, licenses, and fees in the NAIC Annual Statement and as underwriting, acquisition, and other expenses on the statement of operations.

A. Components of deferred tax assets (DTAs) and deferred tax liabilities (DTLs) are as follows:

Gross DTAs	\$ 174,541
Gross DTLs	<u>-</u>
Net DTAs	174,541
Nonadmitted DTAs	<u>-</u>
Net admitted DTAs	<u>\$ 174,541</u>
 Increase in nonadmitted DTAs	 <u>\$ -</u>

B. Unrecognized DTLs

There are no unrecognized DTLs.

HomeWise Preferred Insurance Company

Notes to Statutory Basis Financial Statements

7. Income Taxes (continued)

C. Current tax and change in deferred tax:

Current income tax provision for the year ended December 31, 2006 is \$3,307.

The main components of the deferred tax asset at December 31, 2006, are as follows:

DTAs	<u>Statutory</u>	<u>Tax</u>	<u>Difference</u>	<u>Tax Effect</u>
Unpaid losses and LAE	\$ 26,437	\$ 24,584	\$ 1,853	\$ 630
Unearned premiums	1,365,430	1,092,344	273,086	92,849
Organizational costs	-	238,418	238,418	81,062
Gross DTAs				<u>\$ 174,541</u>
Nonadmitted DTAs				<u>\$ -</u>

The change in gross DTAs of \$174,541 is the change in net deferred income taxes before the consideration of nonadmitted DTAs.

D. Reconciliation of federal income tax rate to actual effective rate:

	<u>2006</u>	<u>Effective Tax Rate</u>
Provision computed at statutory rate	\$ (171,234)	34.00 %
Total	<u>\$ (171,234)</u>	<u>34.00 %</u>
Federal income tax	\$ 3,307	0.60 %
Change in deferred taxes	<u>(174,541)</u>	<u>(34.60)</u>
Statutory income taxes	<u>\$ (171,234)</u>	<u>(34.00)%</u>

E. Operating loss and tax credit carryforwards:

1. At December 31, 2006, the Company had no unused capital loss carryforwards available to offset against future taxable income.
2. There were no income taxes incurred in the current year that will be available for recoupment in the event of future net losses.

HomeWise Preferred Insurance Company

Notes to Statutory Basis Financial Statements

7. Income Taxes (continued)

3. The Company had no unused net operating loss carryforwards available to offset future taxable income at December 31, 2006.

F. Consolidated federal income tax return:

The Company files a consolidated tax return with the following:

Homewise Holdings, Inc.
Homewise Insurance Company
Homewise Management Company, Inc.

The method of allocation among companies is made primarily on a separate return basis with current credit for any net operating losses or other items utilized in the consolidated tax returns. This method of tax allocation is described in the cost allocation agreement between the Company, HomeWise Holdings, Inc., HomeWise Management Company, Inc., and HomeWise Insurance Company.

8. Capital and Surplus

The Company has authorized 1,000,000 shares of \$1 par value common stock, of which 100,000 shares are issued and outstanding. HHI is the sole shareholder. No other classes of common or preferred shares were issued during 2006.

Property and casualty insurance companies are subject to certain Risk-based Capital (RBC) requirements as specified by the NAIC. Under those requirements, the amount of capital and surplus maintained by a property and casualty insurance company is to be determined based on the various risk factors related to it. The Company is in compliance with the RBC requirements at December 31, 2006.

The maximum amount of dividends that may be paid by property and casualty insurance companies without prior approval of the Office is subject to restrictions relating to statutory surplus and net income. Furthermore, in accordance with the Company's Certificate of Authority Consent Order, during the first three years of operations, it may only pay dividends that are approved in advance by the Office. The Company did not declare or pay any dividends during the year ended 2006.

9. Related Party Transactions

The Company is a wholly-owned subsidiary of HHI and is affiliated with HMC and HIC, which are also wholly-owned subsidiaries of HHI.

HomeWise Preferred Insurance Company

Notes to Statutory Basis Financial Statements

9. Related Party Transactions (continued)

Effective May 31, 2006, the Company entered into a managing general agency agreement with HMC. Pursuant to the agreement, HMC provides to the Company premium billing, claims management, and underwriting functions. During 2006, expenses incurred related to this agreement totaled \$469,925. As of December 31, 2006, the Company has a net payable due to HMC in the amount of \$482,095.

Effective May 31, 2006, the Company entered into a service agreement with HHI. Pursuant to the agreement, HHI provides capital management services, investor management and relations, and assists with overall general management of the Company. During 2006, expenses incurred related to this agreement totaled \$14,459. As of December 31, 2006, the Company has a payable due to HHI in the amount of \$18,003.

The Company is also party to a Cost Allocation Agreement with HIC, HMC, and HHI in which expenses benefiting more than one Company are allocated based upon direct allocation or revenue allocation rules which ever is most appropriate for the expense. As of December 31, 2006, the Company also has a payable due HIC in the amount of \$7,625.

10. Premiums Produced by Managing General Agents or Third Party Administrators

The Company uses a managing general agent, HMC, to write and administer insurance products. The total premium produced and serviced through the contract during 2006 is summarized below. The Company retains underwriting authority for all policies issued under these agreements.

<u>Name and Address</u>	<u>FEI Number</u>	<u>Exclusive Contract</u>	<u>Type of Business Written</u>	<u>Type of Authority Granted</u>	<u>Direct Premium Written</u>
HomeWise Management Company, Inc. 18302 Highwoods Preserve Parkway, Suite 110 Tampa, FL 33647	20-3395152	Yes	Homeowners	Binding, premium collection, reinsurance negotiation, and underwriting	\$ 1,458,799

11. Subsequent Events

Effective January 1, 2007, the Company and its affiliated company HomeWise Insurance Company (collectively, the Reinsured) entered into a quota share reinsurance agreement. Under the terms of the agreement, which expires on May 31, 2008, the Reinsurer assumes 75% of the Reinsured's net liabilities for losses (loss and loss adjustment expense) after taking into effect the Reinsured's excess of loss reinsurance coverage provided by the FHCF and, through May 31, 2007, the coverage provided by open market excess of loss reinsurance purchased by the

HomeWise Preferred Insurance Company

Notes to Statutory Basis Financial Statements

11. Subsequent Events (continued)

Reinsured. Under the terms of the agreement, the Reinsured cedes 75% of gross premiums after deducting the cost of the above referenced inuring reinsurance to the Reinsurer. The Reinsured cedes 75% of covered gross losses to the Reinsurer after deducting recoveries from the referenced inuring reinsurance. The ceding commission from the Reinsurer to the Reinsured is on a reimbursement basis wherein the Reinsurer reimburses the Reinsured for 75% of acquisition and overhead expenses. The agreement includes an Event Cap for ceded losses of 44% of the ceded premium earned during the term. It also includes an Aggregate Loss and Expense Ratio Cap wherein the maximum amount of losses and ceding commission payable by the Reinsurer under this agreement in the aggregate shall be limited to 150% of the ceded premium earned during the term. In the event either cap is met, the Reinsured shares in recoveries in proportion to their respective subject losses to the total of losses subject to the agreement. Obligations of the Reinsurer to the Reinsured are collateralized by funds held in a reinsurance trust account maintained in a United States of America bank.

Other Financial Information

SUMMARY INVESTMENT SCHEDULE

Investment Categories	Gross Investment Holdings		Admitted Assets as Reported in the Annual Statement	
	1 Amount	2 Percentage	3 Amount	4 Percentage
1. Bonds:				
1.1 U.S. treasury securities.....		0.0		0.0
1.2 U.S. government agency obligations (excluding mortgage-backed securities):				
1.21 Issued by U.S. government agencies.....		0.0		0.0
1.22 Issued by U.S. government sponsored agencies.....		0.0		0.0
1.3 Foreign government (including Canada, excluding mortgage-backed securities).....		0.0		0.0
1.4 Securities issued by states, territories and possessions and political subdivisions in the U.S.:				
1.41 States, territories and possessions general obligations.....		0.0		0.0
1.42 Political subdivisions of states, territories & possessions & political subdivisions general obligations.....		0.0		0.0
1.43 Revenue and assessment obligations.....		0.0		0.0
1.44 Industrial development and similar obligations.....		0.0		0.0
1.5 Mortgage-backed securities (includes residential and commercial MBS):				
1.51 Pass-through securities:				
1.511 Issued or guaranteed by GNMA.....		0.0		0.0
1.512 Issued or guaranteed by FNMA and FHLMC.....		0.0		0.0
1.513 All other.....		0.0		0.0
1.52 CMOs and REMICs:				
1.521 Issued or guaranteed by GNMA, FNMA, FHLMC or VA.....		0.0		0.0
1.522 Issued by non-U.S. Government issuers and collateralized by mortgage-backed securities issued or guaranteed by agencies shown in Line 1.521.....		0.0		0.0
1.523 All other.....		0.0		0.0
2. Other debt and other fixed income securities (excluding short-term):				
2.1 Unaffiliated domestic securities (includes credit tenant loans rated by the SVO).....		0.0		0.0
2.2 Unaffiliated foreign securities.....		0.0		0.0
2.3 Affiliated securities.....		0.0		0.0
3. Equity interests:				
3.1 Investments in mutual funds.....		0.0		0.0
3.2 Preferred stocks:				
3.21 Affiliated.....		0.0		0.0
3.22 Unaffiliated.....		0.0		0.0
3.3 Publicly traded equity securities (excluding preferred stocks):				
3.31 Affiliated.....		0.0		0.0
3.32 Unaffiliated.....		0.0		0.0
3.4 Other equity securities:				
3.41 Affiliated.....		0.0		0.0
3.42 Unaffiliated.....		0.0		0.0
3.5 Other equity interests including tangible personal property under lease:				
3.51 Affiliated.....		0.0		0.0
3.52 Unaffiliated.....		0.0		0.0
4. Mortgage loans:				
4.1 Construction and land development.....		0.0		0.0
4.2 Agricultural.....		0.0		0.0
4.3 Single family residential properties.....		0.0		0.0
4.4 Multifamily residential properties.....		0.0		0.0
4.5 Commercial loans.....		0.0		0.0
4.6 Mezzanine real estate loans.....		0.0		0.0
5. Real estate investments:				
5.1 Property occupied by company.....		0.0		0.0
5.2 Property held for production of income (including \$.....0 of property acquired in satisfaction of debt).....		0.0		0.0
5.3 Property held for sale (including \$.....0 property acquired in satisfaction of debt).....		0.0		0.0
6. Contract loans.....		0.0		0.0
7. Receivables for securities.....		0.0		0.0
8. Cash, cash equivalents and short-term investments.....	9,736,359	97.0	9,736,359	97.0
9. Other invested assets.....	304,798	3.0	304,798	3.0
10. Total invested assets.....	10,041,157	100.0	10,041,157	100.0



SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES

Due April 1

For the year ended December 31, 2006

Of HomeWise Preferred Insurance Company

Address (City, State, Zip Code): Tampa FL 33647

NAIC Group Code.....4111

NAIC Company Code.....12582

Employer's ID Number.....20-4791515

The Investment Risks Interrogatories are to be filed by April 1. They are also to be included with the Audited Statutory Financial Statements.
Answer the following interrogatories by reporting the applicable U.S. dollar amounts and percentages of the reporting entity's total admitted assets held in that category of investments.

1. Reporting entity's total admitted assets as reported on Page 2 of this annual statement. \$.....11,670,547

2. Ten largest exposures to a single issuer/borrower/investment.

1	2	3	4
Issuer	Description of Exposure	Amount	Percentage of Total Admitted Assets
2.01		\$.....	0.000 %
2.02		\$.....	0.000 %
2.03		\$.....	0.000 %
2.04		\$.....	0.000 %
2.05		\$.....	0.000 %
2.06		\$.....	0.000 %
2.07		\$.....	0.000 %
2.08		\$.....	0.000 %
2.09		\$.....	0.000 %
2.10		\$.....	0.000 %

3. Amounts and percentages of the reporting entity's total admitted assets held in bonds and preferred stocks by NAIC rating.

Bonds	1	2
3.01 NAIC-1	\$.....	0.000 %
3.02 NAIC-2	\$.....	0.000 %
3.03 NAIC-3	\$.....	0.000 %
3.04 NAIC-4	\$.....	0.000 %
3.05 NAIC-5	\$.....	0.000 %
3.06 NAIC-6	\$.....	0.000 %
Preferred Stocks	3	4
3.07 P/RP-1	\$.....	0.000 %
3.08 P/RP-2	\$.....	0.000 %
3.09 P/RP-3	\$.....	0.000 %
3.10 P/RP-4	\$.....	0.000 %
3.11 P/RP-5	\$.....	0.000 %
3.12 P/RP-6	\$.....	0.000 %

4. Assets held in foreign investments:

4.01 Are assets held in foreign investments less than 2.5% of the reporting entity's total admitted assets?	Yes [] No [X]
4.02 Total admitted assets held in foreign investments	\$.....0.000 %
4.03 Foreign-currency-denominated investments	\$.....0.000 %
4.04 Insurance liabilities denominated in that same foreign currency	\$.....0.000 %

If response to 4.01 above is yes, responses are not required for interrogatories 5-10.

5. Aggregate foreign investment exposure categorized by NAIC sovereign rating:

	1	2
5.01 Countries rated NAIC-1	\$.....	0.000 %
5.02 Countries rated NAIC-2	\$.....	0.000 %
5.03 Countries rated NAIC-3 or below	\$.....	0.000 %

6. Two largest foreign investment exposures to a single country, categorized by the country's NAIC sovereign rating:

	1	2
Countries rated NAIC-1:		
6.01 Country:	\$.....	0.000 %
6.02 Country:	\$.....	0.000 %
Countries rated NAIC-2:		
6.03 Country:	\$.....	0.000 %
6.04 Country:	\$.....	0.000 %

Countries rated NAIC-3 or below:

6.05	Country:	\$.....	0.000 %
6.06	Country:	\$.....	0.000 %

1	2
---	---

7.	Aggregate unhedged foreign currency exposure:	\$.....	0.000 %
----	---	---------	---------

8. Aggregate unhedged foreign currency exposure categorized by NAIC sovereign rating:

8.01	Countries rated NAIC-1.....	\$.....	0.000 %
8.02	Countries rated NAIC-2.....	\$.....	0.000 %
8.03	Countries rated NAIC-3 or below.....	\$.....	0.000 %

9. Two largest unhedged foreign currency exposures to a single country, categorized by the country's NAIC sovereign rating:

1	2
---	---

Countries rated NAIC-1:

9.01	Country:	\$.....	0.000 %
9.02	Country:	\$.....	0.000 %

Countries rated NAIC-2:

9.03	Country:	\$.....	0.000 %
9.04	Country:	\$.....	0.000 %

Countries rated NAIC-3 or below:

9.05	Country:	\$.....	0.000 %
9.06	Country:	\$.....	0.000 %

10. Ten largest non-sovereign (i.e. non-governmental) foreign issues:

	1	2	3	4
	Issuer	NAIC Rating		
10.01			\$.....	0.000 %
10.02			\$.....	0.000 %
10.03			\$.....	0.000 %
10.04			\$.....	0.000 %
10.05			\$.....	0.000 %
10.06			\$.....	0.000 %
10.07			\$.....	0.000 %
10.08			\$.....	0.000 %
10.09			\$.....	0.000 %
10.10			\$.....	0.000 %

11. Amounts and percentages of the reporting entity's total admitted assets held in Canadian investments and unhedged Canadian currency exposure:

11.01	Are assets held in Canadian investments less than 2.5% of the reporting entity's total admitted assets?	Yes [] No [X]
	If response to 11.01 is yes, detail is not required for the remainder of Interrogatory 11.	
11.02	Total admitted assets held in Canadian Investments	\$.....0.000 %
11.03	Canadian currency-denominated investments	\$.....0.000 %
11.04	Canadian-denominated insurance liabilities	\$.....0.000 %
11.05	Unhedged Canadian currency exposure	\$.....0.000 %

12. Report aggregate amounts and percentages of the reporting entity's total admitted assets held in investments with contractual sales restrictions.

12.01	Are assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets?	Yes [] No [X]
	If response to 12.01 is yes, responses are not required for the remainder of Interrogatory 12.	

	1	2	3
12.02	Aggregate statement value of investments with contractual sales restrictions:	\$.....	0.000 %
	Largest 3 investments with contractual sales restrictions:		
12.03		\$.....	0.000 %
12.04		\$.....	0.000 %
12.05		\$.....	0.000 %

13. Amounts and percentages of admitted assets held in the largest 10 equity interests:

13.01	Are assets held in equity interest less than 2.5% of the reporting entity's total admitted assets?	Yes [] No [X]
	If response to 13.01 above is yes, responses are not required for the remainder of Interrogatory 13.	

	1	2	3
	Name of Issuer		
13.02		\$.....	0.000 %
13.03		\$.....	0.000 %
13.04		\$.....	0.000 %
13.05		\$.....	0.000 %

13.06		\$.....	0.000 %
13.07		\$.....	0.000 %
13.08		\$.....	0.000 %
13.09		\$.....	0.000 %
13.10		\$.....	0.000 %
13.11		\$.....	0.000 %

14. Amounts and percentages of the reporting entity's total admitted assets held in nonaffiliated, privately placed equities:

14.01 Are assets held in nonaffiliated, privately placed equities less than 2.5% of the reporting entity's total admitted assets? Yes [] No [X]
If response to 14.01 above is yes, responses are not required for the remainder of Interrogatory 14.

	1	2	3
14.02 Aggregate statement value of investments held in nonaffiliated, privately placed equities:	\$.....		0.000 %
Largest 3 investments held in nonaffiliated, privately placed equities:			
14.03	\$.....		0.000 %
14.04	\$.....		0.000 %
14.05	\$.....		0.000 %

15. Amounts and percentages of the reporting entity's total admitted assets held in general partnership interests:

15.01 Are assets held in general partnership interests less than 2.5% of the reporting entity's total admitted assets? Yes [] No [X]
If response to 15.01 above is yes, responses are not required for the remainder of Interrogatory 15.

	1	2	3
15.02 Aggregate statement value of investments held in general partnership interests:	\$.....		0.000 %
Largest 3 investments in general partnership interests:			
15.03	\$.....		0.000 %
15.04	\$.....		0.000 %
15.05	\$.....		0.000 %

16. Amounts and percentages of the reporting entity's total admitted assets held in mortgage loans:

16.01 Are mortgage loans reported in Schedule B less than 2.5% of the reporting entity's total admitted assets? Yes [] No [X]
If response to 16.01 above is yes, responses are not required for the remainder of Interrogatory 16 and Interrogatory 17.

	1	2	3
Type (Residential, Commercial, Agricultural)			
16.02	\$.....		0.000 %
16.03	\$.....		0.000 %
16.04	\$.....		0.000 %
16.05	\$.....		0.000 %
16.06	\$.....		0.000 %
16.07	\$.....		0.000 %
16.08	\$.....		0.000 %
16.09	\$.....		0.000 %
16.10	\$.....		0.000 %
16.11	\$.....		0.000 %

Amount and percentage of the reporting entity's total admitted assets held in the following categories of mortgage loans:

	Loans
16.12 Construction loans.....	\$..... 0.000 %
16.13 Mortgage loans over 90 days past due.....	\$..... 0.000 %
16.14 Mortgage loans in the process of foreclosure.....	\$..... 0.000 %
16.15 Mortgage loans foreclosed.....	\$..... 0.000 %
16.16 Restructured mortgage loans.....	\$..... 0.000 %

17. Aggregate mortgage loans having the following loan-to-value ratios as determined from the most current appraisal as of the annual statement date:

Loan-to-Value	Residential		Commercial		Agricultural	
	1	2	3	4	5	6
17.01 above 95%.....	\$.....	0.000 %	\$.....	0.000 %	\$.....	0.000 %
17.02 91% to 95%.....	\$.....	0.000 %	\$.....	0.000 %	\$.....	0.000 %
17.03 81% to 90%.....	\$.....	0.000 %	\$.....	0.000 %	\$.....	0.000 %
17.04 71% to 80%.....	\$.....	0.000 %	\$.....	0.000 %	\$.....	0.000 %
17.05 below 70%.....	\$.....	0.000 %	\$.....	0.000 %	\$.....	0.000 %

18. Amounts and percentages of the reporting entity's total admitted assets held in each of the five largest investments in real estate:

18.01 Are assets held in real estate reported less than 2.5% of the reporting entity's total admitted assets? Yes [] No [X]

If response to 18.01 above is yes, responses are not required for the remainder of Interrogatory 18.

Largest five investments in any one parcel or group of contiguous parcels of real estate.

Description	2	3
18.02	\$.....	0.000 %
18.03	\$.....	0.000 %
18.04	\$.....	0.000 %
18.05	\$.....	0.000 %
18.06	\$.....	0.000 %

19. Report aggregate amounts and percentages of the reporting entity's total admitted assets held in mezzanine real estate loans.

19.01 Are assets held in investments held in mezzanine real estate loans less than 2.5% of the reporting entity's admitted assets?

Yes [] No [X]

Is response to 19.01 is yes, responses are not required for the remainder of Interrogatory 19.

1	2	3
19.02 Aggregate statement value of investments held in mezzanine real estate loans	\$.....	0.000 %
Largest three investments held in mezzanine real estate loans.		
19.03	\$.....	0.000 %
19.04	\$.....	0.000 %
19.05	\$.....	0.000 %

20. Amounts and percentages of the reporting entity's total admitted assets subject to the following types of agreements:

At Year-End		At End of Each Quarter		
1	2	1st Qtr	2nd Qtr	3rd Qtr
		3	4	5
20.01 Securities lending (do not include assets held as collateral for such transactions).....	\$.....0.000 %	\$.....	\$.....	\$.....
20.02 Repurchase agreements.....	\$.....0.000 %	\$.....	\$.....	\$.....
20.03 Reverse repurchase agreements.....	\$.....0.000 %	\$.....	\$.....	\$.....
20.04 Dollar repurchase agreements.....	\$.....0.000 %	\$.....	\$.....	\$.....
20.05 Dollar reverse repurchase agreements.....	\$.....0.000 %	\$.....	\$.....	\$.....

21. Amounts and percentages indicated below for warrants not attached to other financial instruments, options, caps and floors:

Owned		Written	
1	2	3	4
21.01 Hedging.....	\$.....0.000 %	\$.....	0.000 %
21.02 Income generation.....	\$.....0.000 %	\$.....	0.000 %
21.03 Other.....	\$.....0.000 %	\$.....	0.000 %

22. Amounts and percentages of the reporting entity's total admitted assets of potential exposure for collars, swaps, and forwards:

At Year-End		At End of Each Quarter		
1	2	1st Qtr	2nd Qtr	3rd Qtr
		3	4	5
22.01 Hedging.....	\$.....0.000 %	\$.....	\$.....	\$.....
22.02 Income generation.....	\$.....0.000 %	\$.....	\$.....	\$.....
22.03 Replications.....	\$.....0.000 %	\$.....	\$.....	\$.....
22.04 Other.....	\$.....0.000 %	\$.....	\$.....	\$.....

23. Amounts and percentages of the reporting entity's total admitted assets of potential exposure for futures contracts:

At Year-End		At End of Each Quarter		
1	2	1st Qtr	2nd Qtr	3rd Qtr
		3	4	5
23.01 Hedging.....	\$.....0.000 %	\$.....	\$.....	\$.....
23.02 Income generation.....	\$.....0.000 %	\$.....	\$.....	\$.....
23.03 Replications.....	\$.....0.000 %	\$.....	\$.....	\$.....
23.04 Other.....	\$.....0.000 %	\$.....	\$.....	\$.....

HomeWise Preferred Insurance Company

Selected General Interrogatories Relating to Reinsurance

December 31, 2006

- 7.1 Has the reporting entity reinsured any risk with any other entity under a quota share reinsurance contract that includes a provision that would limit the reinsurer's losses below the stated quota share percentage (e.g., a deductible, a loss ratio corridor, a loss cap, an aggregate limit or any similar provisions)?.....Yes ☐ No ☒
- 7.2 If yes, indicate the number of reinsurance contracts containing such provisions.....N/A
- 7.3 If yes, does the amount of reinsurance credit taken reflect the reduction in quota share coverage caused by any applicable limiting provision(s)?.....Yes ☐ No ☐
- 9.1 Has the reporting entity ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates) for which during the period covered by the statement: (i) it recorded a positive or negative underwriting result greater than 3% of prior year-end surplus as regards policyholders or it reported calendar year written premium ceded or year-end loss and loss expense reserves ceded greater than 3% of prior year-end surplus as regards policyholders; (ii) it accounted for that contract as reinsurance and not as a deposit; and (iii) the contract(s) contain one or more of the following features or other features that would have similar results:
- (a) A contract term longer than two years and the contract is noncancellable by the reporting entity during the contract term;
 - (b) A limited or conditional cancellation provision under which cancellation triggers an obligation by the reporting entity, or an affiliate of the reporting entity, to enter into a new reinsurance contract with the reinsurer, or an affiliate of the reinsurer;
 - (c) Aggregate stop loss reinsurance coverage;
 - (d) An unconditional or unilateral right by either party to commute the reinsurance contract except for such provisions which are only triggered by a decline in the credit status of the other party;
 - (e) A provision permitting reporting of losses, or payment of losses, less frequently than on a quarterly basis (unless there is no activity during the period); or
 - (f) Payment schedule, accumulating retentions from multiple years or any feature inherently designed to delay timing of the reimbursement to the ceding entity.....Yes ☐ No ☒
- 9.2 Has the reporting entity during the period covered by the statement ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates), excluding cessions to approved pooling agreements or to captive insurance companies that are directly or indirectly controlling, controlled by, or under common control with (i) one or more unaffiliated policyholders of the reporting entity, or (ii) an association of which one or more unaffiliated policyholders of the reporting entity is a member, where:
- (a) The written premium ceded to the reinsurer by the reporting entity or its affiliates represents fifty percent (50%) or more of the entire direct and assumed premium written by the reinsurer based on its most recently available financial statement; or
 - (b) Twenty-five percent (25%) or more of the written premium ceded to the reinsurer has been retroceded back to the reporting entity or its affiliates.....Yes ☐ No ☒

HomeWise Preferred Insurance Company

Selected General Interrogatories Relating to Reinsurance (continued)

December 31, 2006

- 9.3 If yes to 9.1 or 9.2, please provide the following information in the Reinsurance Summary Supplemental Filing for General Interrogatory 9:
- (a) The aggregate financial statement impact gross of all such ceded reinsurance contracts on the balance sheet and statement of income;
 - (b) A summary of the reinsurance contract terms and indicate whether it applies to the contracts meeting the criteria in 9.1 or 9.2; and
 - (c) A brief discussion of management's principle objectives in entering into the reinsurance contract including the economic purpose to be achieved.
- 9.4 Except for transactions meeting the requirements of paragraph 30 of SSAP No. 62, *Property and Casualty Reinsurance*, has the reporting entity ceded any risk under reinsurance contract (or multiple contracts with the same reinsurer or its affiliates) during the period covered by the financial statement, and either:
- (a) Accounted for that contract as reinsurance (either prospective or retroactive) under statutory accounting principles (SAP) and as a deposit under generally accepted accounting principles (GAAP); or
 - (b) Accounted for that contract as reinsurance under GAAP and as a deposit under SAP?.....Yes ☐ No ☒
- 9.5 If yes to 9.4, explain in the Reinsurance Summary Supplemental Filing for General Interrogatory 9 (Section D) why the contract(s) is treated different for GAAP and SAP.



Statutory Basis Financial Statements
and Other Financial Information

HomeWise Preferred Insurance Company

*Year ended December 31, 2007, and for the period May 31, 2006 (inception)
through December 31, 2006
with Report of Independent Auditors*

Thomas Howell
 Ferguson P.A.

HomeWise Preferred Insurance Company

Statutory Basis Financial Statements
and Other Financial Information

Year ended December 31, 2007, and for the period May 31, 2006 (inception)
through December 31, 2006

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Report of Independent Auditors

The Board of Directors
HomeWise Preferred Insurance Company

We have audited the accompanying statements of admitted assets, liabilities and capital and surplus - statutory basis of the HomeWise Preferred Insurance Company (the Company) as of December 31, 2007 and 2006, and the related statutory basis statements of operations, changes in capital and surplus, and cash flows for the year ended December 31, 2007, and for the period May 31, 2006 (inception) through December 31, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 1, the accompanying statutory basis financial statements have been prepared in conformity with accounting practices prescribed or permitted by the Florida Office of Insurance Regulation, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities and capital and surplus of HomeWise Preferred Insurance Company as of December 31, 2007 and 2006, and the results of its operations and its cash flows for the year ended December 31, 2007, and for the period May 31, 2006 (inception) through December 31, 2006, on the basis of accounting described in Note 1.

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Our audits were made for the purpose of forming an opinion on the statutory basis financial statements taken as a whole. The supplemental disclosures included in other financial information as of and for the year ended December 31, 2007, are presented to comply with the National Association of Insurance Commissioners' *Accounting Practices and Procedures Manual* and are not a required part of the statutory basis financial statements. This other financial information has been subjected to the auditing procedures applied in the audits of the statutory basis financial statements and, in our opinion, is fairly stated in all material respects in relation to the statutory basis financial statements taken as a whole.

This report is intended solely for the use of the Board of Directors and management of HomeWise Preferred Insurance Company and for filing with the state insurance regulatory authorities and should not be used for any other purpose.

Thomas Howell Ferguson P.A.

May 12, 2008

HomeWise Preferred Insurance Company

Statements of Admitted Assets, Liabilities and Capital and Surplus - Statutory Basis

	December 31,	
	2007	2006
Admitted assets		
Cash and invested assets:		
Cash and cash equivalents	\$ 43,033,032	\$ 10,041,157
Total cash and invested assets	43,033,032	10,041,157
Accrued investment income	12,113	8,041
Premiums receivable, net	11,465,735	1,445,571
Reinsurance balances recoverable	1,611,125	-
Net deferred tax asset	549,881	174,541
Electronic data processing equipment, net	21,256	-
Other assets	1,214,939	1,239
Total admitted assets	<u>\$ 57,908,081</u>	<u>\$ 11,670,549</u>
Liabilities and capital and surplus		
Liabilities:		
Loss and loss adjustment expense reserves	\$ 1,953,712	\$ 26,437
Reinsurance premiums payable	12,864,335	-
Unearned premiums, net	16,849,497	1,365,429
Other accrued expenses	874,017	80,766
Taxes, licenses, and fees payable	1,006,292	1,098
Federal income taxes payable	472,688	21,842
Payable to affiliates	5,401,495	507,723
Payable to Citizens Property Insurance Corporation	1,369,041	-
Total liabilities	40,791,077	2,003,295
Capital and surplus	17,117,004	9,667,254
Total liabilities and capital and surplus	<u>\$ 57,908,081</u>	<u>\$ 11,670,549</u>

See accompanying notes.

HomeWise Preferred Insurance Company
Statements of Operations - Statutory Basis

	Year ended December 31, 2007	For the period May 31, 2006 (inception) through December 31, 2006
Underwriting income:		
Premiums earned, net of reinsurance ceded	\$ 6,910,233	\$ 92,359
Underwriting expenses:		
Losses and loss adjustment expenses incurred	2,648,112	26,437
Underwriting, acquisition, and other expenses	6,384,247	852,590
Total underwriting expenses	<u>9,032,359</u>	<u>879,027</u>
Net underwriting loss	(2,122,126)	(786,668)
Net investment income	631,314	282,834
Other income	104,537	207
Loss before federal income tax expense	<u>(1,386,275)</u>	<u>(503,627)</u>
Federal income tax expense	<u>491,223</u>	<u>3,307</u>
Net loss	<u><u>\$ (1,877,498)</u></u>	<u><u>\$ (506,934)</u></u>

See accompanying notes.

HomeWise Preferred Insurance Company
Statements of Changes in Capital and Surplus - Statutory Basis

Year ended December 31, 2007, and for the period May 31, 2006 (inception)
through December 31, 2006

	<u>Common Stock</u>		<u>Paid-in Surplus</u>	<u>Unassigned Funds</u>	<u>Total</u>
	<u>Shares</u>	<u>Par Value</u>			
Balance as of December 31, 2005	-	\$ -	\$ -	\$ -	\$ -
Issuance of common stock	100,000	100,000	9,900,000	-	10,000,000
Change in deferred income taxes	-	-	-	174,541	174,541
Change in nonadmitted assets	-	-	-	(353)	(353)
Net loss	-	-	-	(506,934)	(506,934)
Balance as of December 31, 2006	100,000	100,000	9,900,000	(332,746)	9,667,254
Issuance of common stock	900,000	900,000	(900,000)	-	-
Additional capital contributions	-	-	9,000,000	-	9,000,000
Change in deferred income taxes	-	-	-	974,767	974,767
Change in nonadmitted assets	-	-	-	(647,519)	(647,519)
Net loss	-	-	-	(1,877,498)	(1,877,498)
Balance as of December 31, 2007	<u>1,000,000</u>	<u>\$ 1,000,000</u>	<u>\$ 18,000,000</u>	<u>\$ (1,882,996)</u>	<u>\$ 17,117,004</u>

See accompanying notes.

HomeWise Preferred Insurance Company
Statements of Cash Flows - Statutory Basis

	Year ended December 31, <u>2007</u>	For the period May 31, 2006 (inception) through December 31, <u>2006</u>
Operating activities		
Premiums collected, net of reinsurance	\$ 26,607,866	\$ 11,878
Net investment income received	627,242	277,520
Losses and loss adjustment expenses paid	(2,331,962)	-
Underwriting, acquisition, and other expenses paid	(5,110,961)	(774,293)
Federal income taxes (paid) recovered	(40,377)	18,535
Net cash provided by (used in) operating activities	<u>19,751,808</u>	<u>(466,360)</u>
Financing and miscellaneous activities		
Proceeds from common stock issued	-	10,000,000
Proceeds from additional capital contributions	9,000,000	-
Other miscellaneous sources	4,240,067	507,517
Net cash provided by financing and miscellaneous activities	<u>13,240,067</u>	<u>10,507,517</u>
Net increase in cash	32,991,875	10,041,157
Cash at beginning of year	<u>10,041,157</u>	-
Cash at end of year	<u>\$ 43,033,032</u>	<u>\$ 10,041,157</u>

See accompanying notes.

HomeWise Preferred Insurance Company

Notes to Statutory Basis Financial Statements

Year ended December 31, 2007, and for the period May 31, 2006 (inception)
through December 31, 2006

1. Summary of Significant Accounting Policies

HomeWise Preferred Insurance Company (the Company), a wholly-owned subsidiary of HomeWise Holdings, Inc. (HHI), is domiciled in the state of Florida. The Company was incorporated on May 31, 2006, and received its certificate of authority from the Florida Office of Insurance Regulation (the Office) on May 31, 2006. The Company received a certificate of authority from the Texas Department of Insurance on September 7, 2007, and began writing policies in Texas on October 31, 2007. The Company is affiliated with HomeWise Management Company (HMC) and HomeWise Insurance Company (HIC), which are wholly-owned subsidiaries of HHI.

The Company writes homeowners' and comprehensive dwelling fire coverage in the states of Florida and Texas, areas that are exposed to damage from hurricanes and severe storms. The Company attempts to mitigate its exposure to losses from storms by purchasing quota share and catastrophe reinsurance coverage. However, such a storm, depending on its path and severity, could result in losses to the Company exceeding its reinsurance protection and could have a material adverse effect on the financial condition and results of operations of the Company.

Basis of Presentation

The accompanying statutory basis financial statements have been prepared in accordance with statutory accounting practices (SAP) prescribed or permitted by the Office. Such statutory practices require preparation of the financial statements in accordance with the National Association of Insurance Commissioners' (NAIC) *Accounting Practices and Procedures Manual* subject to deviations prescribed by the Office. SAP is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America (GAAP). Such practices vary in certain respects from those under GAAP. The Company's significant accounting practices and the variances from GAAP are summarized below:

- Certain assets designated as "nonadmitted," principally past-due uncollected premiums, prepaid expenses, and other assets not specifically identified as an admitted asset within the *Accounting Practices and Procedures Manual*, are excluded from the accompanying statements of admitted assets, liabilities, and capital and surplus and are charged directly to unassigned surplus. Under GAAP, such assets would be included in the balance sheets at net realizable values.
- Loss and loss adjustment expense reserves and unearned premiums ceded to reinsurers have been reported as reductions of the related liabilities rather than as assets as would be required under GAAP.

HomeWise Preferred Insurance Company

Notes to Statutory Basis Financial Statements

1. Summary of Significant Accounting Policies (continued)

Basis of Presentation (continued)

- Cash in the statement of cash flows represents cash, cash equivalents, and short-term investments with remaining maturities of one year or less. Under GAAP, the corresponding caption of cash and cash equivalents would include cash balances and investments with initial maturities of three months or less.
- The costs of acquiring and renewing business are expensed when incurred. Under GAAP, such costs, to the extent recoverable, would be deferred and amortized over the effective period of the related insurance policies.
- Deferred tax assets are limited to 1) the amount of federal income taxes paid in prior years that can be recovered through loss carrybacks for existing temporary differences that reverse by the end of the subsequent calendar year, plus 2) the lesser of the remaining gross deferred tax assets expected to be realized within one year of the financial statement date or 10% of capital and surplus excluding any net deferred tax assets, "electronic data processing" (EDP) equipment and operating software and any net positive goodwill, plus 3) the amount of remaining gross deferred tax assets that can be offset against existing gross deferred tax liabilities. The remaining deferred tax assets are nonadmitted. Deferred taxes do not include amounts for state income taxes. Under GAAP, state income taxes would be included in the computation of deferred taxes, a deferred tax asset would be recorded for the amount of gross deferred tax assets expected to be realized in future years, and a valuation allowance would be established for deferred tax assets not realizable.
- Commissions allowed by reinsurers on business ceded are reported as a reduction of expense when incurred to the extent the amount does not exceed actual acquisition costs, rather than being deferred and amortized with deferred policy acquisition costs as would be required by GAAP. Commissions in excess of the acquisition costs, if any, would be deferred and recognized over the policy term consistent with GAAP.
- Certain other reported amounts are classified or presented differently in the financial statements prepared on the basis of SAP than they would be under GAAP. Statutory requirements require that the financial statements of the Company be filed with state regulatory authorities. Accordingly, the financial statements are presented in a format similar to the filed annual statement, which differs from the format of financial statements presented under GAAP. Required statutory disclosures that are not applicable to the Company are not included in the notes to these statutory financial statements.

HomeWise Preferred Insurance Company

Notes to Statutory Basis Financial Statements

1. Summary of Significant Accounting Policies (continued)

Basis of Presentation (continued)

Other significant accounting practices are as follows:

Recognition of Premium Revenues

Premiums are recorded as earned on a daily pro rata basis over the contract period that the related policies are expected to be in force. The portion of premiums not earned at the end of the year is recorded as unearned premiums. Premiums collected prior to the effective date of the policy are recorded as a liability.

Cash and Cash Equivalents

Cash and cash equivalents include demand deposits with financial institutions and other highly liquid investments with original maturities of three months or less.

Concentration of Credit Risk

The Company's financial instruments exposed to concentrations of credit risk consist primarily of its cash and cash equivalents, reinsurance recoveries, and premium receivable. The Company maintains its cash and cash equivalents at several quality financial institutions. Bank deposit accounts, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts. The Company believes it is not exposed to any significant credit risk on cash and cash equivalents.

Electronic Data Processing (EDP) Equipment

The admitted value of the Company's EDP equipment is limited to 3% of capital and surplus. The admitted portion is reported at cost, less accumulated depreciation of \$4,644 at December 31, 2007 (none at December 31, 2006). EDP equipment is depreciated using the straight-line method over the lesser of its useful life or three years. Other furniture and equipment is recorded as a nonadmitted asset and depreciated using the straight-line method over the estimated useful life of seven years. Depreciation expense charged to operations in 2007 was \$5,648 (none in 2006).

Reinsurance

The accompanying statutory basis financial statements reflect reserves for premiums and losses and loss adjustment expenses (LAE), net of reinsurance ceded (See Note 6). Those reinsurance arrangements allow management to control exposure to potential losses arising from large risks. A significant portion of the reinsurance is effected under a quota share agreement. Amounts recoverable from reinsurers are estimated in a manner consistent with the loss and LAE reserves associated with the reinsured policies. Reinsurance premiums, losses, and LAE are accounted for on bases consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts.

HomeWise Preferred Insurance Company
Notes to Statutory Basis Financial Statements

1. Summary of Significant Accounting Policies (continued)

Loss and Loss Adjustment Expense (LAE) Reserves

Loss and LAE reserves represent the estimated ultimate net cost of all unpaid reported and unreported losses and LAE. The reserves for unpaid losses and LAE are estimated using individual case-basis estimates for reported losses and actuarial estimates for losses incurred but not yet reported. Those estimates are subject to the effects of trends in loss severity and frequency. Although considerable variability is inherent in such estimates, management believes that the reserves for losses and LAE are adequate. The estimates are continually reviewed and adjusted as necessary as experience develops or new information becomes known; such adjustments are included in current operations. The ultimate settlement of losses and LAE may vary significantly from the estimated amounts included in the financial statements. The Company does not discount its loss and LAE reserves.

The anticipated effect of inflation is implicitly considered when estimating liabilities for losses and LAE. While anticipated price increases due to inflation are considered in estimating the ultimate claim costs, the increase in average severities of claims is caused by a number of factors that vary with the individual type of policy written. Future average severities are projected based on historical trends adjusted for implemented changes in underwriting standards, policy provisions, and general economic trends. Those anticipated trends are monitored based on actual development and the estimated liabilities are modified if necessary.

Loss and LAE reserves are reported net of reinsurance recoverables for unpaid losses and LAE. Losses and LAE ceded through reinsurance are credited against losses and LAE incurred.

Guaranty Fund and Residual Market Pool Assessments

The Company is subject to assessments by a Florida guaranty fund, a residual market pool, and a state catastrophe reinsurance pool, namely the Florida Insurance Guaranty Association, Citizens Property Insurance Corporation (Citizens), and the Florida Hurricane Catastrophe Fund (FHCF), respectively. The activities of this fund and these pools include collecting funds from solvent insurance companies to cover losses resulting from the insolvency or rehabilitation of other insurance companies or deficits generated by Citizens and FHCF.

The Company's policy is to recognize its obligation for guaranty fund, Citizens, and FHCF assessments when the Company has the information available to reasonably estimate its liabilities. Guaranty fund assessments are generally available for recoupment from policyholders and as such, amounts assessed are recorded as a recoverable asset. Amounts recoverable are generally expected to be collected over the following year. For the year ended December 31, 2007, the Company was assessed \$28,918 (none in 2006).

HomeWise Preferred Insurance Company

Notes to Statutory Basis Financial Statements

1. Summary of Significant Accounting Policies (continued)

Guaranty Fund and Residual Market Pool Assessments (continued)

During 2007, the Company began collecting assessments for Citizens and FHCF through surcharges on new and renewal business. At December 31, 2007, \$1,007,937 is recorded as a receivable and is included in other assets in the accompanying statements of admitted assets, liabilities and capital and surplus - statutory basis (none in 2006). Such collections are recorded as a liability when collected and are remitted periodically throughout the year. At December 31, 2007, \$515,303 is recorded as a payable and is included in other accrued expenses in the accompanying statements of admitted assets, liabilities and capital and surplus - statutory basis (none in 2006).

Income Taxes

The Company calculates its state and federal income tax liabilities based upon the statutory rates in effect during the year.

Use of Estimates

The preparation of statutory basis financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the statutory basis financial statements, and the reported amounts of revenues and expenses during the reporting period. Such estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and described in the financial statements.

2. Regulatory Requirements

Florida Statute 624.408 requires the Company to maintain minimum capital and surplus of \$4 million and to meet the risk-based capital requirements (See Note 9). Additionally, Florida Statute 624.4095 requires the Company to maintain a ratio of the product of written premiums times 0.90 to surplus of no greater than 10-to-1 for gross written premiums and 4-to-1 for net written premiums. The Company is in compliance with these requirements.

Additionally, the Company is required to maintain deposits pursuant to Florida and Texas statutes or consent orders to help secure the payment of claims. Cash on deposit in the amount of \$320,621 and \$304,798 has been assigned to the Office as of December 31, 2007 and 2006, respectively, and a certificate of deposit of \$1,000,000 as of December 31, 2007 (none as of December 31, 2006) has been assigned to the Texas Department of Insurance to satisfy these requirements. These amounts are included in cash and cash equivalents in the accompanying statements of admitted assets, liabilities, and capital and surplus.

HomeWise Preferred Insurance Company
Notes to Statutory Basis Financial Statements

3. Investments

Major categories of the Company's net investment income are summarized as follows:

	Periods ended December 31,	
	<u>2007</u>	<u>2006</u>
Cash and cash equivalents	\$ 744,429	\$ 285,354
Investment expenses	<u>(113,115)</u>	<u>(2,520)</u>
Net investment income	<u>\$ 631,314</u>	<u>\$ 282,834</u>

4. Premiums Receivable

Premiums receivable include amounts due from HomeWise Management Company, the Company's managing general agent (MGA) who collects all premiums and remits them to the Company. The Company nonadmits balances due from insureds and deferred installments for the portion of the receivable that is more than 90 days past due that exceeds its related unearned premium. Premiums receivable are charged to bad debt expense in the period determined uncollectible. Recoveries received on amounts previously charged-off are credited to bad debt expense in the period received.

Premiums receivable consist of the following:

	December 31,	
	<u>2007</u>	<u>2006</u>
Premiums receivable, gross	\$ 11,465,735	\$ 1,445,924
Nonadmitted premiums receivable	<u>-</u>	<u>(353)</u>
Premiums receivable, net	<u>\$ 11,465,735</u>	<u>\$ 1,445,571</u>

HomeWise Preferred Insurance Company

Notes to Statutory Basis Financial Statements

5. Loss and Loss Adjustment Expense (LAE) Reserves

The following table provides a reconciliation of the beginning and ending reserve balances for losses and LAE, net of reinsurance recoverables.

	December 31,	
	2007	2006
	<i>(in thousands)</i>	
Loss and LAE reserves at beginning of year	\$ 26	\$ -
Losses and LAE incurred related to:		
Current year	2,664	26
Prior years	<u>(16)</u>	<u>-</u>
	<u>2,648</u>	<u>26</u>
Losses and LAE paid related to:		
Current year	720	-
Prior years	<u>1</u>	<u>-</u>
	<u>721</u>	<u>-</u>
Loss and LAE reserves at end of year	\$ <u>1,953</u>	\$ <u>26</u>

Anticipated reinsurance recoverables on unpaid losses and LAE are approximately \$5,834,000 at December 31, 2007 (none at December 31, 2006). Reinsurance recoverables on paid losses and LAE are \$1,611,000 at December 31, 2007 (none at December 31, 2006).

In 2007, net incurred losses and LAE attributable to insured events of prior years have decreased by \$16,000 as a result of re-estimation of unpaid losses and loss adjustment expenses. Original estimates are decreased or increased as additional information becomes known regarding individual claims.

6. Reinsurance

Certain premiums and losses are ceded to other insurance companies under various reinsurance agreements. The reinsurance agreements provide the Company with increased capacity to write more risk and maintain its exposure to loss within its capital resources. As of December 31, 2007 and 2006, the Company's reinsurance program consisted of quota share and excess of loss reinsurance for catastrophic events. Following is a summary of the reinsurance coverage.

Effective June 1, 2007, the catastrophe excess of loss coverage is provided by agreements with commercial reinsurers and by the FHCF and is limited to qualifying storms occurring in the state of Florida. The excess of loss agreements generally provide coverage on ultimate net losses of approximately \$53,700,000 in excess of \$2,900,000 per occurrence, not to exceed approximately \$54,900,000 for all occurrences. The FHCF provided coverage for 90% of the losses from qualifying catastrophic events in excess of approximately \$9,000,000 up to a maximum of approximately \$42,800,000, plus 100% of qualifying losses in excess of \$2,900,000 (drop down

HomeWise Preferred Insurance Company
Notes to Statutory Basis Financial Statements

6. Reinsurance (continued)

layer) up to a maximum of \$5,000,000. For the year ended December 31, 2007, premiums of \$556,567 and \$4,356,003 were ceded under the commercial excess catastrophe agreements and FHCF, respectively.

In 2006, the catastrophe excess of loss coverage was provided by an agreement with the FHCF. The FHCF provided coverage for 90% of the losses from qualifying catastrophic events. The Company's retention and FHCF coverage limits are determined based on the total insured value of inforce policies during the hurricane season (June 1 through November 30). The Company's significant production of premiums commenced subsequent to November 30, 2006. Accordingly, the Company's FHCF retention and coverage limits were minimal.

The FHCF provides coverage for named hurricanes only and provides no coverage after the one time limit is exhausted. Reinsurance premiums for the FHCF are paid on a total insured value basis. In the event of a loss assessment, the Company may recoup the assessments from its policyholders.

Effective June 1, 2007, the Company executed reinsurance premium protection agreements to reinsure the reinstatement premium payment obligations which accrue to the Company under the private catastrophe excess of loss agreements. The coverage is limited to 100% of the original contracted reinsurance placement. Premiums ceded under the reinsurance premium protection agreement were \$240,126 for the year ended December 31, 2007.

Effective January 1, 2007, the Company and its affiliated company HomeWise Insurance Company (collectively, the Reinsured) entered into a quota share reinsurance agreement with Harlequin Insurance (Bermuda) SAC Limited (the Reinsurer). Under the terms of the agreement, which expires on May 31, 2008, the Reinsurer assumes 75% of the Reinsured's net liabilities for losses (loss and loss adjustment expense) after taking into effect the Reinsured's excess of loss reinsurance coverage provided by the FHCF and, through May 31, 2007, the coverage provided by open market excess of loss reinsurance purchased by the Reinsured. Under the terms of the agreement, the Reinsured cedes 75% of gross premiums after deducting the cost of the above referenced inuring reinsurance to the Reinsurer. The Reinsured cedes 75% of covered gross losses to the Reinsurer after deducting recoveries from the referenced inuring reinsurance. The ceding commission from the Reinsurer to the Reinsured is on a reimbursement basis wherein the Reinsurer reimburses the Reinsured for 75% of acquisition and overhead expenses. The agreement includes an Event Cap for ceded losses of 44% of the ceded premium earned during the term. It also includes an Aggregate Loss and Expense Ratio Cap wherein the maximum amount of losses and ceding commission payable by the Reinsurer under this agreement in the aggregate shall be limited to 150% of the ceded premium earned during the term. In the event either cap is met, the Reinsured shares in recoveries in proportion to their respective subject losses to the total of losses subject to the agreement. Obligations of the Reinsurer to the Reinsured are collateralized by funds held in a reinsurance trust account maintained in a United States of America bank. Premiums ceded and ceding commissions under the quota share agreement were \$73,669,268 and \$21,007,881, respectively, for the year ended December 31, 2007. The ceding commissions have been recorded as a reduction of underwriting, acquisition, and other expenses in the accompanying statements of operations.

HomeWise Preferred Insurance Company

Notes to Statutory Basis Financial Statements

6. Reinsurance (continued)

The Company's reinsured risks are treated, to the extent of the reinsurance, as though they are risks for which the Company is not liable. However, the Company remains liable in the event the reinsuring entities do not meet their obligations under the reinsurance agreements. Given the quality of the reinsuring entities, management believes this possibility to be remote. See Note 5 for recoveries from reinsurers relating to paid and unpaid losses and LAE.

At December 31, 2007 and 2006, the Company did not commute any reinsurance nor did it enter into or engage in any loss portfolio transfer for any lines of business.

The effects of reinsurance on premiums written and earned are as follows:

	2007		2006	
	Written	Earned	Written	Earned
Direct premiums	\$ 53,509,123	\$ 22,822,434	\$ 1,458,799	\$ 93,365
Assumed premiums	47,707,142	9,240,850	-	-
Ceded premiums	<u>(78,821,965)</u>	<u>(25,153,051)</u>	<u>(1,011)</u>	<u>(1,006)</u>
Net premiums	<u>\$ 22,394,300</u>	<u>\$ 6,910,233</u>	<u>\$ 1,457,788</u>	<u>\$ 92,359</u>

The following table summarizes the effect of ceded unearned premiums on the direct unearned premiums reserve and provides the related commission equity at December 31:

	2007	2006
Direct unearned premiums	\$ 32,052,123	\$ 1,365,434
Assumed unearned premiums	38,466,292	-
Ceded unearned premiums	<u>(53,668,918)</u>	<u>(5)</u>
Unearned premiums, net	<u>\$ 16,849,497</u>	<u>\$ 1,365,429</u>
Assumed commission equity	\$ 6,154,607	\$ -
Ceded commission equity	<u>(14,114,282)</u>	<u>-</u>
Commission equity, net	<u>\$ (7,959,675)</u>	<u>\$ -</u>

At December 31, 2007 and 2006, no individual reinsurer owed the Company an unsecured amount that was greater than 3% of the Company's surplus.

7. Policy Assumption Agreement

The Company assumed written premiums of \$47,707,142 during 2007 under a policy assumption agreement with Citizens. The Company provides a ceding commission to Citizens of 16% of assumed premiums to cover the acquisition costs incurred by Citizens. Total ceding commissions charged to operations in 2007 were \$7,633,143.

HomeWise Preferred Insurance Company

Notes to Statutory Basis Financial Statements

8. Income Taxes

Income before federal income taxes differs from taxable income principally due to differences in loss and LAE reserves and unearned premiums for tax and statutory basis financial reporting purposes.

State income taxes are classified as taxes, licenses, and fees in the NAIC Annual Statement and as underwriting, acquisition, and other expenses on the statement of operations.

A. Components of deferred tax assets (DTAs) and deferred tax liabilities (DTLs) are as follows:

	December 31,	
	2007	2006
Gross DTAs	\$ 1,279,779	\$ 174,541
Gross DTLs	<u>(130,471)</u>	<u>-</u>
Net DTAs	1,149,308	174,541
Nonadmitted DTAs	<u>(599,427)</u>	<u>-</u>
Net admitted DTAs	\$ <u>549,881</u>	\$ <u>174,541</u>
Increase in nonadmitted DTAs	\$ <u>599,427</u>	\$ <u>-</u>

B. Unrecognized DTLs

There are no unrecognized DTLs.

C. Current tax and change in deferred tax:

The provisions for income taxes incurred on earnings (losses) were:

	December 31,	
	2007	2006
Current year income tax expense	\$ 490,566	\$ 3,307
Prior year over accrual	<u>657</u>	<u>-</u>
Current income taxes incurred	\$ <u>491,223</u>	\$ <u>3,307</u>

The tax effect of temporary differences at December 31, 2007 that give rise to significant deferred tax assets and deferred tax liabilities are as follows:

DTAs	Statutory	Tax	Difference	Tax Effect
Unpaid losses and LAE	\$ 1,953,712	\$ 1,816,784	\$ 136,928	\$ 46,555
Unearned premiums	16,849,497	13,479,598	3,369,899	1,145,766
Organizational costs	-	208,785	208,785	70,987
Nonadmitted assets	-	48,445	48,445	16,471
Gross DTAs				\$ <u>1,279,779</u>
Nonadmitted DTAs				\$ <u>599,427</u>

HomeWise Preferred Insurance Company

Notes to Statutory Basis Financial Statements

8. Income Taxes (continued)

DTLs	Statutory	Tax	Difference	Tax Effect
Furniture and equipment	\$ -	\$ (1,039)	\$ (1,039)	\$ (353)
Prepaid expenses	-	(34,760)	(34,760)	(11,818)
Profit sharing expense	-	(347,941)	(347,941)	(118,300)
Gross DTLs				<u>\$ (130,471)</u>

The changes in the main components of DTAs and DTLs are as follows:

DTAs Resulting from Book/Tax Differences	December 31,		
	2007	2006	Change
Unpaid losses and LAE	\$ 46,555	\$ 630	\$ 45,925
Unearned premiums	1,145,766	92,849	1,052,917
Organizational costs	70,987	81,062	(10,075)
Nonadmitted assets	<u>16,471</u>	<u>-</u>	<u>16,471</u>
Gross DTAs	<u>\$ 1,279,779</u>	<u>\$ 174,541</u>	<u>\$ 1,105,238</u>
Nonadmitted DTAs	<u>\$ 599,427</u>	<u>\$ -</u>	<u>\$ 599,427</u>

DTLs Resulting from Book/Tax Differences	December 31,		
	2007	2006	Change
Furniture and equipment	\$ (353)	\$ -	\$ (353)
Prepaid expenses	(11,818)	-	(11,818)
Profit sharing expense	<u>(118,300)</u>	<u>-</u>	<u>(118,300)</u>
Gross DTLs	<u>\$ (130,471)</u>	<u>\$ -</u>	<u>\$ (130,471)</u>

The change in gross DTAs of \$1,105,238 and gross DTLs of \$(130,471) is the change in net deferred income taxes before the consideration of nonadmitted DTAs.

D. Reconciliation of federal income tax rate to actual effective rate:

	2007	Effective Tax Rate	2006	Effective Tax Rate
Provision computed at statutory rate	\$ (471,334)	(34.00)%	\$ (171,234)	(34.00)%
Change in nonadmitted assets	(16,471)	(1.18)	-	-
Prior period adjustment	4,261	0.30	-	-
Total	<u>\$ (483,544)</u>	<u>(34.88)%</u>	<u>\$ (171,234)</u>	<u>(34.00)%</u>
Federal income tax	\$ 491,223	35.44 %	\$ 3,307	0.60 %
Change in deferred taxes	<u>(974,767)</u>	<u>(70.32)</u>	<u>(174,541)</u>	<u>(34.60)</u>
Statutory income taxes	<u>\$ (483,544)</u>	<u>(34.88)%</u>	<u>\$ (171,234)</u>	<u>(34.00)%</u>

HomeWise Preferred Insurance Company
Notes to Statutory Basis Financial Statements

8. Income Taxes (continued)

E. Operating loss and tax credit carryforwards:

1. At December 31, 2007, the Company had no unused net operating loss or capital loss carryforwards available to offset against future taxable income.
2. The following is income tax expense that is available for recoupment in the event of future net losses:

<u>Year</u>	<u>Amount</u>
2007	\$ 461,709
2006	3,307

F. Consolidated federal income tax return:

The Company files a consolidated tax return with the following:

Homewise Holdings, Inc.
Homewise Insurance Company
Homewise Management Company, Inc.

The method of allocation among companies is made primarily on a separate return basis with current credit for any net operating losses or other items utilized in the consolidated tax returns. This method of tax allocation is described in the cost allocation agreement between the Company, HomeWise Holdings, Inc., HomeWise Management Company, Inc., and HomeWise Insurance Company.

9. Capital and Surplus

The Company has authorized 1,000,000 shares of \$1 par value common stock, of which 1,000,000 and 100,000 shares are issued and outstanding at December 31, 2007 and 2006, respectively. HHI is the sole shareholder. By Board of Directors' resolution on April 3, 2007, \$900,000 of paid-in capital was reclassified to common capital stock, and 900,000 shares of stock were issued to HHI. HHI contributed additional paid-in capital of \$1,000,000 on September 13, 2007, and \$8,000,000 on December 17, 2007. No other classes of common or preferred shares were issued during 2007 or 2006.

Property and casualty insurance companies are subject to certain Risk-based Capital (RBC) requirements as specified by the NAIC. Under those requirements, the amount of capital and surplus maintained by a property and casualty insurance company is to be determined based on the various risk factors related to it. The Company is in compliance with the RBC requirements at December 31, 2007 and 2006.

HomeWise Preferred Insurance Company

Notes to Statutory Basis Financial Statements

9. Capital and Surplus (continued)

The maximum amount of dividends that may be paid by property and casualty insurance companies without prior approval of the Office is subject to restrictions relating to statutory surplus and net income. Furthermore, in accordance with the Company's Certificate of Authority Consent Order, during the first three years of operations, it may only pay dividends that are approved in advance by the Office. The Company did not declare or pay any dividends during the year ended December 31, 2007, and for the period May 31, 2006, through December 31, 2006.

10. Related Party Transactions

The Company is a wholly-owned subsidiary of HHI and is affiliated with HMC and HIC, which are also wholly-owned subsidiaries of HHI.

Effective May 31, 2006, the Company entered into a managing general agency agreement with HMC. Pursuant to the agreement, HMC provides to the Company premium billing, claims management, and underwriting functions. During 2007 and 2006, expenses incurred related to this agreement totaled \$17,649,159 and \$469,925, respectively. At December 31, 2007 and 2006, the Company has a net payable due to HMC in the amount of \$1,090,149 and \$482,095, respectively.

Effective May 31, 2006, the Company entered into a service agreement with HHI. Pursuant to the agreement, HHI provides capital management services, investor management and relations, and assists with overall general management of the Company. During 2007 and 2006, expenses incurred related to this agreement totaled \$1,004,610 and \$14,459, respectively. At December 31, 2007 and 2006, the Company has a payable due to HHI in the amount of \$181,781 and \$18,003, respectively.

The Company is also party to a Cost Allocation Agreement with HIC, HMC, and HHI in which expenses benefiting more than one company are allocated based upon direct allocation or revenue allocation rules, whichever is most appropriate for the expense. At December 31, 2007 and 2006, the Company has a payable due HIC in the amount of \$4,129,565 and \$7,625, respectively.

HomeWise Preferred Insurance Company

Notes to Statutory Basis Financial Statements

11. Premiums Produced by Managing General Agents or Third Party Administrators

The Company uses a managing general agent, HMC, to write and administer insurance products. The total premium produced and serviced through the contract during 2007 is summarized below. The Company retains underwriting authority for all policies issued under these agreements.

<u>Name and Address</u>	<u>FEI Number</u>	<u>Exclusive Contract</u>	<u>Type of Business Written</u>	<u>Type of Authority Granted</u>	<u>Direct Premium Written</u>
HomeWise Management Company, Inc. 18302 Highwoods Preserve Parkway, Suite 110 Tampa, FL 33647	20-3395152	Yes	Homeowners	Binding, premium collection, reinsurance negotiation, and underwriting	\$ 53,509,123

12. Lease Commitments

On May 3, 2007, the Company entered into an operating lease agreement for office space in San Antonio, Texas, which is effective July 6, 2007, through July 31, 2012.

Approximate future lease payments under these operating leases are as follows at December 31, 2007:

2008	\$	64,951
2009		66,447
2010		67,943
2011		69,439
2012		<u>41,015</u>
	\$	<u>309,795</u>

Total rent expense for the lease was \$29,548 for the year ended December 31, 2007.

HomeWise Preferred Insurance Company

Notes to Statutory Basis Financial Statements

13. Reconciliation of Annual Statement to Audited Financial Statements

Differences exist between amounts reported in the audited statutory financial statements and those reported in the annual statement of the Company for the year ended December 31, 2007, resulting from reclassification of and audit adjustments to other liabilities and rounding. Presented below is a reconciliation of amounts previously reported to the Office and those amounts appearing in the audited statutory financial statements for the year ended December 31, 2007.

	Audited Financial Statement Amount	Annual Statement Amount	Increase (Decrease)
Total admitted assets	\$ 57,908,081	\$ 56,189,032	\$ 1,719,049
Total liabilities	40,791,077	39,072,028	1,719,049
Total capital and surplus	17,117,004	17,117,004	-
Net loss	1,877,498	1,877,495	3

14. Subsequent Events

The Company received its license from the South Carolina Department of Insurance on March 10, 2008. In order to satisfy South Carolina's requirement for minimum capital stock, the Company is in the process of increasing the number of shares authorized for issue. Subsequent to December 31, 2007, the Company has assigned certificates of deposit totaling \$125,000 to the South Carolina Department of Insurance to help secure the payment of claims.

In May 2008, the Company decided to discontinue underwriting operations in the state of Texas and to redirect its expansion efforts to other states. The Company's plan is to discontinue quoting new business and non-renew policies as they expire. The Company will continue to service policies through their expiration date and will adjust claims until all are settled and closed.

Other Financial Information

SUMMARY INVESTMENT SCHEDULE

Investment Categories	Gross Investment Holdings		Admitted Assets as Reported in the Annual Statement	
	1 Amount	2 Percentage	3 Amount	4 Percentage
1. Bonds:				
1.1 U.S. treasury securities.....		0.0		0.0
1.2 U.S. government agency obligations (excluding mortgage-backed securities):				
1.21 Issued by U.S. government agencies.....		0.0		0.0
1.22 Issued by U.S. government sponsored agencies.....		0.0		0.0
1.3 Foreign government (including Canada, excluding mortgage-backed securities).....		0.0		0.0
1.4 Securities issued by states, territories and possessions and political subdivisions in the U.S.:				
1.41 States, territories and possessions general obligations.....		0.0		0.0
1.42 Political subdivisions of states, territories & possessions & political subdivisions general obligations.....		0.0		0.0
1.43 Revenue and assessment obligations.....		0.0		0.0
1.44 Industrial development and similar obligations.....		0.0		0.0
1.5 Mortgage-backed securities (includes residential and commercial MBS):				
1.51 Pass-through securities:				
1.511 Issued or guaranteed by GNMA.....		0.0		0.0
1.512 Issued or guaranteed by FNMA and FHLMC.....		0.0		0.0
1.513 All other.....		0.0		0.0
1.52 CMOs and REMICs:				
1.521 Issued or guaranteed by GNMA, FNMA, FHLMC or VA.....		0.0		0.0
1.522 Issued by non-U.S. Government issuers and collateralized by mortgage-backed securities issued or guaranteed by agencies shown in Line 1.521.....		0.0		0.0
1.523 All other.....		0.0		0.0
2. Other debt and other fixed income securities (excluding short-term):				
2.1 Unaffiliated domestic securities (includes credit tenant loans rated by the SVO).....		0.0		0.0
2.2 Unaffiliated foreign securities.....		0.0		0.0
2.3 Affiliated securities.....		0.0		0.0
3. Equity interests:				
3.1 Investments in mutual funds.....		0.0		0.0
3.2 Preferred stocks:				
3.21 Affiliated.....		0.0		0.0
3.22 Unaffiliated.....		0.0		0.0
3.3 Publicly traded equity securities (excluding preferred stocks):				
3.31 Affiliated.....		0.0		0.0
3.32 Unaffiliated.....		0.0		0.0
3.4 Other equity securities:				
3.41 Affiliated.....		0.0		0.0
3.42 Unaffiliated.....		0.0		0.0
3.5 Other equity interests including tangible personal property under lease:				
3.51 Affiliated.....		0.0		0.0
3.52 Unaffiliated.....		0.0		0.0
4. Mortgage loans:				
4.1 Construction and land development.....		0.0		0.0
4.2 Agricultural.....		0.0		0.0
4.3 Single family residential properties.....		0.0		0.0
4.4 Multifamily residential properties.....		0.0		0.0
4.5 Commercial loans.....		0.0		0.0
4.6 Mezzanine real estate loans.....		0.0		0.0
5. Real estate investments:				
5.1 Property occupied by company.....		0.0		0.0
5.2 Property held for production of income (including \$.....0 of property acquired in satisfaction of debt).....		0.0		0.0
5.3 Property held for sale (including \$.....0 property acquired in satisfaction of debt).....		0.0		0.0
6. Contract loans.....		0.0		0.0
7. Receivables for securities.....		0.0		0.0
8. Cash, cash equivalents and short-term investments.....	43,033,032	100.0	43,033,032	100.0
9. Other invested assets.....		0.0		0.0
10. Total invested assets.....	43,033,032	100.0	43,033,032	100.0

See report of independent auditors.



SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES

Due April 1

For the year ended December 31, 2007

Of HomeWise Preferred Insurance Company

Address (City, State, Zip Code): Tampa FL 33647

NAIC Group Code.....4111

NAIC Company Code.....12582

Employer's ID Number.....20-4791515

The Investment Risks Interrogatories are to be filed by April 1. They are also to be included with the Audited Statutory Financial Statements.

Answer the following interrogatories by reporting the applicable U.S. dollar amounts and percentages of the reporting entity's total admitted assets held in that category of investments.

1. Reporting entity's total admitted assets as reported on Page 2 of this annual statement.

\$.....56,169,032

2. Ten largest exposures to a single issuer/borrower/investment.

1	2	3	4
Issue	Description of Exposure	Amount	Percentage of Total Admitted Assets
2.01		\$.....	0.000 %
2.02		\$.....	0.000 %
2.03		\$.....	0.000 %
2.04		\$.....	0.000 %
2.05		\$.....	0.000 %
2.06		\$.....	0.000 %
2.07		\$.....	0.000 %
2.08		\$.....	0.000 %
2.09		\$.....	0.000 %
2.10		\$.....	0.000 %

3. Amounts and percentages of the reporting entity's total admitted assets held in bonds and preferred stocks by NAIC rating.

Bonds	1	2
3.01 NAIC-1	\$.....	0.000 %
3.02 NAIC-2	\$.....	0.000 %
3.03 NAIC-3	\$.....	0.000 %
3.04 NAIC-4	\$.....	0.000 %
3.05 NAIC-5	\$.....	0.000 %
3.06 NAIC-6	\$.....	0.000 %
Preferred Stocks	3	4
3.07 P/RP-1	\$.....	0.000 %
3.08 P/RP-2	\$.....	0.000 %
3.09 P/RP-3	\$.....	0.000 %
3.10 P/RP-4	\$.....	0.000 %
3.11 P/RP-5	\$.....	0.000 %
3.12 P/RP-6	\$.....	0.000 %

4. Assets held in foreign investments:

4.01 Are assets held in foreign investments less than 2.5% of the reporting entity's total admitted assets?

Yes (X) No []

4.02 Total admitted assets held in foreign investments

\$.....0.000 %

4.03 Foreign-currency-denominated investments

\$.....0.000 %

4.04 Insurance liabilities denominated in that same foreign currency

\$.....0.000 %

If response to 4.01 above is yes, responses are not required for Interrogatories 5-10.

5. Aggregate foreign investment exposure categorized by NAIC sovereign rating:

	1	2
5.01 Countries rated NAIC-1	\$.....	0.000 %
5.02 Countries rated NAIC-2	\$.....	0.000 %
5.03 Countries rated NAIC-3 or below	\$.....	0.000 %

6. Two largest foreign investment exposures to a single country, categorized by the country's NAIC sovereign rating:

	1	2
Countries rated NAIC-1:		
6.01 Country:	\$.....	0.000 %
6.02 Country:	\$.....	0.000 %
Countries rated NAIC-2:		
6.03 Country:	\$.....	0.000 %
6.04 Country:	\$.....	0.000 %
Countries rated NAIC-3 or below:		
6.05 Country:	\$.....	0.000 %
6.06 Country:	\$.....	0.000 %

7. Aggregate unhedged foreign currency exposure:

\$.....0.000 %

See report of independent auditors.

B. Aggregate unhedged foreign currency exposure categorized by NAIC sovereign rating:

8.01 Countries rated NAIC-1:	\$	0.000 %
8.02 Countries rated NAIC-2:	\$	0.000 %
8.03 Countries rated NAIC-3 or below:	\$	0.000 %

9. Two largest unhedged foreign currency exposures to a single country, categorized by the country's NAIC sovereign rating:

	1	2
Countries rated NAIC-1:		
9.01 Country:	\$	0.000 %
9.02 Country:	\$	0.000 %
Countries rated NAIC-2:		
9.03 Country:	\$	0.000 %
9.04 Country:	\$	0.000 %
Countries rated NAIC-3 or below:		
9.05 Country:	\$	0.000 %
9.06 Country:	\$	0.000 %

10. Ten largest non-sovereign (i.e., non-governmental) foreign issues:

	1 Issuer	2 NAIC Rating	3	4
10.01			\$	0.000 %
10.02			\$	0.000 %
10.03			\$	0.000 %
10.04			\$	0.000 %
10.05			\$	0.000 %
10.06			\$	0.000 %
10.07			\$	0.000 %
10.08			\$	0.000 %
10.09			\$	0.000 %
10.10			\$	0.000 %

11. Amounts and percentages of the reporting entity's total admitted assets held in Canadian investments and unhedged Canadian currency exposure:

11.01 Are assets held in Canadian investments less than 2.5% of the reporting entity's total admitted assets?	Yes [X] No []
If response to 11.01 is yes, detail is not required for the remainder of Interrogatory 11.	
11.02 Total admitted assets held in Canadian investments	\$ 0.000 %
11.03 Canadian currency-denominated investments	\$ 0.000 %
11.04 Canadian-denominated insurance liabilities	\$ 0.000 %
11.05 Unhedged Canadian currency exposure	\$ 0.000 %

12. Report aggregate amounts and percentages of the reporting entity's total admitted assets held in investments with contractual sales restrictions.

12.01 Are assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets?	Yes [X] No []
If response to 12.01 is yes, responses are not required for the remainder of Interrogatory 12.	

	1	2	3
12.02 Aggregate statement value of investments with contractual sales restrictions:	\$		0.000 %
Largest 3 investments with contractual sales restrictions:			
12.03	\$		0.000 %
12.04	\$		0.000 %
12.05	\$		0.000 %

13. Amounts and percentages of admitted assets held in the largest 10 equity interests:

13.01 Are assets held in equity interest less than 2.5% of the reporting entity's total admitted assets?	Yes [X] No []
If response to 13.01 above is yes, responses are not required for the remainder of Interrogatory 13.	

	1 Name of Issuer	2	3
13.02		\$	0.000 %
13.03		\$	0.000 %
13.04		\$	0.000 %
13.05		\$	0.000 %
13.06		\$	0.000 %
13.07		\$	0.000 %
13.08		\$	0.000 %
13.09		\$	0.000 %
13.10		\$	0.000 %
13.11		\$	0.000 %

14. Amounts and percentages of the reporting entity's total admitted assets held in nonaffiliated, privately placed equities:

14.01 Are assets held in nonaffiliated, privately placed equities less than 2.5% of the reporting entity's total admitted assets?
If response to 14.01 above is yes, responses are not required for the remainder of Interrogatory 14.

Yes ☒ No ☐

1	2	3
14.02 Aggregate statement value of investments held in nonaffiliated, privately placed equities:	\$	0.000 %
Largest 3 investments held in nonaffiliated, privately placed equities:		
14.03	\$	0.000 %
14.04	\$	0.000 %
14.05	\$	0.000 %

15. Amounts and percentages of the reporting entity's total admitted assets held in general partnership interests:

15.01 Are assets held in general partnership interests less than 2.5% of the reporting entity's total admitted assets?
If response to 15.01 above is yes, responses are not required for the remainder of Interrogatory 15.

Yes ☒ No ☐

1	2	3
15.02 Aggregate statement value of investments held in general partnership interests:	\$	0.000 %
Largest 3 investments in general partnership interests:		
15.03	\$	0.000 %
15.04	\$	0.000 %
15.05	\$	0.000 %

16. Amounts and percentages of the reporting entity's total admitted assets held in mortgage loans:

16.01 Are mortgage loans reported in Schedule B less than 2.5% of the reporting entity's total admitted assets?

Yes ☒ No ☐

If response to 16.01 above is yes, responses are not required for the remainder of Interrogatory 16 and Interrogatory 17.

1	2	3
Type (Residential, Commercial, Agricultural)		
16.02	\$	0.000 %
16.03	\$	0.000 %
16.04	\$	0.000 %
16.05	\$	0.000 %
16.06	\$	0.000 %
16.07	\$	0.000 %
16.08	\$	0.000 %
16.09	\$	0.000 %
16.10	\$	0.000 %
16.11	\$	0.000 %

Amount and percentage of the reporting entity's total admitted assets held in the following categories of mortgage loans:

	Loans
16.12 Construction loans	\$ 0.000 %
16.13 Mortgage loans over 90 days past due	\$ 0.000 %
16.14 Mortgage loans in the process of foreclosure	\$ 0.000 %
16.15 Mortgage loans foreclosed	\$ 0.000 %
16.16 Restructured mortgage loans	\$ 0.000 %

17. Aggregate mortgage loans having the following loan-to-value ratios as determined from the most current appraisal as of the annual statement date:

<u>Loan-to-Value</u>	<u>Residential</u>	<u>Commercial</u>	<u>Agricultural</u>			
	1	2	3	4	5	6
17.01 above 85%	\$	0.000 %	\$	0.000 %	\$	0.000 %
17.02 81% to 85%	\$	0.000 %	\$	0.000 %	\$	0.000 %
17.03 71% to 80%	\$	0.000 %	\$	0.000 %	\$	0.000 %
17.04 71% to 80%	\$	0.000 %	\$	0.000 %	\$	0.000 %
17.05 below 70%	\$	0.000 %	\$	0.000 %	\$	0.000 %

18. Amounts and percentages of the reporting entity's total admitted assets held in each of the five largest investments in real estate:

18.01 Are assets held in real estate reported less than 2.5% of the reporting entity's total admitted assets?

Yes ☒ No ☐

If response to 18.01 above is yes, responses are not required for the remainder of Interrogatory 18.

Largest five investments in any one parcel or group of contiguous parcels of real estate.

Description	2	3
18.02	\$	0.000 %
18.03	\$	0.000 %
18.04	\$	0.000 %
18.05	\$	0.000 %
18.06	\$	0.000 %

19. Report aggregate amounts and percentages of the reporting entity's total admitted assets held in investments in mezzanine real estate loans.

19.01 Are assets held in investments held in mezzanine real estate loans less than 2.5% of the reporting entity's admitted assets?

Yes ☒ No ☐

If response to 19.01 is yes, responses are not required for the remainder of Interrogatory 19.

1	2	3
19.02 Aggregate statement value of investments held in mezzanine real estate loans	\$	0.000 %
Largest three investments held in mezzanine real estate loans:		
19.03	\$	0.000 %
19.04	\$	0.000 %
19.05	\$	0.000 %

20. Amounts and percentages of the reporting entity's total admitted assets subject to the following types of agreements:

	<u>At Year-End</u>		<u>1st Qtr</u>	<u>At End of Each Quarter</u>	
	1	2	3	2nd Qtr	3rd Qtr
20.01 Securities lending (do not include assets held as collateral for such transactions).....	\$	0.000 %	\$	\$	\$
20.02 Repurchase agreements.....	\$	0.000 %	\$	\$	\$
20.03 Reverse repurchase agreements.....	\$	0.000 %	\$	\$	\$
20.04 Dollar repurchase agreements.....	\$	0.000 %	\$	\$	\$
20.05 Dollar reverse repurchase agreements.....	\$	0.000 %	\$	\$	\$

21. Amounts and percentages indicated below for warrants not attached to other financial instruments, options, caps and floors:

	<u>Owned</u>			<u>Written</u>	
	1	2	3	4	5
21.01 Hedging.....	\$	0.000 %	\$	0.000 %	\$
21.02 Income generation.....	\$	0.000 %	\$	0.000 %	\$
21.03 Other.....	\$	0.000 %	\$	0.000 %	\$

22. Amounts and percentages of the reporting entity's total admitted assets of potential exposure for collars, swaps, and forwards:

	<u>At Year-End</u>		<u>1st Qtr</u>	<u>At End of Each Quarter</u>	
	1	2	3	2nd Qtr	3rd Qtr
22.01 Hedging.....	\$	0.000 %	\$	\$	\$
22.02 Income generation.....	\$	0.000 %	\$	\$	\$
22.03 Replications.....	\$	0.000 %	\$	\$	\$
22.04 Other.....	\$	0.000 %	\$	\$	\$

23. Amounts and percentages of the reporting entity's total admitted assets of potential exposure for futures contracts:

	<u>At Year-End</u>		<u>1st Qtr</u>	<u>At End of Each Quarter</u>	
	1	2	3	2nd Qtr	3rd Qtr
23.01 Hedging.....	\$	0.000 %	\$	\$	\$
23.02 Income generation.....	\$	0.000 %	\$	\$	\$
23.03 Replications.....	\$	0.000 %	\$	\$	\$
23.04 Other.....	\$	0.000 %	\$	\$	\$

HomeWise Preferred Insurance Company

Selected General Interrogatories Relating to Reinsurance

December 31, 2007

- 7.1 Has the reporting entity reinsured any risk with any other entity under a quota share reinsurance contract that includes a provision that would limit the reinsurer's losses below the stated quota share percentage (e.g., a deductible, a loss ratio corridor, a loss cap, an aggregate limit or any similar provisions)? Yes ☒ No ☐
- 7.2 If yes, indicate the number of reinsurance contracts containing such provisions 1
- 7.3 If yes, does the amount of reinsurance credit taken reflect the reduction in quota share coverage caused by any applicable limiting provision(s)? Yes ☒ No ☐
- 9.1 Has the reporting entity ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates) for which during the period covered by the statement: (i) it recorded a positive or negative underwriting result greater than 3% of prior year-end surplus as regards policyholders or it reported calendar year written premium ceded or year-end loss and loss expense reserves ceded greater than 3% of prior year-end surplus as regards policyholders; (ii) it accounted for that contract as reinsurance and not as a deposit; and (iii) the contract(s) contain one or more of the following features or other features that would have similar results:
- (a) A contract term longer than two years and the contract is noncancellable by the reporting entity during the contract term;
 - (b) A limited or conditional cancellation provision under which cancellation triggers an obligation by the reporting entity, or an affiliate of the reporting entity, to enter into a new reinsurance contract with the reinsurer, or an affiliate of the reinsurer;
 - (c) Aggregate stop loss reinsurance coverage;
 - (d) An unconditional or unilateral right by either party to commute the reinsurance contract except for such provisions which are only triggered by a decline in the credit status of the other party;
 - (e) A provision permitting reporting of losses, or payment of losses, less frequently than on a quarterly basis (unless there is no activity during the period); or
 - (f) Payment schedule, accumulating retentions from multiple years or any feature inherently designed to delay timing of the reimbursement to the ceding entity..... Yes ☐ No ☒
- 9.2 Has the reporting entity during the period covered by the statement ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates), excluding cessions to approved pooling agreements or to captive insurance companies that are directly or indirectly controlling, controlled by, or under common control with (i) one or more unaffiliated policyholders of the reporting entity, or (ii) an association of which one or more unaffiliated policyholders of the reporting entity is a member, where:
- (a) The written premium ceded to the reinsurer by the reporting entity or its affiliates represents fifty percent (50%) or more of the entire direct and assumed premium written by the reinsurer based on its most recently available financial statement; or
 - (b) Twenty-five percent (25%) or more of the written premium ceded to the reinsurer has been retroceded back to the reporting entity or its affiliates..... Yes ☐ No ☒

See report of independent auditors.

HomeWise Preferred Insurance Company

Selected General Interrogatories Relating to Reinsurance (continued)

December 31, 2007

- 9.3 If yes to 9.1 or 9.2, please provide the following information in the Reinsurance Summary Supplemental Filing for General Interrogatory 9:
- (a) The aggregate financial statement impact gross of all such ceded reinsurance contracts on the balance sheet and statement of income;
 - (b) A summary of the reinsurance contract terms and indicate whether it applies to the contracts meeting the criteria in 9.1 or 9.2; and
 - (c) A brief discussion of management's principle objectives in entering into the reinsurance contract including the economic purpose to be achieved.
- 9.4 Except for transactions meeting the requirements of paragraph 30 of SSAP No. 62, *Property and Casualty Reinsurance*, has the reporting entity ceded any risk under reinsurance contract (or multiple contracts with the same reinsurer or its affiliates) during the period covered by the financial statement, and either:
- (a) Accounted for that contract as reinsurance (either prospective or retroactive) under statutory accounting principles (SAP) and as a deposit under generally accepted accounting principles (GAAP); or
 - (b) Accounted for that contract as reinsurance under GAAP and as a deposit under SAP?.....Yes ☐ No ☒
- 9.5 If yes to 9.4, explain in the Reinsurance Summary Supplemental Filing for General Interrogatory 9 (Section D) why the contract(s) is treated different for GAAP and SAP.

Statutory Basis Financial Statements
and Other Financial Information

HomeWise Preferred Insurance Company

*Years ended December 31, 2008 and 2007
with Report of Independent Auditors*

Thomas Howell
 Ferguson P.A.

HomeWise Preferred Insurance Company

Statutory Basis Financial Statements
and Other Financial Information

Years ended December 31, 2008 and 2007

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Report of Independent Auditors

The Board of Directors
HomeWise Preferred Insurance Company

We have audited the accompanying statements of admitted assets, liabilities and capital and surplus - statutory basis of HomeWise Preferred Insurance Company (the Company) as of December 31, 2008 and 2007, and the related statutory basis statements of operations, changes in capital and surplus, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 1, the accompanying statutory basis financial statements have been prepared in conformity with accounting practices prescribed or permitted by the Florida Office of Insurance Regulation, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities and capital and surplus of HomeWise Preferred Insurance Company as of December 31, 2008 and 2007, and the results of its operations and its cash flows for the years then ended on the basis of accounting described in Note 1.

Page Two

Our audits were made for the purpose of forming an opinion on the statutory basis financial statements taken as a whole. The supplemental disclosures included in other financial information as of and for the year ended December 31, 2008, are presented to comply with the National Association of Insurance Commissioners' *Accounting Practices and Procedures Manual* and are not a required part of the statutory basis financial statements. This other financial information has been subjected to the auditing procedures applied in the audits of the statutory basis financial statements and, in our opinion, is fairly stated in all material respects in relation to the statutory basis financial statements taken as a whole.

This report is intended solely for the use of the Board of Directors and management of HomeWise Preferred Insurance Company and for filing with the state insurance regulatory authorities and should not be used for any other purpose.

Thomas Howell Ferguson P.A.

May 11, 2009

HomeWise Preferred Insurance Company

Statements of Admitted Assets, Liabilities and Capital and Surplus - Statutory Basis

	December 31,	
	2008	2007
Admitted assets		
Cash and invested assets:		
Cash and cash equivalents	\$ 37,603,775	\$ 43,033,032
Total cash and invested assets	37,603,775	43,033,032
Accrued investment income	15,258	12,113
Premiums receivable, net	24,656,109	11,465,735
Reinsurance balances recoverable	15,482,737	1,611,125
Federal income taxes recoverable	79,007	-
Net deferred tax asset	1,525,292	549,881
Electronic data processing equipment, net	14,018	21,256
Receivables from parent and affiliates	3,098,297	-
Other assets	436,178	1,214,939
Total admitted assets	\$ 82,910,671	\$ 57,908,081
Liabilities and capital and surplus		
Liabilities:		
Loss and loss adjustment expense reserves	\$ 19,867,003	\$ 1,953,712
Reinsurance premiums payable	12,555,880	12,864,335
Unearned premiums, net	18,579,953	16,849,497
Other accrued expenses	1,575,077	874,017
Taxes, licenses, and fees payable	2,874,325	1,006,292
Federal income taxes payable	-	472,688
Payable to affiliates	3,972,151	5,401,495
Payable to Citizens Property Insurance Corporation	561,387	1,369,041
Total liabilities	59,985,776	40,791,077
Capital and surplus	22,924,895	17,117,004
Total liabilities and capital and surplus	\$ 82,910,671	\$ 57,908,081

See accompanying notes.

HomeWise Preferred Insurance Company

Statements of Operations - Statutory Basis

	Years ended December 31,	
	2008	2007
Underwriting income:		
Premiums earned, net of reinsurance ceded	\$ 35,891,252	\$ 6,910,233
Underwriting expenses:		
Losses and loss adjustment expenses incurred	24,587,482	2,648,112
Underwriting, acquisition, and other expenses	16,050,110	6,384,247
Total underwriting expenses	40,637,592	9,032,359
Net underwriting loss	(4,746,340)	(2,122,126)
Net investment income	444,464	631,314
Other income	728,320	104,537
Loss before federal income tax (benefit) expense	(3,573,556)	(1,386,275)
Federal income tax (benefit) expense	(551,695)	491,223
Net loss	\$ (3,021,861)	\$ (1,877,498)

See accompanying notes.

HomeWise Preferred Insurance Company

Statements of Changes in Capital and Surplus - Statutory Basis

Years ended December 31, 2008 and 2007

	Common Stock		Paid-in Surplus	Unassigned Funds	Total
	Shares	Par Value			
Balance as of December 31, 2006	100,000	\$ 100,000	\$ 9,900,000	\$ (332,746)	\$ 9,667,254
Issuance of common stock	900,000	900,000	(900,000)	-	-
Additional capital contributions	-	-	9,000,000	-	9,000,000
Change in deferred income taxes	-	-	-	974,767	974,767
Change in nonadmitted assets	-	-	-	(647,519)	(647,519)
Net loss	-	-	-	(1,877,498)	(1,877,498)
Balance as of December 31, 2007	1,000,000	1,000,000	18,000,000	(1,882,996)	17,117,004
Issuance of common stock	500,000	500,000	7,500,000	-	8,000,000
Change in deferred income taxes	-	-	-	651,035	651,035
Change in nonadmitted assets	-	-	-	178,717	178,717
Net loss	-	-	-	(3,021,861)	(3,021,861)
Balance as of December 31, 2008	1,500,000	\$ 1,500,000	\$ 25,500,000	\$ (4,075,105)	\$ 22,924,895

See accompanying notes.

HomeWise Preferred Insurance Company

Statements of Cash Flows - Statutory Basis

	Years ended December 31,	
	2008	2007
Operating activities		
Premiums collected, net of reinsurance	\$ 23,315,225	\$ 26,607,866
Net investment income received	441,319	627,242
Losses and loss adjustment expenses paid	(20,545,803)	(2,331,962)
Underwriting, acquisition, and other expenses paid	(14,097,428)	(5,110,961)
Other income received	752,815	-
Federal income taxes paid	-	(40,377)
Net cash (used in) provided by operating activities	<u>(10,133,872)</u>	<u>19,751,808</u>
Financing and miscellaneous activities		
Proceeds from issuance of common stock	8,000,000	-
Proceeds from additional capital contributions	-	9,000,000
Other miscellaneous (uses) sources	(3,295,385)	4,240,067
Net cash provided by financing and miscellaneous activities	<u>4,704,615</u>	<u>13,240,067</u>
Net (decrease) increase in cash	(5,429,257)	32,991,875
Cash at beginning of year	<u>43,033,032</u>	<u>10,041,157</u>
Cash at end of year	<u>\$ 37,603,775</u>	<u>\$ 43,033,032</u>

See accompanying notes.

HomeWise Preferred Insurance Company
Notes to Statutory Basis Financial Statements

Years ended December 31, 2008 and 2007

1. Summary of Significant Accounting Policies

HomeWise Preferred Insurance Company (the Company), a wholly-owned subsidiary of HomeWise Holdings, Inc. (HHI), is domiciled in the state of Florida. The Company was incorporated on May 31, 2006, and received its certificate of authority from the Florida Office of Insurance Regulation (the Office) on May 31, 2006. The Company received a certificate of authority from the Texas Department of Insurance on September 7, 2007, and began writing policies in Texas on October 31, 2007, and discontinued underwriting operations in May 2008. The Company received a Certificate of Authority from the South Carolina Department of Insurance on March 10, 2008; however, no policies were written in South Carolina in 2008. The Company is affiliated with HomeWise Management Company (HMC) and HomeWise Insurance Company (HIC), which are wholly-owned subsidiaries of HHI.

The Company writes and has written homeowners' and comprehensive dwelling fire coverage in the states of Florida and Texas, areas that are exposed to damage from hurricanes and severe storms. The Company attempts to mitigate its exposure to losses from storms by purchasing quota share and catastrophe reinsurance coverage. However, such a storm, depending on its path and severity, could result in losses to the Company exceeding its reinsurance protection and could have a material adverse effect on the financial condition and results of operations of the Company.

Basis of Presentation

The accompanying statutory basis financial statements have been prepared in accordance with statutory accounting practices (SAP) prescribed or permitted by the Office. Such statutory practices require preparation of the financial statements in accordance with the National Association of Insurance Commissioners' (NAIC) *Accounting Practices and Procedures Manual* subject to deviations prescribed by the Office. SAP is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America (GAAP). Such practices vary in certain respects from those under GAAP. The Company's significant accounting practices and the variances from GAAP are summarized below:

- Certain assets designated as "nonadmitted," principally past-due uncollected premiums, prepaid expenses, and other assets not specifically identified as an admitted asset within the *Accounting Practices and Procedures Manual*, are excluded from the accompanying statements of admitted assets, liabilities, and capital and surplus and are charged directly to unassigned surplus. Under GAAP, such assets would be included in the balance sheet at net realizable values.
- Loss and loss adjustment expense reserves and unearned premiums ceded to reinsurers have been reported as reductions of the related liabilities rather than as assets as would be required under GAAP.

HomeWise Preferred Insurance Company

Notes to Statutory Basis Financial Statements

1. Summary of Significant Accounting Policies (continued)

Basis of Presentation (continued)

- Cash in the statements of cash flows represents cash, cash equivalents, and short-term investments with remaining maturities of one year or less. Under GAAP, the corresponding caption of cash and cash equivalents would include cash balances and investments with initial maturities of three months or less.
- The costs of acquiring and renewing business are expensed when incurred. Under GAAP, such costs, to the extent recoverable, would be deferred and amortized over the effective period of the related insurance policies.
- Deferred tax assets are limited to 1) the amount of federal income taxes paid in prior years that can be recovered through loss carrybacks for existing temporary differences that reverse by the end of the subsequent calendar year, plus 2) the lesser of the remaining gross deferred tax assets expected to be realized within one year of the financial statement date or 10% of capital and surplus excluding any net deferred tax assets, "electronic data processing" (EDP) equipment and operating software and any net positive goodwill, plus 3) the amount of remaining gross deferred tax assets that can be offset against existing gross deferred tax liabilities. The remaining deferred tax assets are nonadmitted. Deferred taxes do not include amounts for state income taxes. Under GAAP, state income taxes would be included in the computation of deferred taxes, a deferred tax asset would be recorded for the amount of gross deferred tax assets expected to be realized in future years, and a valuation allowance would be established for deferred tax assets not realizable.
- Commissions allowed by reinsurers on business ceded are reported as a reduction of expense when incurred to the extent the amount does not exceed actual acquisition costs, rather than being deferred and amortized with deferred policy acquisition costs as would be required by GAAP. Commissions in excess of the acquisition costs, if any, would be deferred and recognized over the policy term consistent with GAAP.
- Certain other reported amounts are classified or presented differently in the financial statements prepared on the basis of SAP than they would be under GAAP. Statutory requirements require that the financial statements of the Company be filed with state regulatory authorities. Accordingly, the financial statements are presented in a format similar to the filed annual statement, which differs from the format of financial statements presented under GAAP. Required statutory disclosures that are not applicable to the Company are not included in the notes to these statutory financial statements.

Other significant accounting practices are as follows:

HomeWise Preferred Insurance Company

Notes to Statutory Basis Financial Statements

1. Summary of Significant Accounting Policies (continued)

Recognition of Premium Revenues

Premiums are recorded as earned on a daily pro rata basis over the contract period that the related policies are expected to be in force. The portion of premiums not earned at the end of the year is recorded as unearned premiums. Premiums collected prior to the effective date of the policy are recorded as a liability.

Cash and Cash Equivalents

Cash and cash equivalents include demand deposits with financial institutions and other highly liquid investments with original maturities of three months or less and certificates of deposit with original maturities of one year or less and are principally stated at cost, which approximates fair value.

Concentration of Credit Risk

The Company's financial instruments exposed to concentrations of credit risk consist primarily of its cash and cash equivalents, reinsurance recoveries, and premium revenue. The Company maintains its cash and cash equivalents at several financial institutions. Deposits with financial institutions are insured by the Federal Deposit Insurance Corporation (FDIC). On October 3, 2008, FDIC coverage increased from \$100,000 to \$250,000 per depositor until December 31, 2009. Bank deposit accounts, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts.

Electronic Data Processing (EDP) Equipment

The admitted value of the Company's EDP equipment is limited to 3% of capital and surplus. The admitted portion is reported at cost, less accumulated depreciation of \$14,199 and \$4,644 at December 31, 2008 and 2007, respectively. EDP equipment is depreciated using the straight-line method over the lesser of its useful life or three years. Depreciation expense charged to operations was \$12,989 and \$5,648 in 2008 and 2007, respectively.

Reinsurance

The accompanying statutory basis financial statements reflect reserves for premiums and losses and loss adjustment expenses (LAE), net of reinsurance ceded (see Note 6). Those reinsurance arrangements allow management to control exposure to potential losses arising from large risks. A significant portion of the reinsurance is effected under a quota share agreement. Amounts recoverable from reinsurers are estimated in a manner consistent with the loss and LAE reserves associated with the reinsured policies. Reinsurance premiums, losses, and LAE are accounted for on bases consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts.

HomeWise Preferred Insurance Company

Notes to Statutory Basis Financial Statements

1. Summary of Significant Accounting Policies (continued)

Loss and Loss Adjustment Expense (LAE) Reserves

Loss and LAE reserves represent the estimated ultimate net cost of all unpaid reported and unreported losses and LAE. The reserves for unpaid losses and LAE are estimated using individual case-basis estimates for reported losses and actuarial estimates for losses incurred but not yet reported. Those estimates are subject to the effects of trends in loss severity and frequency. Although considerable variability is inherent in such estimates, management believes that the reserves for losses and LAE are adequate. The estimates are continually reviewed and adjusted as necessary as experience develops or new information becomes known; such adjustments are included in current operations. The ultimate settlement of losses and LAE may vary significantly from the estimated amounts included in the financial statements. The Company does not discount its loss and LAE reserves.

The anticipated effect of inflation is implicitly considered when estimating liabilities for losses and LAE. While anticipated price increases due to inflation are considered in estimating the ultimate claim costs, the increase in average severities of claims is caused by a number of factors that vary with the individual type of policy written. Future average severities are projected based on historical trends adjusted for implemented changes in underwriting standards, policy provisions, and general economic trends. Those anticipated trends are monitored based on actual development and the estimated liabilities are modified if necessary.

Loss and LAE reserves are reported net of reinsurance recoverables for unpaid losses and LAE. Losses and LAE ceded through reinsurance are credited against losses and LAE incurred.

Guaranty Fund and Residual Market Pool Assessments

The Company is subject to assessments by a Florida guaranty fund, a residual market pool, and a state catastrophe reinsurance pool. The activities of this fund and these pools include collecting funds from solvent insurance companies to cover losses resulting from the insolvency or rehabilitation of other insurance companies or deficits generated by Florida Insurance Guaranty Association (FIGA), Citizens Property Insurance Corporation (Citizens), and the Florida Hurricane Catastrophe Fund (FHCF).

The Company's policy is to recognize its obligation for FIGA, Citizens, and FHCF assessments when the Company has the information available to reasonably estimate its liabilities. FIGA, Citizens, and FHCF assessments are generally available for recoupment from policyholders and as such, amounts are recorded as a recoverable asset. Amounts recoverable are generally expected to be collected during the year following assessment.

HomeWise Preferred Insurance Company

Notes to Statutory Basis Financial Statements

1. Summary of Significant Accounting Policies (continued)

Guaranty Fund and Residual Market Pool Assessments (continued)

The Company was assessed \$28,918 by FIGA in 2007 (none in 2008). The FIGA assessment recoverable from policyholders was \$0 and \$28,918 at December 31, 2008 and 2007, respectively.

Certain Citizens and FHCF assessments are collected from policyholders as policies are written and subsequently remitted to the assessing entity. Amounts due from policyholders for these assessments were \$318,322 and \$800,397 at December 31, 2008 and 2007, respectively. The liability for assessments collected but not remitted to Citizens and FHCF totaled \$1,002,391 and \$307,763 at December 31, 2008 and 2007, respectively.

Income Taxes

The Company calculates its state and federal income tax liabilities based upon the statutory rates in effect during the year.

Use of Estimates

The preparation of statutory basis financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the statutory basis financial statements, and the reported amounts of revenues and expenses during the reporting period. Such estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and described in the financial statements.

2. Regulatory Requirements

Florida Statute 624.408 requires the Company to maintain minimum capital and surplus of \$4 million and to meet the risk-based capital requirements (See Note 9). Additionally, Florida Statute 624.4095 requires the Company to maintain a ratio of the product of written premiums times 0.90 to surplus of no greater than 10-to-1 for gross written premiums and 4-to-1 for net written premiums. The Company is in compliance with these requirements.

Additionally, the Company is required to maintain deposits pursuant to Florida, Texas, and South Carolina statutes or consent orders to help secure the payment of claims. Cash on deposit in the amount of \$336,444 and \$320,621 has been assigned to the Office as of December 31, 2008 and 2007, respectively, and certificates of deposit of \$5,125,000 and \$1,000,000 as of December 31, 2008 and 2007, respectively, have been assigned to the Texas and South Carolina Departments of Insurance to satisfy these requirements. These amounts are included in cash and cash equivalents in the accompanying statements of admitted assets, liabilities, and capital and surplus.

HomeWise Preferred Insurance Company

Notes to Statutory Basis Financial Statements

3. Investments

Major categories of the Company's net investment income are summarized as follows:

	Years ended December 31,	
	2008	2007
Cash and cash equivalents	\$ 701,195	\$ 744,429
Investment expenses	<u>(256,731)</u>	<u>(113,115)</u>
Net investment income	<u>\$ 444,464</u>	<u>\$ 631,314</u>

4. Premiums Receivable

Premiums receivable include amounts due from HomeWise Management Company, the Company's managing general agent (MGA), who collects all premiums and remits them to the Company. The Company nonadmits balances due from insureds and deferred installments for the portion of the receivable that is more than 90 days past due that exceeds its related unearned premium. Premiums receivable are charged to bad debt expense in the period determined uncollectible. Recoveries received on amounts previously charged-off are credited to bad debt expense in the period received. Premiums receivable totaled \$24,656,109 and \$11,465,735, with no nonadmitted premiums receivable, as of December 31, 2008 and 2007, respectively.

5. Loss and Loss Adjustment Expense (LAE) Reserves

The following table provides a reconciliation of the beginning and ending reserve balances for losses and LAE, net of reinsurance recoverables.

	December 31,	
	2008	2007
	<i>(in thousands)</i>	
Loss and LAE reserves at beginning of year	\$ 1,953	\$ 26
Losses and LAE incurred related to:		
Current year	23,951	2,664
Prior years	<u>636</u>	<u>(16)</u>
	24,587	2,648
Losses and LAE paid related to:		
Current year	6,838	720
Prior years	<u>(165)</u>	<u>1</u>
	<u>6,673</u>	<u>721</u>
Loss and LAE reserves at end of year	<u>\$ 19,867</u>	<u>\$ 1,953</u>

Anticipated reinsurance recoverables on unpaid losses and LAE are approximately \$17,478,000 and \$5,834,000 at December 31, 2008 and 2007, respectively. Reinsurance recoverables on paid losses and LAE are \$9,035,000 and \$1,611,000 at December 31, 2008 and 2007, respectively.

HomeWise Preferred Insurance Company

Notes to Statutory Basis Financial Statements

5. Loss and Loss Adjustment Expense (LAE) Reserves (continued)

In 2008 and 2007, net incurred losses and LAE attributable to insured events of prior years have developed by \$636,000 and \$(16,000) as a result of re-estimation of unpaid losses and loss adjustment expenses. Original estimates are decreased or increased as additional information becomes known regarding individual claims.

6. Reinsurance

Certain premiums and losses are ceded to other insurance companies under various reinsurance agreements. The reinsurance agreements provide the Company with increased capacity to write more risk and maintain its exposure to loss within its capital resources. As of December 31, 2008 and 2007, the Company's reinsurance program consisted of quota share and excess of loss reinsurance for catastrophic events. Following is a summary of the reinsurance coverage.

Effective June 1, 2008, the catastrophe excess of loss coverage is provided by agreements with commercial reinsurers and by the FHCF. Coverage under the FHCF is limited to qualifying storms occurring in the state of Florida. The commercial excess of loss agreements generally provide coverage for 25% of ultimate net losses of approximately \$140,052,000 in excess of \$30,000,000 per occurrence, not to exceed 25% of approximately \$280,105,000 for all occurrences. The FHCF provides coverage for 90% of the losses from qualifying catastrophic events in excess of approximately \$91,023,000 up to a maximum of approximately \$542,312,000, plus 100% of qualifying losses in excess of \$5,135,000 (drop down layer) up to a maximum of \$15,135,000. The drop down layer provides for one automatic reinstatement at 100% of its original limit.

Effective June 1, 2008, the Company executed reinsurance premium protection agreements to reinsure the reinstatement premium payment obligations which accrue to the Company under the commercial catastrophe excess of loss agreements. The coverage is limited to 100% of the original contracted reinsurance placement.

Effective June 1, 2008, the Company and its affiliated company, HomeWise Insurance Company (collectively, the Reinsured), entered into a quota share reinsurance agreement with Swiss Reinsurance America Corporation (the Reinsurer). Under the terms of the agreement, which expires on May 31, 2009, the Reinsurer assumes 75% of the Reinsured's net liabilities for losses (loss and loss adjustment expense) after taking into effect the Reinsured's excess of loss reinsurance coverage provided by the FHCF. Under the terms of the agreement, the Reinsured cedes 75% of gross premiums after deducting the cost of the above referenced inuring reinsurance to the Reinsurer. The Reinsured cedes 75% of covered gross losses to the Reinsurer after deducting recoveries from the referenced inuring reinsurance. The maximum losses ceded under this agreement are limited to \$150 million per event and \$210 million for all occurrences. The Company and the Reinsurer entered in to an aggregate excess of loss agreement to reinsure the Reinsurer's catastrophe obligations under the quota share agreement. The Reinsurer reimburses the Company for the premiums relating to this coverage. The ceding commission from the Reinsurer to the Reinsured is on a reimbursement basis wherein the Reinsurer reimburses the Reinsured for 75% of acquisition and overhead expenses limited to 31%. The ceding commissions have been recorded as a reduction of underwriting, acquisition, and other expenses in the accompanying statements of operations.

HomeWise Preferred Insurance Company

Notes to Statutory Basis Financial Statements

6. Reinsurance (continued)

Effective June 1, 2007, the catastrophe excess of loss coverage was provided by agreements with commercial reinsurers and by the FHCF. Coverage under the FHCF was limited to qualifying storms occurring in the state of Florida. The commercial excess of loss agreements generally provide coverage on ultimate net losses of approximately \$5,934,000 in excess of \$11,624,000 per occurrence, not to exceed approximately \$11,868,000 for all occurrences. The FHCF provides coverage for 90% of the losses from qualifying catastrophic events in excess of approximately \$9,000,000 up to a maximum of approximately \$47,579,000, plus 100% of qualifying losses in excess of \$2,900,000 (drop down layer) up to a maximum of \$7,900,000. The drop down layer provides for one automatic reinstatement at 100% of its original limit.

Effective June 1, 2007, the Company executed reinsurance premium protection agreements to reinsure the reinstatement premium payment obligations which accrue to the Company under the commercial catastrophe excess of loss agreements. The coverage is limited to 100% of the original contracted reinsurance placement.

Effective January 1, 2007, the Company and its affiliated company, HomeWise Insurance Company (collectively, the Reinsured), entered into a quota share reinsurance agreement with Harlequin Insurance (Bermuda) SAC Limited (the Reinsurer or Harlequin). Under the terms of the agreement, which expired on May 31, 2008, the Reinsurer assumed 75% of the Reinsured's net liabilities for losses (loss and loss adjustment expense) after taking into effect the Reinsured's excess of loss reinsurance coverage provided by the FHCF and, through May 31, 2007, the coverage provided by open market excess of loss reinsurance purchased by the Reinsured. Under the terms of the agreement, the Reinsured ceded 75% of gross premiums after deducting the cost of the above referenced inuring reinsurance to the Reinsurer. The Reinsured ceded 75% of covered gross losses to the Reinsurer after deducting recoveries from the referenced inuring reinsurance. The agreement included an Event Cap for ceded losses of 44% of the ceded premium earned during the term. It also included an Aggregate Loss and Expense Ratio Cap wherein the maximum amount of losses and ceding commissions payable by the Reinsurer under this agreement in the aggregate shall be limited to 150% of the ceded premium earned during the term. In the event either cap is met, the Reinsured shares in recoveries in proportion to their respective subject losses to the total of losses subject to the agreement. The ceding commission from the Reinsurer to the Reinsured is on a reimbursement basis wherein the Reinsurer reimburses the Reinsured for 75% of acquisition and overhead expenses. The ceding commissions have been recorded as a reduction of underwriting, acquisition, and other expenses in the accompanying statements of operations. Effective May 31, 2008, this agreement terminated and was subsequently commuted. There was no gain or loss recorded from the commutation, however, there was a final adjustment to ceding commissions as prescribed by the agreement.

The FHCF provides coverage for named hurricanes only and provides no coverage after the one time limit is exhausted. Reinsurance premiums for the FHCF are paid on a total insured value basis. In the event of a loss assessment, the Company may recoup the assessment from its policyholders.

HomeWise Preferred Insurance Company

Notes to Statutory Basis Financial Statements

6. Reinsurance (continued)

The Company's reinsured risks are treated, to the extent of the reinsurance, as though they are risks for which the Company is not liable. However, the Company remains liable in the event the reinsuring entities do not meet their obligations under the reinsurance agreements. Given the quality of the reinsuring entities, management believes this possibility to be remote. See Note 5 for recoveries from reinsurers relating to paid and unpaid losses and LAE.

In 2008, the Company commuted its quota share agreement with Harlequin (see above) and did not enter into or engage in any loss portfolio transfer for any lines of business. In 2007, the Company did not commute any reinsurance nor did it enter into or engage in any loss portfolio transfer for any lines of business.

The effects of reinsurance on premiums written and earned are as follows:

	2008		2007	
	Written	Earned	Written	Earned
Direct premiums	\$ 193,293,182	\$ 127,674,203	\$ 53,509,123	\$ 22,822,434
Assumed premiums	17,402,442	54,434,161	47,707,142	9,240,850
Ceded premiums	<u>(173,073,918)</u>	<u>(146,217,112)</u>	<u>(78,821,965)</u>	<u>(25,153,051)</u>
Net premiums	<u>\$ 37,621,706</u>	<u>\$ 35,891,252</u>	<u>\$ 22,394,300</u>	<u>\$ 6,910,233</u>

The following table summarizes the effect of ceded unearned premiums on the direct unearned premiums reserve and provides the related commission equity at December 31:

	2008	2007
Direct unearned premiums	\$ 97,671,103	\$ 32,052,123
Assumed unearned premiums	1,434,575	38,466,292
Ceded unearned premiums	<u>(80,525,725)</u>	<u>(53,668,918)</u>
Unearned premiums, net	<u>\$ 18,579,953</u>	<u>\$ 16,849,497</u>
Assumed commission equity	\$ 129,112	\$ 6,154,607
Ceded commission equity	<u>(22,708,531)</u>	<u>(14,114,282)</u>
Commission equity, net	<u>\$ (22,579,419)</u>	<u>\$ (7,959,675)</u>

At December 31, 2008 and 2007, unsecured reinsurance recoverables on paid and unpaid losses and LAE and unearned premiums by reinsurer that were equal to or greater than 3% of surplus, are as follows:

	2008	2007
Swiss Reinsurance America Corporation	\$ 87,778,000	\$ -
Florida Hurricane Catastrophe Fund	9,352,000	-

For the years ended December 31, 2008 and 2007, recoveries under reinsurance contracts amounted to \$43,873,295 and \$545,286, respectively.

HomeWise Preferred Insurance Company

Notes to Statutory Basis Financial Statements

7. Policy Assumption Agreement

The Company assumed written premiums of \$17,402,442 and \$47,707,142 during 2008 and 2007, respectively, under a policy assumption agreement with Citizens. The Company provides a ceding commission to Citizens at a varying rate based on the aggregate number of policies assumed to cover the acquisition costs incurred by Citizens. Total ceding commissions at a 16% rate charged to operations in 2007 were \$7,633,143. During 2008, the commission rate was retroactively reduced to 9% for the 2007 and 2008 assumed premiums. The ceding commissions, after adjustment of the 2007 rate, credited to operations were \$(1,773,280).

8. Income Taxes

Income before federal income taxes differs from taxable income principally due to differences in loss and LAE reserves and unearned premiums for tax and statutory basis financial reporting purposes.

State income taxes are classified as taxes, licenses, and fees in the NAIC Annual Statement and as underwriting, acquisition, and other expenses on the statements of operations.

A. Components of deferred tax assets (DTAs) and deferred tax liabilities (DTLs) are as follows:

	December 31,	
	2008	2007
Gross DTAs	\$ 1,870,389	\$ 1,279,779
Gross DTLs	<u>(70,046)</u>	<u>(130,471)</u>
Net DTAs	1,800,343	1,149,308
Nonadmitted DTAs	<u>(275,051)</u>	<u>(599,427)</u>
Net admitted DTAs	<u>\$ 1,525,292</u>	<u>\$ 549,881</u>
(Decrease) increase in nonadmitted DTAs	<u>\$ (324,376)</u>	<u>\$ 599,427</u>

B. Unrecognized DTLs

There are no unrecognized DTLs.

C. Current tax and change in deferred tax:

The provision for income taxes incurred is:

	Years ended December 31,	
	2008	2007
Current year income tax (benefit) expense	\$ (615,214)	\$ 490,566
Prior year under accrual	<u>63,519</u>	<u>657</u>
Current income taxes incurred	<u>\$ (551,695)</u>	<u>\$ 491,223</u>

HomeWise Preferred Insurance Company

Notes to Statutory Basis Financial Statements

8. Income Taxes (continued)

The tax effect of temporary differences at December 31, 2008 that give rise to significant deferred tax assets and deferred tax liabilities are as follows:

DTAs	<u>Statutory</u>	<u>Tax</u>	<u>Difference</u>	<u>Tax Effect</u>
Unpaid losses and LAE	\$19,867,003	\$18,468,201	\$ 1,398,802	\$ 475,593
Unearned premiums	18,579,953	14,863,963	3,715,990	1,263,437
Organizational costs	-	192,247	192,247	65,364
Nonadmitted assets	-	194,103	194,103	65,995
Gross DTAs				<u>\$ 1,870,389</u>
Nonadmitted DTAs				<u>\$ 275,051</u>
DTLs	<u>Statutory</u>	<u>Tax</u>	<u>Difference</u>	<u>Tax Effect</u>
Furniture and equipment	\$ -	\$ (27,342)	\$ (27,342)	\$ (9,296)
Prepaid expenses	-	(178,675)	(178,675)	(60,750)
Gross DTLs				<u>\$ (70,046)</u>

The changes in the main components of DTAs and DTLs are as follows:

DTAs Resulting from Book/Tax Differences	December 31,		
	<u>2008</u>	<u>2007</u>	<u>Change</u>
Unpaid losses and LAE	\$ 475,593	\$ 46,555	\$ 429,038
Unearned premiums	1,263,437	1,145,766	117,671
Organizational costs	65,364	70,987	(5,623)
Nonadmitted assets	<u>65,995</u>	<u>16,471</u>	<u>49,524</u>
Gross DTAs	<u>\$ 1,870,389</u>	<u>\$ 1,279,779</u>	<u>\$ 590,610</u>
Nonadmitted DTAs	<u>\$ 275,051</u>	<u>\$ 599,427</u>	<u>\$ (324,376)</u>
DTLs Resulting from Book/Tax Differences	December 31,		
	<u>2008</u>	<u>2007</u>	<u>Change</u>
Furniture and equipment	\$ (9,296)	\$ (353)	\$ (8,943)
Prepaid expenses	(60,750)	(11,818)	(48,932)
Profit sharing expense	<u>-</u>	<u>(118,300)</u>	<u>118,300</u>
Gross DTLs	<u>\$ (70,046)</u>	<u>\$ (130,471)</u>	<u>\$ 60,425</u>

The change in gross DTAs and DTLs of \$651,035 is the change in net deferred income taxes before the consideration of nonadmitted DTAs.

HomeWise Preferred Insurance Company

Notes to Statutory Basis Financial Statements

8. Income Taxes (continued)

D. Reconciliation of federal income tax rate to actual effective rate:

	<u>2008</u>	<u>Effective Tax Rate</u>	<u>2007</u>	<u>Effective Tax Rate</u>
Provision computed at statutory rate	\$ (1,215,008)	34.00 %	\$ (471,334)	(34.00)%
Nondeductible item	9,917	(0.28)	-	-
Change in nonadmitted assets	(49,524)	1.39	(16,471)	(1.18)
Prior period tax adjustment	<u>51,885</u>	<u>(1.45)</u>	<u>4,261</u>	<u>0.30</u>
Total	<u>\$ (1,202,730)</u>	<u>33.66 %</u>	<u>\$ (483,544)</u>	<u>(34.88)%</u>
Federal income tax	\$ (551,695)	15.44 %	\$ 491,223	35.44 %
Change in deferred taxes	<u>(651,035)</u>	<u>18.22</u>	<u>(974,767)</u>	<u>(70.32)</u>
Statutory income taxes	<u>\$ (1,202,730)</u>	<u>33.66 %</u>	<u>\$ (483,544)</u>	<u>(34.88)%</u>

E. Operating loss and tax credit carryforwards:

1. At December 31, 2008 and 2007, the Company had no unused capital loss carryforwards available to offset against future taxable income.
2. The following is income tax expense that is available for recoupment in the event of future net losses:

<u>Year</u>	<u>Amount</u>
2008	\$ -
2007	447,611

F. Consolidated federal income tax return:

The Company files a consolidated tax return with the following:

HomeWise Holdings, Inc.
HomeWise Insurance Company
HomeWise Management Company, Inc.

The method of allocation among companies is made primarily on a separate return basis with current credit for any net operating losses or other items utilized in the consolidated tax returns. This method of tax allocation is described in the cost allocation agreement between the Company, HomeWise Holdings, Inc., HomeWise Management Company, Inc., and HomeWise Insurance Company.

HomeWise Preferred Insurance Company

Notes to Statutory Basis Financial Statements

9. Capital and Surplus

The Company has authorized 2,000,000 shares of \$1 par value common stock, of which 1,500,000 and 1,000,000 shares are issued and outstanding at December 31, 2008 and 2007, respectively. HHI is the sole shareholder. In 2008, HHI was issued 500,000 shares of common stock for \$8,000,000. By Board of Directors' resolution on April 3, 2007, \$900,000 of paid-in capital was reclassified to common capital stock, and 900,000 shares of stock were issued to HHI. HHI contributed additional paid-in capital of \$1,000,000 on September 13, 2007, and \$8,000,000 on December 17, 2007. No other classes of common or preferred shares were issued during 2008 or 2007.

Property and casualty insurance companies are subject to certain Risk-based Capital (RBC) requirements as specified by the NAIC. Under those requirements, the amount of capital and surplus maintained by a property and casualty insurance company is to be determined based on the various risk factors related to it. The Company is in compliance with the RBC requirements at December 31, 2008 and 2007.

The maximum amount of dividends that may be paid by property and casualty insurance companies without prior approval of the Office is subject to restrictions relating to statutory surplus and net income. Furthermore, in accordance with the Company's Certificate of Authority Consent Order, during the first three years of operations it may only pay dividends that are approved in advance by the Office. The Company did not declare or pay any dividends during the years ended December 31, 2008, and 2007.

10. Related Party Transactions

The Company is a wholly-owned subsidiary of HHI and is affiliated with HMC and HIC, which are also wholly-owned subsidiaries of HHI.

Effective May 31, 2006, the Company entered into a managing general agency agreement with HMC. Pursuant to the agreement, HMC provides to the Company premium billing, claims management, and underwriting functions. During 2008 and 2007, expenses incurred related to this agreement totaled \$53,864,383 and \$17,649,159, respectively. At December 31, 2008, the Company has a net receivable due from HMC in the amount of \$2,629,151 and at December 31, 2007, the Company has a payable due to HMC in the amount of \$1,090,149.

Effective May 31, 2006, the Company entered into a service agreement with HHI. Pursuant to the agreement, HHI provides capital management services, investor management and relations, and assists with overall general management of the Company. During 2008 and 2007, expenses incurred related to this agreement totaled \$2,072,892 and \$1,004,610, respectively. At December 31, 2008, the Company has a receivable due from HHI in the amount of \$469,146 and at a December 31, 2007, the Company has a payable due to HHI in the amount of \$181,781.

HomeWise Preferred Insurance Company

Notes to Statutory Basis Financial Statements

10. Related Party Transactions (continued)

The Company is also party to a Cost Allocation Agreement with HIC, HMC, and HHI in which expenses benefiting more than one company are allocated based upon direct allocation or revenue allocation rules, whichever is most appropriate for the expense. At December 31, 2008 and 2007, the Company has a payable due HIC in the amount of \$3,972,151 and \$4,129,565, respectively.

11. Premiums Produced by Managing General Agents or Third Party Administrators

The Company uses a managing general agent, HMC, to write and administer insurance products. The total premium produced and serviced through the contract during 2008 is summarized below. The Company retains underwriting authority for all policies issued under these agreements.

<u>Name and Address</u>	<u>FEI Number</u>	<u>Exclusive Contract</u>	<u>Type of Business Written</u>	<u>Type of Authority Granted</u>	<u>Direct Premium Written</u>
HomeWise Management Company, Inc. 18302 Highwoods Preserve Parkway, Suite 110 Tampa, FL 33647	20-3395152	Yes	Homeowners	Binding, premium collection, reinsurance negotiation, and underwriting	\$ 193,293,182

12. Lease Commitments

On May 1, 2006, the Company's affiliate, HIC, entered into an operating lease agreement for office space in Tampa, Florida, which is effective June 1, 2006, through May 31, 2011. The Company and HIC share the costs associated with this lease equally. The lease includes an option to renew for an additional five year period at the prevailing rental rate at that time, provided the lessor receives written notice nine months prior to expiration.

On May 3, 2007, the Company entered into an operating lease agreement for office space in San Antonio, Texas, which is effective July 6, 2007, through July 31, 2012.

Approximate future lease payments under these operating leases are as follows at December 31, 2008:

2009	\$ 314,900
2010	326,267
2011	178,788
2012	<u>41,015</u>
	<u>\$ 860,970</u>

HomeWise Preferred Insurance Company

Notes to Statutory Basis Financial Statements

12. Lease Commitments (continued)

Total rent expense for leases was \$265,683 and \$29,548 for the years ended December 31, 2008 and 2007, respectively.

13. Reconciliation of Annual Statement to Audited Financial Statements

Differences exist between amounts reported in the audited statutory financial statements and those reported in the annual statements of the Company for the years ended December 31, 2008 and 2007, resulting from reclassification of and audit adjustments to premiums receivable, other liabilities, other assets, and rounding. Presented below is a reconciliation of amounts previously reported to the Office and those amounts appearing in the audited statutory financial statements for the years ended December 31, 2008 and 2007.

	Audited Financial Statement Amount	Annual Statement Amount	Increase (Decrease)
December 31, 2008:			
Total admitted assets	\$ 82,910,671	\$ 82,349,283	\$ 561,388
Total liabilities	59,985,776	59,424,388	561,388
Total capital and surplus	22,924,895	22,924,895	-
Net loss	3,021,861	3,021,862	(1)
December 31, 2007:			
Total admitted assets	\$ 57,908,081	\$ 56,189,032	\$ 1,719,049
Total liabilities	40,791,077	39,072,028	1,719,049
Total capital and surplus	17,117,004	17,117,004	-
Net loss	1,877,498	1,877,495	3

Other Financial Information

SUMMARY INVESTMENT SCHEDULE

Investment Categories	Gross Investment Holdings		Admitted Assets as Reported in the Annual Statement	
	1 Amount	2 Percentage	3 Amount	4 Percentage
1. Bonds:				
1.1 U.S. treasury securities:		0.0		0.0
1.2 U.S. government agency obligations (excluding mortgage-backed securities):				
1.21 Issued by U.S. government agencies:		0.0		0.0
1.22 Issued by U.S. government sponsored agencies:		0.0		0.0
1.3 Foreign government (including Canada, excluding mortgage-backed securities):		0.0		0.0
1.4 Securities issued by states, territories and possessions and political subdivisions in the U.S.:				
1.41 States, territories and possessions general obligations:		0.0		0.0
1.42 Political subdivisions of states, territories & possessions & political subdivisions general obligations:		0.0		0.0
1.43 Revenue and assessment obligations:		0.0		0.0
1.44 Industrial development and similar obligations:		0.0		0.0
1.5 Mortgage-backed securities (includes residential and commercial MBS):				
1.51 Pass-through securities:				
1.511 Issued or guaranteed by GNMA:		0.0		0.0
1.512 Issued or guaranteed by FNMA and FHLMC:		0.0		0.0
1.513 All other:		0.0		0.0
1.52 CMOs and REMICs:				
1.521 Issued or guaranteed by GNMA, FNMA, FHLMC or VA:		0.0		0.0
1.522 Issued by non-U.S. Government issuers and collateralized by mortgage-backed securities issued or guaranteed by agencies shown in Line 1.521:		0.0		0.0
1.523 All other:		0.0		0.0
2. Other debt and other fixed income securities (excluding short-term):				
2.1 Unaffiliated domestic securities (includes credit tenant loans rated by the SVO):		0.0		0.0
2.2 Unaffiliated foreign securities:		0.0		0.0
2.3 Affiliated securities:		0.0		0.0
3. Equity interests:				
3.1 Investments in mutual funds:		0.0		0.0
3.2 Preferred stocks:				
3.21 Affiliated:		0.0		0.0
3.22 Unaffiliated:		0.0		0.0
3.3 Publicly traded equity securities (excluding preferred stocks):				
3.31 Affiliated:		0.0		0.0
3.32 Unaffiliated:		0.0		0.0
3.4 Other equity securities:				
3.41 Affiliated:		0.0		0.0
3.42 Unaffiliated:		0.0		0.0
3.5 Other equity interests including tangible personal property under lease:				
3.51 Affiliated:		0.0		0.0
3.52 Unaffiliated:		0.0		0.0
4. Mortgage loans:				
4.1 Construction and land development:		0.0		0.0
4.2 Agricultural:		0.0		0.0
4.3 Single family residential properties:		0.0		0.0
4.4 Multifamily residential properties:		0.0		0.0
4.5 Commercial loans:		0.0		0.0
4.6 Mezzanine real estate loans:		0.0		0.0
5. Real estate investments:				
5.1 Property occupied by company:		0.0		0.0
5.2 Property held for production of income (including \$, 0 of property acquired in satisfaction of debt):		0.0		0.0
5.3 Property held for sale (including \$, 0 property acquired in satisfaction of debt):		0.0		0.0
6. Contract loans:		0.0		0.0
7. Receivables for securities:		0.0		0.0
8. Cash, cash equivalents and short-term investments:		0.0	37,603,773	100.0
9. Other invested assets:		0.0		0.0
10. Total invested assets:	0	0.0	37,603,773	100.0



SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES

For the year ended December 31, 2008

(To be filed by April 1)

Of HomeWise Preferred Insurance Company

Address (City, State, Zip Code): Tampa FL 33647

NAIC Group Code.....4111

NAIC Company Code.....12582

Employer's ID Number.....20-4791515

The Investment Risks Interrogatories are to be filed by April 1. They are also to be included with the Audited Statutory Financial Statements.

Answer the following interrogatories by reporting the applicable U.S. dollar amounts and percentages of the reporting entity's total admitted assets held in that category of investments.

1. Reporting entity's total admitted assets as reported on Page 2 of this annual statement. \$.....82,349,283

2. Ten largest exposures to a single issuer/borrower/investment.

1	2	3	4
Issuer	Description of Exposure	Amount	Percentage of Total Admitted Assets
2.01		\$.....	0.000 %
2.02		\$.....	0.000 %
2.03		\$.....	0.000 %
2.04		\$.....	0.000 %
2.05		\$.....	0.000 %
2.06		\$.....	0.000 %
2.07		\$.....	0.000 %
2.08		\$.....	0.000 %
2.09		\$.....	0.000 %
2.10		\$.....	0.000 %

3. Amounts and percentages of the reporting entity's total admitted assets held in bonds and preferred stocks by NAIC rating.

Bonds		1	2
3.01	NAIC-1	\$.....	0.000 %
3.02	NAIC-2	\$.....	0.000 %
3.03	NAIC-3	\$.....	0.000 %
3.04	NAIC-4	\$.....	0.000 %
3.05	NAIC-5	\$.....	0.000 %
3.06	NAIC-6	\$.....	0.000 %
Preferred Stocks		3	4
3.07	P/RP-1	\$.....	0.000 %
3.08	P/RP-2	\$.....	0.000 %
3.09	P/RP-3	\$.....	0.000 %
3.10	P/RP-4	\$.....	0.000 %
3.11	P/RP-5	\$.....	0.000 %
3.12	P/RP-6	\$.....	0.000 %

4. Assets held in foreign investments:

4.01	Are assets held in foreign investments less than 2.5% of the reporting entity's total admitted assets?	Yes [X]	No []
If response to 4.01 above is yes, responses are not required for interrogatories 5-10.			
4.02	Total admitted assets held in foreign investments	\$.....	0.000 %
4.03	Foreign-currency-denominated investments	\$.....	0.000 %
4.04	Insurance liabilities denominated in that same foreign currency	\$.....	0.000 %

5. Aggregate foreign investment exposure categorized by NAIC sovereign rating:

	1	2
5.01	Countries rated NAIC-1	\$..... 0.000 %
5.02	Countries rated NAIC-2	\$..... 0.000 %
5.03	Countries rated NAIC-3 or below	\$..... 0.000 %

6. Largest foreign investment exposures by country, categorized by the country's NAIC sovereign rating:

	1	2
Countries rated NAIC-1:		
6.01	Country 1:	\$..... 0.000 %
6.02	Country 2:	\$..... 0.000 %
Countries rated NAIC-2:		
6.03	Country 1:	\$..... 0.000 %
6.04	Country 2:	\$..... 0.000 %
Countries rated NAIC-3 or below:		
6.05	Country 1:	\$..... 0.000 %
6.06	Country 2:	\$..... 0.000 %

		1	2	
7.	Aggregate unhedged foreign currency exposure:	\$		0.000 %
8.	Aggregate unhedged foreign currency exposure categorized by NAIC sovereign rating:	1	2	
8.01	Countries rated NAIC-1:	\$		0.000 %
8.02	Countries rated NAIC-2:	\$		0.000 %
8.03	Countries rated NAIC-3 or below:	\$		0.000 %
9.	Largest unhedged foreign currency exposures by country, categorized by the country's NAIC sovereign rating:	1	2	
	Countries rated NAIC-1:			
9.01	Country 1:	\$		0.000 %
9.02	Country 2:	\$		0.000 %
	Countries rated NAIC-2:			
9.03	Country 1:	\$		0.000 %
9.04	Country 2:	\$		0.000 %
	Countries rated NAIC-3 or below:			
9.05	Country 1:	\$		0.000 %
9.06	Country 2:	\$		0.000 %
10.	Ten largest non-sovereign (i.e. non-governmental) foreign issues:			
	1	2	3	4
	<u>Issuer</u>	<u>NAIC Rating</u>		
10.01			\$	0.000 %
10.02			\$	0.000 %
10.03			\$	0.000 %
10.04			\$	0.000 %
10.05			\$	0.000 %
10.06			\$	0.000 %
10.07			\$	0.000 %
10.08			\$	0.000 %
10.09			\$	0.000 %
10.10			\$	0.000 %
11.	Amounts and percentages of the reporting entity's total admitted assets held in Canadian investments and unhedged Canadian currency exposure			
11.01	Are assets held in Canadian investments less than 2.5% of the reporting entity's total admitted assets?			Yes [X] No []
	If response to 11.01 is yes, detail is not required for the remainder of Interrogatory 11			
11.02	Total admitted assets held in Canadian investments	\$		0.000 %
11.03	Canadian currency-denominated investments	\$		0.000 %
11.04	Canadian-denominated insurance liabilities	\$		0.000 %
11.05	Unhedged Canadian currency exposure	\$		0.000 %
12.	Report aggregate amounts and percentages of the reporting entity's total admitted assets held in investments with contractual sales restrictions			
12.01	Are assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets?			Yes [X] No []
	If response to 12.01 is yes, responses are not required for the remainder of Interrogatory 12.			
	1	2	3	
12.02	Aggregate statement value of investments with contractual sales restrictions:	\$		0.000 %
	Largest three investments with contractual sales restrictions:			
12.03		\$		0.000 %
12.04		\$		0.000 %
12.05		\$		0.000 %
13.	Amounts and percentages of admitted assets held in the ten largest equity interests:			
13.01	Are assets held in equity interest less than 2.5% of the reporting entity's total admitted assets?			Yes [X] No []
	If response to 13.01 above is yes, responses are not required for the remainder of Interrogatory 13			
	1	2	3	
	<u>Name of Issuer</u>			
13.02		\$		0.000 %
13.03		\$		0.000 %
13.04		\$		0.000 %
13.05		\$		0.000 %
13.06		\$		0.000 %
13.07		\$		0.000 %
13.08		\$		0.000 %
13.09		\$		0.000 %
13.10		\$		0.000 %
13.11		\$		0.000 %

14. Amounts and percentages of the reporting entity's total admitted assets held in nonaffiliated, privately placed equities:

14.01 Are assets held in nonaffiliated, privately placed equities less than 2.5% of the reporting entity's total admitted assets? Yes ☒ No ☐
If response to 14.01 above is yes, responses are not required for the remainder of Interrogatory 14.

1	2	3
14.02 Aggregate statement value of investments held in nonaffiliated, privately placed equities:	\$	0.000 %
Largest three investments held in nonaffiliated, privately placed equities:		
14.03	\$	0.000 %
14.04	\$	0.000 %
14.05	\$	0.000 %

15. Amounts and percentages of the reporting entity's total admitted assets held in general partnership interests:

15.01 Are assets held in general partnership interests less than 2.5% of the reporting entity's total admitted assets? Yes ☒ No ☐
If response to 15.01 above is yes, responses are not required for the remainder of Interrogatory 15

1	2	3
15.02 Aggregate statement value of investments held in general partnership interests:	\$	0.000 %
Largest three investments in general partnership interests:		
15.03	\$	0.000 %
15.04	\$	0.000 %
15.05	\$	0.000 %

16. Amounts and percentages of the reporting entity's total admitted assets held in mortgage loans:

16.01 Are mortgage loans reported in Schedule B less than 2.5% of the reporting entity's total admitted assets? Yes ☒ No ☐
If response to 16.01 above is yes, responses are not required for the remainder of Interrogatory 16 and Interrogatory 17.

1	2	3
Type (Residential, Commercial, Agricultural)		
16.02	\$	0.000 %
16.03	\$	0.000 %
16.04	\$	0.000 %
16.05	\$	0.000 %
16.06	\$	0.000 %
16.07	\$	0.000 %
16.08	\$	0.000 %
16.09	\$	0.000 %
16.10	\$	0.000 %
16.11	\$	0.000 %

Amount and percentage of the reporting entity's total admitted assets held in the following categories of mortgage loans:

	Loans
16.12 Construction loans:	\$ 0.000 %
16.13 Mortgage loans over 90 days past due:	\$ 0.000 %
16.14 Mortgage loans in the process of foreclosure:	\$ 0.000 %
16.15 Mortgage loans foreclosed:	\$ 0.000 %
16.16 Restructured mortgage loans:	\$ 0.000 %

17. Aggregate mortgage loans having the following loan-to-value ratios as determined from the most current appraisal as of the annual statement date:

Loan-to-Value	1	Residential	2	3	Commercial	4	5	Agricultural	6
17.01 above 95%	\$	0.000 %	\$	0.000 %	\$	0.000 %	\$	0.000 %	
17.02 91% to 95%	\$	0.000 %	\$	0.000 %	\$	0.000 %	\$	0.000 %	
17.03 81% to 90%	\$	0.000 %	\$	0.000 %	\$	0.000 %	\$	0.000 %	
17.04 71% to 80%	\$	0.000 %	\$	0.000 %	\$	0.000 %	\$	0.000 %	
17.05 below 70%	\$	0.000 %	\$	0.000 %	\$	0.000 %	\$	0.000 %	

18. Amounts and percentages of the reporting entity's total admitted assets held in each of the five largest investments in real estate:

18.01 Are assets held in real estate reported less than 2.5% of the reporting entity's total admitted assets? Yes ☒ No ☐
If response to 18.01 above is yes, responses are not required for the remainder of Interrogatory 18

Description	2	3
18.02	\$	0.000 %
18.03	\$	0.000 %
18.04	\$	0.000 %
18.05	\$	0.000 %
18.06	\$	0.000 %

19. Report aggregate amounts and percentages of the reporting entity's total admitted assets held in investments held in mezzanine real estate loans

19.01 Are assets held in investments held in mezzanine real estate loans less than 2.5% of the reporting entity's admitted assets? Yes ☒ No ☐
If response to 19.01 is yes, responses are not required for the remainder of Interrogatory 19

1	2	3
19.02 Aggregate statement value of investments held in mezzanine real estate loans:	\$	0.000 %
Largest three investments held in mezzanine real estate loans:		
19.03	\$	0.000 %
19.04	\$	0.000 %
19.05	\$	0.000 %

20. Amounts and percentages of the reporting entity's total admitted assets subject to the following types of agreements:

	<u>At Year-End</u>		1st Qtr	<u>At End of Each Quarter</u>		3rd Qtr
	1	2		2nd Qtr	4	5
20.01 Securities lending agreements (do not include assets held as collateral for such transactions).....	\$	0.000 %	\$	\$	\$	\$
20.02 Repurchase agreements.....	\$	0.000 %	\$	\$	\$	\$
20.03 Reverse repurchase agreements.....	\$	0.000 %	\$	\$	\$	\$
20.04 Dollar repurchase agreements.....	\$	0.000 %	\$	\$	\$	\$
20.05 Dollar reverse repurchase agreements.....	\$	0.000 %	\$	\$	\$	\$

21. Amounts and percentages of the reporting entity's total admitted assets for warrants not attached to other financial instruments, options, caps and floors:

	<u>Owned</u>			<u>Written</u>	
	1	2	3	4	
21.01 Hedging.....	\$	0.000 %	\$	0.000 %	
21.02 Income generation.....	\$	0.000 %	\$	0.000 %	
21.03 Other.....	\$	0.000 %	\$	0.000 %	

22. Amounts and percentages of the reporting entity's total admitted assets of potential exposure for collars, swaps, and forwards:

	<u>At Year-End</u>		1st Qtr	<u>At End of Each Quarter</u>		3rd Qtr
	1	2		2nd Qtr	4	5
22.01 Hedging.....	\$	0.000 %	\$	\$	\$	\$
22.02 Income generation.....	\$	0.000 %	\$	\$	\$	\$
22.03 Replications.....	\$	0.000 %	\$	\$	\$	\$
22.04 Other.....	\$	0.000 %	\$	\$	\$	\$

23. Amounts and percentages of the reporting entity's total admitted assets of potential exposure for futures contracts:

	<u>At Year-End</u>		1st Qtr	<u>At End of Each Quarter</u>		3rd Qtr
	1	2		2nd Qtr	4	5
23.01 Hedging.....	\$	0.000 %	\$	\$	\$	\$
23.02 Income generation.....	\$	0.000 %	\$	\$	\$	\$
23.03 Replications.....	\$	0.000 %	\$	\$	\$	\$
23.04 Other.....	\$	0.000 %	\$	\$	\$	\$

HomeWise Preferred Insurance Company

Selected General Interrogatories Relating to Reinsurance

December 31, 2008

- 7.1 Has the reporting entity reinsured any risk with any other entity under a quota share reinsurance contract that includes a provision that would limit the reinsurer's losses below the stated quota share percentage (e.g., a deductible, a loss ratio corridor, a loss cap, an aggregate limit or any similar provisions)?.....Yes ☒ No ☐
- 7.2 If yes, indicate the number of reinsurance contracts containing such provisions.....1
- 7.3 If yes, does the amount of reinsurance credit taken reflect the reduction in quota share coverage caused by any applicable limiting provision(s)?.....Yes ☒ No ☐
- 9.1 Has the reporting entity ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates) for which during the period covered by the statement: (i) it recorded a positive or negative underwriting result greater than 5% of prior year-end surplus as regards policyholders or it reported calendar year written premium ceded or year-end loss and loss expense reserves ceded greater than 5% of prior year-end surplus as regards policyholders; (ii) it accounted for that contract as reinsurance and not as a deposit; and (iii) the contract(s) contain one or more of the following features or other features that would have similar results:
- (a) A contract term longer than two years and the contract is noncancellable by the reporting entity during the contract term;
 - (b) A limited or conditional cancellation provision under which cancellation triggers an obligation by the reporting entity, or an affiliate of the reporting entity, to enter into a new reinsurance contract with the reinsurer, or an affiliate of the reinsurer;
 - (c) Aggregate stop loss reinsurance coverage;
 - (d) A unilateral right by either party to commute the reinsurance contract, whether conditional or not, except for such provisions which are only triggered by a decline in the credit status of the other party;
 - (e) A provision permitting reporting of losses, or payment of losses, less frequently than on a quarterly basis (unless there is no activity during the period); or
 - (f) Payment schedule, accumulating retentions from multiple years or any feature inherently designed to delay timing of the reimbursement to the ceding entity.....Yes ☐ No ☒
- 9.2 Has the reporting entity during the period covered by the statement ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates), for which, during the period covered by the statement, it recorded a positive or negative underwriting result greater than 5% of prior year-end surplus as regards policyholders or it reported calendar year premium ceded or year-end loss and loss expense reserves ceded greater than 5% of prior year-end surplus as regards policyholders; excluding cessions to approved pooling agreements or to captive insurance companies that are directly or indirectly controlling, controlled by, or under common control with (i) one or more unaffiliated policyholders of the reporting entity, or (ii) an association of which one or more unaffiliated policyholders of the reporting entity is a member, where:
- (a) The written premium ceded to the reinsurer by the reporting entity or its affiliates represents fifty percent (50%) or more of the entire direct and assumed premium written by the reinsurer based on its most recently available financial statement; or
 - (b) Twenty-five percent (25%) or more of the written premium ceded to the reinsurer has been retroceded back to the reporting entity or its affiliates in a separate reinsurance contract?.....Yes ☐ No ☒

HomeWise Preferred Insurance Company

Selected General Interrogatories Relating to Reinsurance

- 9.3 If yes to 9.1 or 9.2, please provide the following information in the Reinsurance Summary Supplemental Filing for General Interrogatory 9:
- (a) The aggregate financial statement impact gross of all such ceded reinsurance contracts on the balance sheet and statement of income;
 - (b) A summary of the reinsurance contract terms and indicate whether it applies to the contracts meeting the criteria in 9.1 or 9.2; and
 - (c) A brief discussion of management's principle objectives in entering into the reinsurance contract including the economic purpose to be achieved.
- 9.4 Except for transactions meeting the requirements of paragraph 31 of SSAP No. 62, *Property and Casualty Reinsurance*, has the reporting entity ceded any risk under any reinsurance contract (or multiple contracts with the same reinsurer or its affiliates) during the period covered by the financial statement, and either:
- (a) Accounted for that contract as reinsurance (either prospective or retroactive) under statutory accounting principles (SAP) and as a deposit under generally accepted accounting principles (GAAP); or
 - (b) Accounted for that contract as reinsurance under GAAP and as a deposit under SAP?.....Yes ☐ No ☒
- 9.5 If yes to 9.4, explain in the Reinsurance Summary Supplemental Filing for General Interrogatory 9 (Section D) why the contract(s) is treated different for GAAP and SAP.

See report of independent auditors.

Statutory Basis Financial Statements
and Other Financial Information

HomeWise Preferred Insurance Company

*Years ended December 31, 2009 and 2008
with Report of Independent Auditors*

Thomas Howell
 Ferguson P.A.

HomeWise Preferred Insurance Company

Statutory Basis Financial Statements
and Other Financial Information

Years ended December 31, 2009 and 2008

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Report of Independent Auditors

The Board of Directors
HomeWise Preferred Insurance Company

We have audited the accompanying statements of admitted assets, liabilities, and capital and surplus - statutory basis of HomeWise Preferred Insurance Company (the Company) as of December 31, 2009 and 2008, and the related statutory basis statements of operations, changes in capital and surplus, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described more fully in Note 1 to the financial statements, these financial statements have been prepared in conformity with accounting practices prescribed or permitted by the Florida Office of Insurance Regulation, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities and capital and surplus of HomeWise Preferred Insurance Company as of December 31, 2009 and 2008, and the results of its operations and its cash flows for the years then ended on the basis of accounting described in Note 1.

Our audits were made for the purpose of forming an opinion on the statutory basis financial statements taken as a whole. The summary investment schedule (Schedule 1), supplemental investment risks interrogatories (Schedule 2), and the selected general interrogatories relating to reinsurance (Schedule 3) included in other financial information as of and for the year ended December 31, 2009, are presented to comply with the National Association of Insurance Commissioners' *Accounting Practices and Procedures Manual* and are not a required part of the statutory basis financial statements. The additional information has been subjected to the auditing procedures applied in the audits of the statutory basis financial statements and, in our opinion, is fairly stated in all material respects in relation to the statutory basis financial statements taken as a whole.

This report is intended solely for the use of the Board of Directors and management of HomeWise Preferred Insurance Company and for filing with the Florida Office of Insurance Regulation and is not intended to be and should not be used by anyone other than these specified parties.

Thomas Howell Ferguson P.A.

March 24, 2010

HomeWise Preferred Insurance Company

Statements of Admitted Assets, Liabilities, and Capital and Surplus - Statutory Basis

	December 31,	
	2009	2008
Admitted assets		
Cash and invested assets:		
Short-term investments	\$ 26,512,091	\$ -
Cash and cash equivalents	<u>28,499,823</u>	<u>37,603,775</u>
Total cash and invested assets	55,011,914	37,603,775
Accrued investment income	4,693	15,258
Premiums receivable, net	21,152,661	24,656,109
Reinsurance balances recoverable	3,057,603	15,482,737
Federal income taxes recoverable	2,724,399	79,007
Net deferred tax asset	-	1,525,292
Electronic data processing equipment, net	2,489	14,018
Receivables from parent and affiliates	6,594,042	3,098,297
Other assets	<u>2,186,985</u>	<u>436,178</u>
Total admitted assets	<u>\$ 90,734,786</u>	<u>\$ 82,910,671</u>
Liabilities and capital and surplus		
Liabilities:		
Loss and loss adjustment expense reserves	\$ 36,314,180	\$ 19,867,003
Unearned premiums, net	8,826,461	18,579,953
Reinsurance premiums payable	26,964,766	12,555,880
Provision for reinsurance	170,000	-
Other accrued expenses	1,036,548	1,575,077
Taxes, licenses, and fees payable	134,330	2,874,325
Payable to affiliates	-	3,972,151
Payable to Citizens Property Insurance Corporation	<u>-</u>	<u>561,387</u>
Total liabilities	73,446,285	59,985,776
Capital and surplus	<u>17,288,501</u>	<u>22,924,895</u>
Total liabilities and capital and surplus	<u>\$ 90,734,786</u>	<u>\$ 82,910,671</u>

See accompanying notes.

HomeWise Preferred Insurance Company

Statements of Operations - Statutory Basis

	<u>Years ended</u> <u>2009</u>	<u>December 31,</u> <u>2008</u>
Underwriting income:		
Premiums earned, net of reinsurance ceded	\$ 22,810,636	\$ 35,891,252
Underwriting expenses:		
Loss and loss adjustment expenses incurred	26,395,360	24,587,482
Underwriting, acquisition, and other expenses	<u>5,935,709</u>	<u>16,050,110</u>
Total underwriting expenses	<u>32,331,069</u>	<u>40,637,592</u>
Net underwriting loss	(9,520,433)	(4,746,340)
Net investment income	153,172	444,464
Other income	<u>750,913</u>	<u>728,320</u>
Loss before federal income tax benefit	(8,616,348)	(3,573,556)
Federal income tax benefit	<u>(2,749,549)</u>	<u>(551,695)</u>
Net loss	\$ <u>(5,866,799)</u>	\$ <u>(3,021,861)</u>

See accompanying notes.

HomeWise Preferred Insurance Company

Statements of Changes in Capital and Surplus - Statutory Basis

Years ended December 31, 2009 and 2008

	Common Stock		Paid-in Surplus	Unassigned Funds	Total
	Shares	Par Value			
Balance as of December 31, 2007	1,000,000	\$ 1,000,000	\$ 18,000,000	\$ (1,882,996)	\$ 17,117,004
Issuance of common stock	500,000	500,000	7,500,000	-	8,000,000
Change in deferred income taxes	-	-	-	651,035	651,035
Change in nonadmitted assets	-	-	-	178,717	178,717
Net loss	-	-	-	(3,021,861)	(3,021,861)
Balance as of December 31, 2008	1,500,000	1,500,000	25,500,000	(4,075,105)	22,924,895
Capital contributions	-	-	2,000,000	-	2,000,000
Change in deferred income taxes	-	-	-	251,583	251,583
Change in nonadmitted assets	-	-	-	(1,851,178)	(1,851,178)
Change in provision for reinsurance	-	-	-	(170,000)	(170,000)
Net loss	-	-	-	(5,866,792)	(5,866,792)
Balance as of December 31, 2009	<u>1,500,000</u>	<u>\$ 1,500,000</u>	<u>\$ 27,500,000</u>	<u>\$ (11,711,499)</u>	<u>\$ 17,288,501</u>

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See accompanying notes.

HomeWise Preferred Insurance Company

Statements of Cash Flows - Statutory Basis

	<u>Years ended</u> <u>2009</u>	<u>December 31,</u> <u>2008</u>
Operating activities		
Premiums collected, net of reinsurance	\$ 30,394,636	\$ 23,315,225
Net investment income received	163,737	441,319
Other income received	777,234	752,815
Losses and loss adjustment expenses recovered (paid)	2,476,951	(20,545,803)
Underwriting, acquisition, and other expenses paid	(9,007,847)	(14,097,428)
Federal income taxes recovered	104,157	-
Net cash provided by (used in) operating activities	<u>24,908,868</u>	<u>(10,133,872)</u>
Financing activities		
Proceeds from issuance of common stock	-	8,000,000
Proceeds from capital contributions	2,000,000	-
Other miscellaneous uses	<u>(9,500,729)</u>	<u>(3,295,385)</u>
Net cash (used in) provided by financing activities	<u>(7,500,729)</u>	<u>4,704,615</u>
Net increase (decrease) in cash and cash equivalents	17,408,139	(5,429,257)
Cash at beginning of year	<u>37,603,775</u>	<u>43,033,032</u>
Cash at end of year	<u>\$ 55,011,914</u>	<u>\$ 37,603,775</u>
Cash consists of the following:		
Cash and cash equivalents	\$ 28,499,823	\$ 37,603,775
Short-term investments	<u>26,512,091</u>	<u>-</u>
	<u>\$ 55,011,914</u>	<u>\$ 37,603,775</u>

See accompanying notes.

HomeWise Preferred Insurance Company
Notes to Statutory Basis Financial Statements

Years ended December 31, 2009 and 2008

1. Summary of Significant Accounting Policies

Organization and Description of Company

HomeWise Preferred Insurance Company (the Company), a wholly-owned subsidiary of HomeWise Holdings, Inc. (HHI), is domiciled in the state of Florida. The Company was incorporated on May 31, 2006, and received its Certificate of Authority from the Florida Office of Insurance Regulation (the Office) on May 31, 2006. The Company received a Certificate of Authority from the Texas Department of Insurance on September 7, 2007, and began writing policies in Texas on October 31, 2007, and discontinued underwriting operations in May 2008. The Company received a Certificate of Authority from the South Carolina Department of Insurance on March 10, 2008, and began writing policies on July 30, 2009. The Company is affiliated with HomeWise Management Company (HMC) and HomeWise Insurance Company (HIC), which are wholly-owned subsidiaries of HHI.

The Company writes and has written homeowners' and comprehensive dwelling fire coverage in the states of Florida, South Carolina, and Texas, areas that are exposed to damage from hurricanes and severe storms. The Company attempts to mitigate its exposure to losses from storms by purchasing quota share and catastrophe reinsurance coverage. However, such a storm, depending on its path and severity, could result in losses to the Company exceeding its reinsurance protection and could have a material adverse effect on the financial condition and results of operations of the Company.

Basis of Presentation

The accompanying statutory basis financial statements have been prepared in accordance with statutory accounting practices (SAP) prescribed or permitted by the Office. Such statutory practices require preparation of the financial statements in accordance with the National Association of Insurance Commissioners' (NAIC) *Accounting Practices and Procedures Manual* subject to deviations prescribed by the Office. SAP is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America (GAAP). Such practices vary in certain respects from those under GAAP. The Company's significant accounting practices and the variances from GAAP are summarized below:

- Certain assets designated as "nonadmitted," principally past-due uncollected premiums, prepaid expenses, and other assets not specifically identified as an admitted asset within the *Accounting Practices and Procedures Manual*, are excluded from the accompanying statements of admitted assets, liabilities, and capital and surplus and are charged directly to unassigned surplus. Under GAAP, such assets would be included in the balance sheet at net realizable values.

HomeWise Preferred Insurance Company

Notes to Statutory Basis Financial Statements

1. Summary of Significant Accounting Policies (continued)

Basis of Presentation (continued)

- Loss and loss adjustment expense reserves and unearned premiums ceded to reinsurers have been reported as reductions of the related liabilities rather than as assets as would be required under GAAP.
- Cash in the statements of cash flows represents cash, cash equivalents, and short-term investments with remaining maturities of one year or less. Under GAAP, the corresponding caption of cash and cash equivalents would include cash balances and investments with initial maturities of three months or less.
- The costs of acquiring and renewing business are expensed when incurred. Under GAAP, such costs, to the extent recoverable, would be deferred and amortized over the effective period of the related insurance policies.
- Deferred tax assets are limited to 1) the amount of federal income taxes paid in prior years that can be recovered through loss carrybacks for existing temporary differences that reverse by the end of the subsequent calendar year, plus 2) the lesser of the remaining gross deferred tax assets expected to be realized within one year of the financial statement date or 10% of capital and surplus excluding any net deferred tax assets, "electronic data processing" (EDP) equipment and operating software and any net positive goodwill, plus 3) the amount of remaining gross deferred tax assets that can be offset against existing gross deferred tax liabilities. The remaining deferred tax assets are nonadmitted. Deferred taxes do not include amounts for state income taxes. Under GAAP, state income taxes would be included in the computation of deferred taxes, a deferred tax asset would be recorded for the amount of gross deferred tax assets expected to be realized in future years, and a valuation allowance would be established for deferred tax assets not realizable.
- Commissions allowed by reinsurers on business ceded are reported as a reduction of expense when incurred to the extent the amount does not exceed actual acquisition costs, rather than being deferred and amortized with deferred policy acquisition costs as would be required by GAAP. Commissions in excess of the acquisition costs, if any, would be deferred and recognized over the policy term consistent with GAAP.

HomeWise Preferred Insurance Company

Notes to Statutory Basis Financial Statements

1. Summary of Significant Accounting Policies (continued)

Basis of Presentation (continued)

- Certain other reported amounts are classified or presented differently in the financial statements prepared on the basis of SAP than they would be under GAAP. Statutory requirements require that the financial statements of the Company be filed with state regulatory authorities. Accordingly, the financial statements are presented in a format similar to the filed annual statement, which differs from the format of financial statements presented under GAAP. Required statutory disclosures that are not applicable to the Company are not included in the notes to these statutory financial statements.

Other significant accounting practices are as follows:

Recognition of Premium Revenues

Premiums are recorded as earned on a daily pro rata basis over the contract period that the related policies are expected to be in force. The portion of premiums not earned at the end of the year is recorded as unearned premiums. Premiums collected prior to the effective date of the policy are recorded as a liability.

Cash and Cash Equivalents

Cash and cash equivalents include demand deposits with several financial institutions and other highly liquid investments with original maturities of three months or less and certificates of deposit with original maturities of one year or less and are principally stated at cost, which approximates fair value.

Concentration of Credit Risk

The Company's financial instruments exposed to concentrations of credit risk consist primarily of its cash and cash equivalents, reinsurance recoveries, and premium revenue. The Company maintains its cash and cash equivalents at several financial institutions. Deposits with financial institutions are insured by the Federal Deposit Insurance Corporation (FDIC). On October 3, 2008, FDIC coverage increased from \$100,000 to \$250,000 per depositor until December 31, 2009. On May 20, 2009, the FDIC extended this increase in per depositor coverage to December 31, 2013. Bank deposit accounts, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts.

HomeWise Preferred Insurance Company

Notes to Statutory Basis Financial Statements

1. Summary of Significant Accounting Policies (continued)

Electronic Data Processing (EDP) Equipment

The admitted value of the Company's EDP equipment is limited to 3% of capital and surplus. The admitted portion is reported at cost, less accumulated depreciation of \$12,886 and \$14,199, at December 31, 2009 and 2008, respectively. EDP equipment is depreciated using the straight-line method over the lesser of its useful life or three years. Depreciation expense charged to operations was \$12,175 and \$12,989 in 2009 and 2008, respectively.

Reinsurance

The accompanying statutory basis financial statements reflect reserves for premiums and losses and loss adjustment expenses (LAE), net of reinsurance ceded (see Note 6). Those reinsurance arrangements allow management to control exposure to potential losses arising from large risks. A significant portion of the reinsurance is effected under a quota share reinsurance agreement. Amounts recoverable from reinsurers are estimated in a manner consistent with the loss and LAE reserves associated with the reinsured policies. Reinsurance premiums, losses, and LAE are accounted for on bases consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts.

Loss and Loss Adjustment Expense (LAE) Reserves

Loss and LAE reserves represent the estimated ultimate net cost of all unpaid reported and unreported losses and LAE. The reserves for unpaid losses and LAE are estimated using individual case-basis estimates for reported losses and actuarial estimates for losses incurred but not yet reported. Those estimates are subject to the effects of trends in loss severity and frequency. Although considerable variability is inherent in such estimates, management believes that the reserves for losses and LAE are adequate. The estimates are continually reviewed and adjusted as necessary as experience develops or new information becomes known; such adjustments are included in current operations. The ultimate settlement of losses and LAE may vary significantly from the estimated amounts included in the financial statements. The Company does not discount its loss and LAE reserves.

The anticipated effect of inflation is implicitly considered when estimating liabilities for losses and LAE. While anticipated price increases due to inflation are considered in estimating the ultimate claim costs, the increase in average severities of claims is caused by a number of factors that vary with the individual type of policy written. Future average severities are projected based on historical trends adjusted for implemented changes in underwriting standards, policy provisions, and general economic trends. Those anticipated trends are monitored based on actual development and the estimated liabilities are modified if necessary.

Loss and LAE reserves are reported net of reinsurance recoverables for unpaid losses and LAE. Losses and LAE ceded through reinsurance are credited against losses and LAE incurred.

HomeWise Preferred Insurance Company

Notes to Statutory Basis Financial Statements

1. Summary of Significant Accounting Policies (continued)

Guaranty Fund and Residual Market Pool Assessments

The Company is subject to assessments by a Florida guaranty fund, a residual market pool, and a state catastrophe reinsurance pool. The activities of this fund and these pools include collecting funds from solvent insurance companies to cover losses resulting from the insolvency or rehabilitation of other insurance companies or deficits generated by Florida Insurance Guaranty Association (FIGA), Citizens Property Insurance Corporation (Citizens), and the Florida Hurricane Catastrophe Fund (FHCF).

The Company's policy is to recognize its obligation for guaranty fund, Citizens, and FHCF assessments when the Company has the information available to reasonably estimate its liabilities. Guaranty fund, Citizens, and FHCF assessments are generally available for recoupment from policyholders and as such, amounts assessed are recorded as a recoverable asset. Amounts recoverable are generally expected to be collected during the year following assessment.

The Company was assessed \$1,525,451 by FIGA in 2009 (none in 2008). The FIGA assessment recoverable from policyholders was \$1,525,451 at December 31, 2009 (none in 2008).

Certain Citizens and FHCF assessments are collected from policyholders as policies are written and subsequently remitted to the assessing entity. Amounts due from policyholders for these assessments were \$270,044 and \$318,322 at December 31, 2009 and 2008, respectively. The liability for assessments collected but not remitted to Citizens and FHCF totaled \$920,549 and \$1,002,391 at December 31, 2009 and 2008, respectively.

Income Taxes

The Company calculates its state and federal income tax liabilities based upon the statutory rates in effect during the year.

Subsequent Events

The Company has evaluated subsequent events through March 24, 2010, the date the financial statements were available to be issued.

HomeWise Preferred Insurance Company

Notes to Statutory Basis Financial Statements

1. Summary of Significant Accounting Policies (continued)

Use of Estimates

The preparation of statutory basis financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the statutory basis financial statements, and the reported amounts of revenues and expenses during the reporting period. Such estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and described in the financial statements.

2. Regulatory Requirements and Restrictions

Florida Statute 624.408 requires the Company to maintain minimum capital and surplus of \$4 million and to meet the risk-based capital requirements (see Note 9). Additionally, Florida Statute 624.4095 requires the Company to maintain a ratio of the product of written premiums times 0.90 to surplus of no greater than 10-to-1 for gross written premiums and 4-to-1 for net written premiums. The Company is in compliance with these requirements.

Additionally, the Company is required to maintain deposits pursuant to Florida, Texas, and South Carolina statutes or consent orders to help secure the payment of claims. Cash on deposit in the amount of \$344,623 and \$336,444 has been assigned to the Office as of December 31, 2009 and 2008, respectively, and certificates of deposit in the amounts of \$3,129,997 and \$5,125,000 as of December 31, 2009 and 2008, respectively, have been assigned to the Texas and South Carolina Departments of Insurance as of December 31, 2009 and 2008, respectively, to satisfy this requirement. These amounts are included in cash and cash equivalents in the accompanying statements of admitted assets, liabilities, and capital and surplus at December 31, 2009 and 2008.

3. Investments

Short-term investments consist of money market funds that have a maturity of one year or less from the date of purchase and are stated at cost, which approximates fair value.

Major categories of the Company's net investment income are summarized as follows:

	Years ended December 31,	
	2009	2008
Cash and cash equivalents	\$ 239,207	\$ 701,195
Investment expenses	(86,035)	(256,731)
Net investment income	<u>\$ 153,172</u>	<u>\$ 444,464</u>

HomeWise Preferred Insurance Company

Notes to Statutory Basis Financial Statements

4. Premiums Receivable

Premiums receivable include amounts due from HomeWise Management Company, the Company's managing general agent (MGA), who collects all premiums and remits them to the Company. The Company nonadmits balances due from insureds and deferred installments for which a portion of the receivable is more than 90 days past due and exceeds the related unearned premium. Premiums receivable are charged to bad debt expense in the period determined uncollectible. Recoveries received on amounts previously charged-off are credited to bad debt expense in the period received.

Premiums receivable consists of the following:

	December 31,	
	2009	2008
Premiums receivable, gross	\$ 21,166,116	\$ 24,656,109
Nonadmitted premiums receivable	13,455	-
Premiums receivable, net	<u>\$ 21,152,661</u>	<u>\$ 24,656,109</u>

5. Loss and Loss Adjustment Expense (LAE) Reserves

The following table provides a reconciliation of the beginning and ending reserve balances for losses and LAE, net of reinsurance recoverables.

	December 31,	
	2009	2008
	<i>(in thousands)</i>	
Loss and LAE reserves at beginning of year	\$ 19,867	\$ 1,953
Losses and LAE incurred related to:		
Current year	33,009	23,951
Prior years	<u>(6,614)</u>	<u>636</u>
	26,395	24,587
Losses and LAE paid related to:		
Current year	3,279	6,838
Prior years	<u>6,669</u>	<u>(165)</u>
	<u>9,948</u>	<u>6,673</u>
Loss and LAE reserves at end of year	<u>\$ 36,314</u>	<u>\$ 19,867</u>

Anticipated reinsurance recoverables on unpaid losses and LAE are approximately \$5,555,000 and \$17,478,000 at December 31, 2009 and 2008, respectively. Reinsurance recoverables on paid losses and LAE are approximately \$3,058,000 and \$9,035,000 at December 31, 2009 and 2008, respectively.

HomeWise Preferred Insurance Company

Notes to Statutory Basis Financial Statements

5. Loss and Loss Adjustment Expense (LAE) Reserves (continued)

Net incurred losses and LAE attributable to insured events of prior years have developed favorably by \$(6,614,000) in 2009 and unfavorably by \$636,000 in 2008 as a result of reestimation of unpaid losses and loss adjustment expenses. Original estimates are decreased or increased as additional information becomes known regarding individual claims.

6. Reinsurance

Certain premiums and benefits are ceded to other insurance companies under various reinsurance agreements. The reinsurance agreements provide the Company with increased capacity to write more risks and maintain its exposure to loss within its capital resources. As of December 31, 2009 and 2008, the Company's reinsurance program consisted of catastrophe excess of loss reinsurance and quota share treaties. Following is a summary of the reinsurance coverage.

Effective June 1, 2009, the Company and its affiliated company, HomeWise Insurance Company (collectively, the Reinsured), entered into quota share reinsurance agreements with Signet Star Re (Signet), Hannover Reinsurance (Ireland) Ltd. (Hannover), and Greenlight Reinsurance Ltd. (Greenlight) (collectively, the Reinsurers). Signet has a 30% participation. Hannover and Greenlight each have a 35% participation.

Under the terms of the agreements, as amended June 30, 2009, the Reinsurers assume a percentage (85% on policies written through December 31, 2009, and 75% on policies written thereafter) of the Reinsured's incurred losses and loss adjustment expenses, subject to several exclusions. The Company cedes a percentage (85% on policies written through December 31, 2009, and 75% on policies written thereafter) of its gross premiums, subject to several exclusions, after deducting a portion of the cost of the excess of loss reinsurance treaties, described below. The quota share agreements with Signet and Hannover expire on May 31, 2010, while the agreement with Greenlight expires on May 31, 2011.

The reinsurance agreements are subject to loss retention corridors, whereby the Reinsured retain losses above a minimum gross loss ratio ranging from 25% to 33% up to a maximum gross loss ratio ranging from 37% to 42%. The limitations on maximum losses ceded under this agreement vary by participating reinsurer. The ceding commission from the Reinsurers is equal to a blended rate of 31.07% of the Reinsurers' share of gross written premium, prior to the deduction of any premiums paid to catastrophe excess of loss protection. The current year and prior year (described below) ceding commissions have been recorded as a reduction of underwriting, acquisition, and other expenses in the accompanying statements of operations.

HomeWise Preferred Insurance Company

Notes to Statutory Basis Financial Statements

6. Reinsurance (continued)

Effective June 1, 2008, the Company and its affiliated company, HomeWise Insurance Company (collectively, the Reinsured), entered into a quota share reinsurance agreement with Swiss Reinsurance America Corporation (the Reinsurer). Under the terms of the agreement, which expired on May 31, 2009, and was subsequently commuted, the Reinsurer assumed 75% of the Reinsured's net liabilities for losses (loss and loss adjustment expense) after taking into effect the Reinsured's excess of loss reinsurance coverage provided by the FHCF. Under the terms of the agreement, the Reinsured ceded 75% of gross premiums after deducting the cost of the above referenced inuring reinsurance to the Reinsurer. The Reinsured ceded 75% of covered gross losses to the Reinsurer after deducting recoveries from the referenced inuring reinsurance. The maximum losses ceded under this agreement were limited to \$150 million per event and \$210 million for all occurrences. The Company and the Reinsurer entered into an aggregate excess of loss agreement to reinsure the Reinsurer's catastrophe obligations under the quota share agreement. The Reinsurer reimbursed the Company for the premiums relating to this coverage. The ceding commission from the Reinsurer to the Reinsured was on a reimbursement basis wherein the Reinsurer reimbursed the Reinsured for 75% of acquisition and overhead expenses limited to 31%.

In 2009, the Company commuted its reinsurance agreement with Swiss Re (see above), and in 2008, the Company commuted its quota share agreement with its previous quota share provider. In 2009 and 2008, the Company did not enter into or engage in any loss portfolio transfer for any lines of business.

The catastrophe excess of loss coverage is provided by agreements with commercial reinsurers and by the FHCF. Coverage under the FHCF is limited to qualifying storms occurring in the state of Florida. For the year ended December 31, 2009, the commercial excess of loss treaties generally provide coverage on ultimate net losses of approximately \$129,500,000 in excess of \$6,870,000, not to exceed approximately \$244,800,000 for all occurrences. The FHCF provided coverage for 90% of the losses from qualifying catastrophic events in excess of approximately \$101,300,000 up to a maximum of approximately \$498,300,000, plus 100% of qualifying losses in excess of approximately \$6,900,000 (drop down layer) up to a maximum of approximately \$16,900,000. The drop down layer provides for one automatic reinstatement at 100% of its original limit. For the year ended December 31, 2008, the commercial excess of loss agreements generally provide coverage for 25% of ultimate net losses of approximately \$140,052,000 in excess of \$30,000,000 per occurrence, not to exceed 25% of approximately \$280,105,000 for all occurrences. The FHCF provided coverage for 90% of losses from qualifying catastrophic events in excess of approximately \$91,023,000 up to a maximum of approximately \$542,312,000, plus 100% of qualifying losses in excess of \$5,135,000 (drop down layer) up to a maximum of \$15,135,000. The drop down layer provides for one automatic reinstatement at 100% of its original limit.

For 2009, the Company and its affiliated company, HomeWise Insurance Company, entered into the commercial catastrophe excess of loss coverage agreements described above. The 2009 amounts shown above represent the Company's share of the total agreement.

HomeWise Preferred Insurance Company

Notes to Statutory Basis Financial Statements

6. Reinsurance (continued)

The FHCF provides coverage for named hurricanes only and provides no coverage after the one time limit is exhausted. Reinsurance premiums for the FHCF are paid on a total insured value basis. In the event of a loss assessment, the Company may recoup the assessment from its policyholders.

Effective June 1, 2009 and 2008, the Company executed reinsurance premium protection agreements to reinsure the reinstatement premium payment obligations which accrue to the Company under the commercial catastrophe excess of loss agreements. The coverage is limited to 100% of the original contracted reinsurance placement.

The Company's reinsured risks are treated, to the extent of the reinsurance, as though they are risks for which the Company is not liable. However, the Company remains liable in the event the reinsuring entities do not meet their obligations under the reinsurance agreements. Given the quality of the reinsuring entities, management believes this possibility to be remote. See Note 5 for recoveries from reinsurers relating to paid and unpaid losses and LAE.

The effects of reinsurance on premiums written and earned are as follows:

	2009		2008	
	Written	Earned	Written	Earned
Direct premiums	\$ 160,368,923	\$ 178,187,470	\$ 193,293,182	\$ 127,674,203
Assumed premiums	(358,142)	1,076,433	17,402,442	54,434,161
Ceded premiums	<u>(146,953,637)</u>	<u>(156,453,267)</u>	<u>(173,073,918)</u>	<u>(146,217,112)</u>
Net premiums	<u>\$ 13,057,144</u>	<u>\$ 22,810,636</u>	<u>\$ 37,621,706</u>	<u>\$ 35,891,252</u>

The following table summarizes the effect of ceded unearned premiums on the direct unearned premiums reserve and provides the related commission equity at December 31:

	2009	2008
Direct unearned premiums	\$ 79,852,556	\$ 97,671,103
Assumed unearned premiums	-	1,434,575
Ceded unearned premiums	<u>(71,026,095)</u>	<u>(80,525,725)</u>
Unearned premiums, net	<u>\$ 8,826,461</u>	<u>\$ 18,579,953</u>
Assumed commission equity	\$ -	\$ 129,112
Ceded commission equity	<u>(19,901,089)</u>	<u>(22,708,531)</u>
Commission equity, net	<u>\$ (19,901,089)</u>	<u>\$ (22,579,419)</u>

HomeWise Preferred Insurance Company

Notes to Statutory Basis Financial Statements

6. Reinsurance (continued)

At December 31, 2009 and 2008, unsecured reinsurance recoverables on paid and unpaid losses and LAE and unearned premiums by reinsurer that were equal to or greater than 3% of surplus are as follows:

	<u>2009</u>	<u>2008</u>
Signet Star (Berkley Insurance Company)	\$ 12,183,000	\$ -
Florida Hurricane Catastrophe Fund	10,753,000	9,352,000
Swiss Reinsurance America Corporation	-	87,778,000

For the years ended December 31, 2009 and 2008, recoveries under reinsurance contracts amounted to \$92,416,072 and \$43,873,295, respectively.

7. Policy Assumption Agreement

The Company assumed written premiums of \$(358,412) and \$17,402,442 during 2009 and 2008, respectively, under a policy assumption agreement with Citizens. The Company provides a ceding commission to Citizens at a varying rate based on the aggregate number of policies assumed to cover the acquisition costs incurred by Citizens.

8. Income Taxes

Income before federal income taxes differs from taxable income principally due to differences in loss and LAE reserves and unearned premiums for tax and statutory basis financial reporting purposes.

State income taxes are classified as taxes, licenses, and fees in the NAIC Annual Statement and as underwriting, acquisition, and other expenses in the accompanying statements of operations.

A. The components of net deferred tax assets (DTAs) and deferred tax liabilities (DTLs) at December 31, are as follows:

	<u>2009</u>	
	<u>Ordinary</u>	<u>Capital</u>
Total gross DTAs	\$ 2,078,604	\$ -
Total gross DTLs	26,679	-
Net DTA		2,051,925
Nonadmitted DTAs		(2,051,925)
Net admitted DTA		\$ -
Increase in nonadmitted DTAs		\$ 1,776,874

HomeWise Preferred Insurance Company

Notes to Statutory Basis Financial Statements

8. Income Taxes (continued)

	2008		
	<u>Ordinary</u>	<u>Capital</u>	<u>Total</u>
Total gross DTAs	\$ 1,870,389	\$ -	\$ 1,870,389
Total gross DTLs	70,046	-	<u>70,046</u>
Net DTA			1,800,343
Nonadmitted DTAs			<u>(275,051)</u>
Net admitted DTAs			<u>\$ 1,525,292</u>
Decrease in nonadmitted DTAs			<u>\$ (324,376)</u>

The Company has not elected to admit additional DTAs pursuant to SSAP 10R, paragraph 10(e). The current period election does not differ from the prior reporting period.

The amount of each result or component of the calculation, by tax character, of paragraphs 10.a., 10.b.i., 10.b.ii., and 10.c. are as follows:

	2009		
	<u>Ordinary</u>	<u>Capital</u>	<u>Total</u>
Can be recovered through loss carrybacks (10.a.)	\$ -	\$ -	\$ -
Lesser of:			
Expected to be recognized within one year (10.b.i.)	-	-	-
Ten percent of adjusted capital and surplus (10.b.ii.)	-	-	-
Adjusted gross DTAs offset against existing DTLs (10.c.)	26,679	-	26,679
Risk-based capital level used in paragraph 10.d.:			
Total adjusted capital			17,288,501
Authorized control level			5,980,770

HomeWise Preferred Insurance Company

Notes to Statutory Basis Financial Statements

8. Income Taxes (continued)

	2008		
	Ordinary	Capital	Total
Can be recovered through loss carrybacks (10.a.)	\$ -	\$ -	\$ -
Lesser of:			
Expected to be recognized within one year (10.b.i.)	1,525,292	-	1,525,292
Ten percent of adjusted capital and surplus (10.b.ii.)	-	-	-
Adjusted gross DTAs offset against existing DTLs (10.c.)	70,046	-	70,046
Risk-based capital level used in paragraph 10.d.:			
Total adjusted capital			22,924,895
Authorized control level			9,316,123

The following amounts resulting from the calculation in paragraphs 10.a., 10.b., and 10.c.:

	2009	2008
Admitted DTAs	\$ -	\$ 1,525,292
Admitted assets	90,734,786	82,910,671
Statutory surplus	17,288,501	22,924,895
Total adjusted capital	17,288,501	22,924,895

B. Unrecognized DTLs:

Not applicable.

C. Current tax and change in deferred tax:

The provisions for income taxes incurred on earnings for the years ended December 31 are:

	Years ended December 31,	
	2009	2008
Current year income tax expense	\$ (2,724,398)	\$ (615,214)
Prior year (over) under accrual	(25,151)	63,519
Current income taxes incurred	<u>\$ (2,749,549)</u>	<u>\$ (551,695)</u>

HomeWise Preferred Insurance Company

Notes to Statutory Basis Financial Statements

8. Income Taxes (continued)

The tax effect of temporary differences that give rise to significant deferred tax assets and deferred tax liabilities are as follows:

	December 31,	
	2009	2008
Deferred Tax Assets:		
Discount on unpaid losses and LAE	\$ 878,652	\$ 475,593
20% of unearned premiums	600,199	1,263,437
Nonadmitted assets	91,258	65,995
Organizational costs	64,193	65,364
Charitable contribution	170	-
Other	444,132	-
Total DTAs	2,078,604	1,870,389
Nonadmitted DTAs	(2,051,925)	(275,051)
Admitted DTAs	26,679	1,595,338
Deferred Tax Liabilities:		
Depreciation of fixed assets	4,954	9,296
Other	21,725	60,750
Total DTLs	26,679	70,046
Net admitted DTAs	\$ -	\$ 1,525,292

The change in net deferred income taxes is comprised of the following:

	December 31,		
	2009	2008	Change
Total gross DTAs	\$ 2,078,604	\$ 1,870,388	\$ 208,216
Total gross DTLs	26,679	70,046	(43,367)
Net DTA	\$ 2,051,925	\$ 1,800,342	251,583
Deferred tax on change in net unrealized capital gains			-
Change in net deferred income tax			\$ 251,583

HomeWise Preferred Insurance Company
Notes to Statutory Basis Financial Statements

8. Income Taxes (continued)

D. Reconciliation of federal income tax rate to actual effective rate:

The significant book-to-tax adjustments were as follows:

	<u>2009</u>	<u>Percentage of Pre-Tax Income</u>
		\$(8,616,348)
Provision computed at statutory rate	\$ (2,929,558)	(34.00)%
Nondeductible items	212	-
Change in nonadmitted assets	(25,263)	(0.29)
Prior period adjustment	<u>(46,523)</u>	<u>(0.54)</u>
Total	<u>\$ (3,001,132)</u>	<u>(34.83)%</u>
 Federal income tax	 \$ (2,749,549)	 (31.91)%
Change in deferred taxes	<u>(251,583)</u>	<u>(2.92)</u>
Statutory income taxes	<u>\$ (3,001,132)</u>	<u>(34.83)%</u>

E. Operating loss and tax credit carryforwards and protective tax deposits:

- At December 31, 2009, the Company had no unused capital losses and \$1,305,897 of net operating loss carryforwards available to offset future taxable income at December 31, 2009.
- The following is income tax expense that is available for recoupment in the event of future net losses:

<u>Year</u>	<u>Amount</u>
2009	\$ -
2008	-

- The Company did not have any protective tax deposits under Section 6603 of the Internal Revenue Code.

F. Consolidated federal income tax return:

The Company's federal income tax return is consolidated with the following:

HomeWise Holdings, Inc.
HomeWise Insurance Company
HomeWise Management Company

The method of allocation between the companies is subject to written agreement, approved by the Board of Directors. Allocation is based upon separate return calculations with current credit for net losses. Intercompany balances are settled quarterly.

HomeWise Preferred Insurance Company

Notes to Statutory Basis Financial Statements

9. Capital and Surplus

The Company has authorized 2,000,000 shares of \$1 par value common stock, of which 1,500,000 shares are issued and outstanding at December 31, 2009 and 2008. HHI is the sole shareholder. In December 2009, HHI made a cash contribution of additional paid-in capital totaling \$2,000,000. In 2008, HHI was issued 500,000 shares of common stock for \$8,000,000. No other classes of common or preferred shares were issued during 2009 or 2008.

Property and casualty insurance companies are subject to certain Risk-based Capital (RBC) requirements as specified by the NAIC. Under those requirements, the amount of capital and surplus maintained by a property and casualty insurance company is to be determined based on the various risk factors related to it. The Company is in compliance with the RBC requirements at December 31, 2009 and 2008.

The maximum amount of dividends that may be paid by property and casualty insurance companies without prior approval of the Office is subject to restrictions relating to statutory surplus and net income. Furthermore, in accordance with the Company's Certificate of Authority Consent Order, during the first three years of operations it may only pay dividends that are approved in advance by the Office. The Company did not declare or pay any dividends during the years ended December 31, 2009, and 2008.

10. Related Party Transactions

The Company is a wholly-owned subsidiary of HHI and is affiliated with HMC and HIC, which are also wholly-owned subsidiaries of HHI.

Effective May 31, 2006, the Company entered into a managing general agency agreement with HMC. Pursuant to the agreement, HMC provides to the Company premium billing, claims management, and underwriting functions. During 2009 and 2008, expenses incurred related to this agreement totaled \$39,669,929 and \$53,864,383, respectively. At December 31, 2009 and 2008, the Company has a net receivable due from HMC in the amount of \$5,533,989 and \$2,629,151, respectively.

Effective May 31, 2006, the Company entered into a service agreement with HHI. Pursuant to the agreement, HHI provides capital management services, investor management and relations, and assists with overall general management of the Company. During 2009 and 2008, expenses incurred related to this agreement totaled \$1,570,043 and \$2,072,892, respectively. At December 31, 2009 and 2008, the Company has a receivable due from HHI in the amount of \$726,646 and \$469,146, respectively. Additionally, in 2009 the Company received a capital contribution from HHI (see Note 9).

HomeWise Preferred Insurance Company

Notes to Statutory Basis Financial Statements

10. Related Party Transactions (continued)

The Company is also party to a Cost Allocation Agreement with HIC, HMC, and HHJ in which expenses benefiting more than one company are allocated based upon direct allocation or revenue allocation rules, whichever is most appropriate for the expense. At December 31, 2009 and 2008, the Company has a receivable due from (payable due to) HIC in the amount of \$333,407 and \$(3,972,151), respectively.

11. Premiums Produced by Managing General Agents or Third Party Administrators

The Company uses a managing general agent, HMC, to write and administer insurance products. The total premium produced and serviced through the contract during 2009 is summarized below. The Company retains underwriting authority for all policies issued under these agreements.

<u>Name and Address</u>	<u>FEI Number</u>	<u>Exclusive Contract</u>	<u>Type of Business Written</u>	<u>Type of Authority Granted</u>	<u>Direct Premium Written</u>
HomeWise Management Company, Inc. 18302 Highwoods Preserve Parkway. Suite 110 Tampa, FL 33647	20-3395152	Yes	Homeowners	Binding, premium collection, claims adjustment, and underwriting	\$ 160,368,923

12. Leases

On May 3, 2007, the Company entered into an operating lease agreement for office space in San Antonio, Texas, which is effective July 6, 2007, through July 31, 2012.

In addition, the Company pays rent to HIC under the Cost Allocation Agreement for facilities it uses in Tampa, Florida. These facilities are leased by HIC from a third party. The Company recognized rent expense of \$274,845 under this agreement.

Approximate future lease payments under the Texas lease are as follows at December 31, 2009:

2010	\$	68,317
2011		69,813
2012		<u>23,437</u>
	\$	<u><u>161,567</u></u>

HomeWise Preferred Insurance Company

Notes to Statutory Basis Financial Statements

12. Leases (continued)

Total rent expense for leases was \$340,103 and \$265,683 for the years ended December 31, 2009 and 2008, respectively. The current year rent expense includes \$274,845 in reimbursements made to HIC for the Company's share of the rent expense for the Tampa, Florida office space operating lease.

13. Reconciliation of Annual Statement to Audited Financial Statements

Differences exist between amounts reported in the audited statutory financial statements and those reported in the annual statements of the Company for the years ended December 31, 2009 and 2008, resulting from reclassification of, and audit adjustments to premiums receivable, other liabilities, other assets, and rounding. Presented below is a reconciliation of amounts previously reported to the Office and those amounts appearing in the audited statutory financial statements for the years ended December 31, 2009 and 2008.

	Audited Financial Statement Amount	Annual Statement Amount	Increase (Decrease)
December 31, 2009			
Total admitted assets	\$ 90,734,786	\$ 90,734,786	\$ -
Total liabilities	73,446,285	73,446,285	-
Total capital and surplus	17,288,501	17,288,501	-
Net loss	5,866,799	5,867,172	(373)

	Audited Financial Statement Amount	Annual Statement Amount	Increase (Decrease)
December 31, 2008			
Total admitted assets	\$ 82,910,671	\$ 82,349,283	\$ 561,388
Total liabilities	59,985,776	59,424,388	561,388
Total capital and surplus	22,924,895	22,924,895	-
Net loss	3,021,861	3,021,862	(1)

HomeWise Preferred Insurance Company

Notes to Statutory Basis Financial Statements

14. Subsequent Events

On February 19, 2010, the Company filed a plan to discontinue writing lines of business (Plan) with the Office. This Plan provides for the Company to discontinue all of its current business by issuing notices of nonrenewal to policyholders at the end of their current policy terms. The Company will begin issuing notices to its policyholders of its intent to nonrenew on such date as the Office may allow upon reviewing the plan to discontinue writings. The Company will not be able to write new business under the provisions of the Plan. The Company has not written any new business since August 2009. The Plan is subject to the approval of the Office. The Company anticipates that its last policy will expire on or before December 31, 2011. The Company will continue to provide claims services to its policyholders during this time and until the ultimate resolution of all claims.

Upon filing the Plan, the Company notified Demotech, Inc. (Demotech), a financial rating organization who had previously issued a Financial Stability Rating of "A" - Exceptional on the Company. In response to the Plan, Demotech withdrew its rating on the Company.

On March 23, 2010, HHI announced that it signed an agreement in principle with 21st Century Holding Company (Nasdaq: TCHC) to sell all of the outstanding shares of HIC and HMC. The agreement in principle also includes a renewal rights agreement to acquire certain insurance policies from the Company. The proposed transaction is subject to customary definitive documentation, regulatory approval, and completion of satisfactory due diligence by 21st Century Holding Company. The projected closing date for the transaction is on or before June 1, 2010.

Other Financial Information

SUMMARY INVESTMENT SCHEDULE

Investment Categories	Gross Investment Holdings		Admitted Assets as Reported in the Annual Statement	
	1 Amount	2 Percentage	3 Amount	4 Percentage
1. Bonds:				
1.1 U.S. treasury securities:		0.0		0.0
1.2 U.S. government agency obligations (excluding mortgage-backed securities):				
1.21 Issued by U.S. government agencies:		0.0		0.0
1.22 Issued by U.S. government sponsored agencies:		0.0		0.0
1.3 Non-U.S. government (including Canada, excluding mortgage-backed securities):		0.0		0.0
1.4 Securities issued by states, territories and possessions and political subdivisions in the U.S.:				
1.41 States, territories and possessions general obligations:		0.0		0.0
1.42 Political subdivisions of states, territories & possessions & political subdivisions general obligations:		0.0		0.0
1.43 Revenue and assessment obligations:		0.0		0.0
1.44 Industrial development and similar obligations:		0.0		0.0
1.5 Mortgage-backed securities (includes residential and commercial MBS):				
1.51 Pass-through securities:				
1.511 Issued or guaranteed by GNMA:		0.0		0.0
1.512 Issued or guaranteed by FNMA and FHLMC:		0.0		0.0
1.513 All other:		0.0		0.0
1.52 CMOs and REMICs:				
1.521 Issued or guaranteed by GNMA, FNMA, FHLMC or VA:		0.0		0.0
1.522 Issued by non-U.S. Government issuers and collateralized by mortgage-backed securities issued or guaranteed by agencies shown in Line 1.521:		0.0		0.0
1.523 All other:		0.0		0.0
2. Other debt and other fixed income securities (excluding short-term):				
2.1 Unaffiliated domestic securities (includes credit tenant loans and hybrid securities):		0.0		0.0
2.2 Unaffiliated non-U.S. securities (including Canada):		0.0		0.0
2.3 Affiliated securities:		0.0		0.0
3. Equity interests:				
3.1 Investments in mutual funds:		0.0		0.0
3.2 Preferred stocks:				
3.21 Affiliated:		0.0		0.0
3.22 Unaffiliated:		0.0		0.0
3.3 Publicly traded equity securities (excluding preferred stocks):				
3.31 Affiliated:		0.0		0.0
3.32 Unaffiliated:		0.0		0.0
3.4 Other equity securities:				
3.41 Affiliated:		0.0		0.0
3.42 Unaffiliated:		0.0		0.0
3.5 Other equity interests including tangible personal property under lease:				
3.51 Affiliated:		0.0		0.0
3.52 Unaffiliated:		0.0		0.0
4. Mortgage loans:				
4.1 Construction and land development:		0.0		0.0
4.2 Agricultural:		0.0		0.0
4.3 Single family residential properties:		0.0		0.0
4.4 Multifamily residential properties:		0.0		0.0
4.5 Commercial loans:		0.0		0.0
4.6 Mezzanine real estate loans:		0.0		0.0
5. Real estate investments:				
5.1 Property occupied by company:		0.0		0.0
5.2 Property held for production of income (including \$.....0 of property acquired in satisfaction of debt):		0.0		0.0
5.3 Property held for sale (including \$.....0 property acquired in satisfaction of debt):		0.0		0.0
6. Contract loans:		0.0		0.0
7. Receivables for securities:		0.0		0.0
8. Cash, cash equivalents and short-term investments:		0.0	55,011,915	100.0
9. Other invested assets:		0.0		0.0
10. Total invested assets:	0	0.0	55,011,915	100.0



SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES

For the year ended December 31, 2009

(To be filed by April 1)

Of HomeWise Preferred Insurance Company

Address (City, State, Zip Code): Tampa FL 33647

NAIC Group Code.....4111

NAIC Company Code.....12582

Employer's ID Number.....20-4791515

The Investment Risks Interrogatories are to be filed by April 1. They are also to be included with the Audited Statutory Financial Statements.

Answer the following interrogatories by reporting the applicable U.S. dollar amounts and percentages of the reporting entity's total admitted assets held in that category of investments.

1 Reporting entity's total admitted assets as reported on Page 2 of this annual statement. \$.....90,734,786

2 Ten largest exposures to a single issuer/borrower/investment.

	1	2	3	4
	Issuer	Description of Exposure	Amount	Percentage of Total Admitted Assets
2.01	Federated Investors.....	Money Market Prem Cash Obligations Fund.....	\$.....26,521,091	29.229 %
2.02	SunTrust Bank.....	Certificates of Deposit.....	\$.....5,000,000	5.511 %
2.03	Florida Dept of Fin. Services.....	Treasury Cash Fund Deposit.....	\$.....344,623	0.380 %
2.04	Wachovia Bank.....	Certificate of Deposit.....	\$.....25,000	0.028 %
2.05			\$.....	0.000 %
2.06			\$.....	0.000 %
2.07			\$.....	0.000 %
2.08			\$.....	0.000 %
2.09			\$.....	0.000 %
2.10			\$.....	0.000 %

3. Amounts and percentages of the reporting entity's total admitted assets held in bonds and preferred stocks by NAIC rating.

	1	2
	Bonds	
3.01	NAIC-1.....	\$.....57,825,150 63.730 %
3.02	NAIC-2.....	\$..... 0.000 %
3.03	NAIC-3.....	\$..... 0.000 %
3.04	NAIC-4.....	\$..... 0.000 %
3.05	NAIC-5.....	\$..... 0.000 %
3.06	NAIC-6.....	\$..... 0.000 %
	3	4
	Preferred Stocks	
3.07	P/RP-1.....	\$..... 0.000 %
3.08	P/RP-2.....	\$..... 0.000 %
3.09	P/RP-3.....	\$..... 0.000 %
3.10	P/RP-4.....	\$..... 0.000 %
3.11	P/RP-5.....	\$..... 0.000 %
3.12	P/RP-6.....	\$..... 0.000 %

4. Assets held in foreign investments:

4.01	Are assets held in foreign investments less than 2.5% of the reporting entity's total admitted assets?	Yes [X] No []
If response to 4.01 above is yes, responses are not required for interrogatories 5-10.		
4.02	Total admitted assets held in foreign investments	\$..... 0.000 %
4.03	Foreign-currency-denominated investments	\$..... 0.000 %
4.04	Insurance liabilities denominated in that same foreign currency	\$..... 0.000 %

5. Aggregate foreign investment exposure categorized by NAIC sovereign rating:

	1	2
5.01	Countries rated NAIC-1.....	\$..... 0.000 %
5.02	Countries rated NAIC-2.....	\$..... 0.000 %
5.03	Countries rated NAIC-3 or below.....	\$..... 0.000 %

6. Largest foreign investment exposures by country, categorized by the country's NAIC sovereign rating:

	1	2
Countries rated NAIC-1:		
6.01	Country 1.....	\$..... 0.000 %
6.02	Country 2.....	\$..... 0.000 %
Countries rated NAIC-2:		
6.03	Country 1.....	\$..... 0.000 %
6.04	Country 2.....	\$..... 0.000 %
Countries rated NAIC-3 or below:		
6.05	Country 1.....	\$..... 0.000 %
6.06	Country 2.....	\$..... 0.000 %

		1	2		
7.	Aggregate unhedged foreign currency exposure:	\$		0.000 %	
8.	Aggregate unhedged foreign currency exposure categorized by NAIC sovereign rating:	1	2		
8.01	Countries rated NAIC-1:	\$		0.000 %	
8.02	Countries rated NAIC-2:	\$		0.000 %	
8.03	Countries rated NAIC-3 or below:	\$		0.000 %	
9.	Largest unhedged foreign currency exposures by country, categorized by the country's NAIC sovereign rating:	1	2		
	Countries rated NAIC-1:				
9.01	Country 1:	\$		0.000 %	
9.02	Country 2:	\$		0.000 %	
	Countries rated NAIC-2:				
9.03	Country 1:	\$		0.000 %	
9.04	Country 2:	\$		0.000 %	
	Countries rated NAIC-3 or below:				
9.05	Country 1:	\$		0.000 %	
9.06	Country 2:	\$		0.000 %	
10.	Ten largest non-sovereign (i.e. non-governmental) foreign issues:	1	2	3	4
	Issuer	NAIC Rating			
10.01			\$	0.000 %	
10.02			\$	0.000 %	
10.03			\$	0.000 %	
10.04			\$	0.000 %	
10.05			\$	0.000 %	
10.06			\$	0.000 %	
10.07			\$	0.000 %	
10.08			\$	0.000 %	
10.09			\$	0.000 %	
10.10			\$	0.000 %	
11.	Amounts and percentages of the reporting entity's total admitted assets held in Canadian investments and unhedged Canadian currency exposure:				
11.01	Are assets held in Canadian investments less than 2.5% of the reporting entity's total admitted assets?	Yes [X]	No []		
	If response to 11.01 is yes, detail is not required for the remainder of Interrogatory 11.				
11.02	Total admitted assets held in Canadian Investments	\$		0.000 %	
11.03	Canadian currency-denominated investments	\$		0.000 %	
11.04	Canadian-denominated insurance liabilities	\$		0.000 %	
11.05	Unhedged Canadian currency exposure	\$		0.000 %	
12.	Report aggregate amounts and percentages of the reporting entity's total admitted assets held in investments with contractual sales restrictions.				
12.01	Are assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets?	Yes [X]	No []		
	If response to 12.01 is yes, responses are not required for the remainder of Interrogatory 12.				
	1	2	3		
12.02	Aggregate statement value of investments with contractual sales restrictions:	\$		0.000 %	
	Largest three investments with contractual sales restrictions:				
12.03		\$		0.000 %	
12.04		\$		0.000 %	
12.05		\$		0.000 %	
13.	Amounts and percentages of admitted assets held in the ten largest equity interests:				
13.01	Are assets held in equity interest less than 2.5% of the reporting entity's total admitted assets?	Yes [X]	No []		
	If response to 13.01 above is yes, responses are not required for the remainder of Interrogatory 13.				
	1	2	3		
	Name of Issuer				
13.02		\$		0.000 %	
13.03		\$		0.000 %	
13.04		\$		0.000 %	
13.05		\$		0.000 %	
13.06		\$		0.000 %	
13.07		\$		0.000 %	
13.08		\$		0.000 %	
13.09		\$		0.000 %	
13.10		\$		0.000 %	
13.11		\$		0.000 %	

14. Amounts and percentages of the reporting entity's total admitted assets held in nonaffiliated, privately placed equities:

14.01 Are assets held in nonaffiliated, privately placed equities less than 2.5% of the reporting entity's total admitted assets?

Yes ☒ No ☐

If response to 14.01 above is yes, responses are not required for the remainder of Interrogatory 14.

1	2	3
14.02 Aggregate statement value of investments held in nonaffiliated, privately placed equities:	\$	0.000 %
Largest three investments held in nonaffiliated, privately placed equities:		
14.03	\$	0.000 %
14.04	\$	0.000 %
14.05	\$	0.000 %

15. Amounts and percentages of the reporting entity's total admitted assets held in general partnership interests:

15.01 Are assets held in general partnership interests less than 2.5% of the reporting entity's total admitted assets?

Yes ☒ No ☐

If response to 15.01 above is yes, responses are not required for the remainder of Interrogatory 15.

1	2	3
15.02 Aggregate statement value of investments held in general partnership interests:	\$	0.000 %
Largest three investments in general partnership interests:		
15.03	\$	0.000 %
15.04	\$	0.000 %
15.05	\$	0.000 %

16. Amounts and percentages of the reporting entity's total admitted assets held in mortgage loans:

16.01 Are mortgage loans reported in Schedule B less than 2.5% of the reporting entity's total admitted assets?

Yes ☒ No ☐

If response to 16.01 above is yes, responses are not required for the remainder of Interrogatory 16 and Interrogatory 17.

1	2	3
Type (Residential, Commercial, Agricultural)		
16.02	\$	0.000 %
16.03	\$	0.000 %
16.04	\$	0.000 %
16.05	\$	0.000 %
16.06	\$	0.000 %
16.07	\$	0.000 %
16.08	\$	0.000 %
16.09	\$	0.000 %
16.10	\$	0.000 %
16.11	\$	0.000 %

Amount and percentage of the reporting entity's total admitted assets held in the following categories of mortgage loans:

	Loans
16.12 Construction loans	\$ 0.000 %
16.13 Mortgage loans over 90 days past due	\$ 0.000 %
16.14 Mortgage loans in the process of foreclosure	\$ 0.000 %
16.15 Mortgage loans foreclosed	\$ 0.000 %
16.16 Restructured mortgage loans	\$ 0.000 %

17. Aggregate mortgage loans having the following loan-to-value ratios as determined from the most current appraisal as of the annual statement date:

Loan-to-Value	Residential		Commercial		Agricultural	
	1	2	3	4	5	6
17.01 above 95%	\$ 0.000 %	\$ 0.000 %	\$ 0.000 %	\$ 0.000 %	\$ 0.000 %	\$ 0.000 %
17.02 91% to 95%	\$ 0.000 %	\$ 0.000 %	\$ 0.000 %	\$ 0.000 %	\$ 0.000 %	\$ 0.000 %
17.03 81% to 90%	\$ 0.000 %	\$ 0.000 %	\$ 0.000 %	\$ 0.000 %	\$ 0.000 %	\$ 0.000 %
17.04 71% to 80%	\$ 0.000 %	\$ 0.000 %	\$ 0.000 %	\$ 0.000 %	\$ 0.000 %	\$ 0.000 %
17.05 below 70%	\$ 0.000 %	\$ 0.000 %	\$ 0.000 %	\$ 0.000 %	\$ 0.000 %	\$ 0.000 %

18. Amounts and percentages of the reporting entity's total admitted assets held in each of the five largest investments in real estate:

18.01 Are assets held in real estate reported less than 2.5% of the reporting entity's total admitted assets?

Yes ☒ No ☐

If response to 18.01 above is yes, responses are not required for the remainder of Interrogatory 18.

Largest five investments in any one parcel or group of contiguous parcels of real estate.

Description	2	3
18.02	\$	0.000 %
18.03	\$	0.000 %
18.04	\$	0.000 %
18.05	\$	0.000 %
18.06	\$	0.000 %

19. Report aggregate amounts and percentages of the reporting entity's total admitted assets held in investments held in mezzanine real estate loans.

19.01 Are assets held in investments held in mezzanine real estate loans less than 2.5% of the reporting entity's admitted assets?

Yes ☒ No ☐

If response to 19.01 is yes, responses are not required for the remainder of Interrogatory 19.

1	2	3
19.02 Aggregate statement value of investments held in mezzanine real estate loans:	\$	0.000 %
Largest three investments held in mezzanine real estate loans:		
19.03	\$	0.000 %
19.04	\$	0.000 %
19.05	\$	0.000 %

20. Amounts and percentages of the reporting entity's total admitted assets subject to the following types of agreements:

	<u>At Year-End</u>		1st Qtr	<u>At End of Each Quarter</u>		
	1	2		2nd Qtr	3rd Qtr	4
20.01 Securities lending agreements (do not include assets held as collateral for such transactions)	\$	0.000 %	\$	\$	\$	\$
20.02 Repurchase agreements	\$	0.000 %	\$	\$	\$	\$
20.03 Reverse repurchase agreements	\$	0.000 %	\$	\$	\$	\$
20.04 Dollar repurchase agreements	\$	0.000 %	\$	\$	\$	\$
20.05 Dollar reverse repurchase agreements	\$	0.000 %	\$	\$	\$	\$

21. Amounts and percentages of the reporting entity's total admitted assets for warrants not attached to other financial instruments, options, caps and floors:

	<u>Owned</u>			<u>Written</u>	
	1	2		3	4
21.01 Hedging	\$	0.000 %	\$	\$	0.000 %
21.02 Income generation	\$	0.000 %	\$	\$	0.000 %
21.03 Other	\$	0.000 %	\$	\$	0.000 %

22. Amounts and percentages of the reporting entity's total admitted assets of potential exposure for collars, swaps, and forwards:

	<u>At Year-End</u>		1st Qtr	<u>At End of Each Quarter</u>		
	1	2		2nd Qtr	3rd Qtr	4
22.01 Hedging	\$	0.000 %	\$	\$	\$	\$
22.02 Income generation	\$	0.000 %	\$	\$	\$	\$
22.03 Replications	\$	0.000 %	\$	\$	\$	\$
22.04 Other	\$	0.000 %	\$	\$	\$	\$

23. Amounts and percentages of the reporting entity's total admitted assets of potential exposure for futures contracts:

	<u>At Year-End</u>		1st Qtr	<u>At End of Each Quarter</u>		
	1	2		2nd Qtr	3rd Qtr	4
23.01 Hedging	\$	0.000 %	\$	\$	\$	\$
23.02 Income generation	\$	0.000 %	\$	\$	\$	\$
23.03 Replications	\$	0.000 %	\$	\$	\$	\$
23.04 Other	\$	0.000 %	\$	\$	\$	\$

See report of independent auditors.

HomeWise Preferred Insurance Company

Selected General Interrogatories Relating to Reinsurance

December 31, 2009

- 7.1 Has the reporting entity reinsured any risk with any other entity under a quota share reinsurance contract that includes a provision that would limit the reinsurer's losses below the stated quota share percentage (e.g., a deductible, a loss ratio corridor, a loss cap, an aggregate limit or any similar provisions)? Yes ☒ No ☐
- 7.2 If yes, indicate the number of reinsurance contracts containing such provisions.....3
- 7.3 If yes, does the amount of reinsurance credit taken reflect the reduction in quota share coverage caused by any applicable limiting provision(s)? Yes ☒ No ☐
- 9.1 Has the reporting entity ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates) for which during the period covered by the statement: (i) it recorded a positive or negative underwriting result greater than 5% of prior year-end surplus as regards policyholders or it reported calendar year written premium ceded or year-end loss and loss expense reserves ceded greater than 5% of prior year-end surplus as regards policyholders; (ii) it accounted for that contract as reinsurance and not as a deposit; and (iii) the contract(s) contain one or more of the following features or other features that would have similar results:
- (a) A contract term longer than two years and the contract is noncancellable by the reporting entity during the contract term;
 - (b) A limited or conditional cancellation provision under which cancellation triggers an obligation by the reporting entity, or an affiliate of the reporting entity, to enter into a new reinsurance contract with the reinsurer, or an affiliate of the reinsurer;
 - (c) Aggregate stop loss reinsurance coverage;
 - (d) A unilateral right by either party to commute the reinsurance contract, whether conditional or not, except for such provisions which are only triggered by a decline in the credit status of the other party;
 - (e) A provision permitting reporting of losses, or payment of losses, less frequently than on a quarterly basis (unless there is no activity during the period); or
 - (f) Payment schedule, accumulating retentions from multiple years or any feature inherently designed to delay timing of the reimbursement to the ceding entity..... Yes ☐ No ☒
- 9.2 Has the reporting entity during the period covered by the statement ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates), for which, during the period covered by the statement, it recorded a positive or negative underwriting result greater than 5% of prior year-end surplus as regards policyholders or it reported calendar year premium ceded or year-end loss and loss expense reserves ceded greater than 5% of prior year-end surplus as regards policyholders; excluding cessions to approved pooling agreements or to captive insurance companies that are directly or indirectly controlling, controlled by, or under common control with (i) one or more unaffiliated policyholders of the reporting entity, or (ii) an association of which one or more unaffiliated policyholders of the reporting entity is a member, where:
- (a) The written premium ceded to the reinsurer by the reporting entity or its affiliates represents fifty percent (50%) or more of the entire direct and assumed premium written by the reinsurer based on its most recently available financial statement; or
 - (b) Twenty-five percent (25%) or more of the written premium ceded to the reinsurer has been retroceded back to the reporting entity or its affiliates in a separate reinsurance contract? Yes ☐ No ☒

HomeWise Preferred Insurance Company

Selected General Interrogatories Relating to Reinsurance

- 9.3 If yes to 9.1 or 9.2, please provide the following information in the Reinsurance Summary Supplemental Filing for General Interrogatory 9:
- (a) The aggregate financial statement impact gross of all such ceded reinsurance contracts on the balance sheet and statement of income;
 - (b) A summary of the reinsurance contract terms and indicate whether it applies to the contracts meeting the criteria in 9.1 or 9.2; and
 - (c) A brief discussion of management's principle objectives in entering into the reinsurance contract including the economic purpose to be achieved.
- 9.4 Except for transactions meeting the requirements of paragraph 31 of SSAP No. 62, *Property and Casualty Reinsurance*, has the reporting entity ceded any risk under any reinsurance contract (or multiple contracts with the same reinsurer or its affiliates) during the period covered by the financial statement, and either:
- (a) Accounted for that contract as reinsurance (either prospective or retroactive) under statutory accounting principles (SAP) and as a deposit under generally accepted accounting principles (GAAP); or
 - (b) Accounted for that contract as reinsurance under GAAP and as a deposit under SAP?.....Yes ☐ No ☒
- 9.5 If yes to 9.4, explain in the Reinsurance Summary Supplemental Filing for General Interrogatory 9 (Section D) why the contract(s) is treated different for GAAP and SAP.

See report of independent auditors.

Statutory Basis Financial Statements
and Other Financial Information

HomeWise Preferred Insurance Company

*Years ended December 31, 2010 and 2009
with Report of Independent Auditors*

Thomas Howell
 Ferguson P.A.

HomeWise Preferred Insurance Company

Statutory Basis Financial Statements
and Other Financial Information

Years ended December 31, 2010 and 2009

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Report of Independent Auditors

The Board of Directors
HomeWise Preferred Insurance Company

We have audited the accompanying statements of admitted assets, liabilities, and capital and surplus - statutory basis of HomeWise Preferred Insurance Company (the Company) as of December 31, 2010 and 2009, and the related statutory basis statements of operations, changes in capital and surplus, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described more fully in Note 1 to the financial statements, these financial statements have been prepared in conformity with accounting practices prescribed or permitted by the Florida Office of Insurance Regulation (the Office), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities and capital and surplus of HomeWise Preferred Insurance Company as of December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended on the basis of accounting described in Note 1.

As described more fully in Note 1, on February 19, 2010, the Company filed a plan to discontinue writing all lines of business (the Plan) with the Office. The Plan was approved by the Office and during the remainder of 2010, the Company operated in accordance with the terms of the Plan and the related Consent Order issued by the Office.

Thomas Howell
Ferguson & Co.

Page Two

Our audits were conducted for the purpose of forming an opinion on the statutory basis financial statements taken as a whole. The summary investment schedule (Schedule 1), supplemental investment risks interrogatories (Schedule 2), and the selected general interrogatories relating to reinsurance (Schedule 3) included in other financial information as of and for the year ended December 31, 2010, are presented to comply with the National Association of Insurance Commissioners' *Accounting Practices and Procedures Manual* and are not a required part of the statutory basis financial statements. The additional information has been subjected to the auditing procedures applied in the audits of the statutory basis financial statements and, in our opinion, is fairly stated in all material respects in relation to the statutory basis financial statements taken as a whole.

This report is intended solely for the use of the Board of Directors and management of HomeWise Preferred Insurance Company and for filing with the Florida Office of Insurance Regulation and is not intended to be and should not be used by anyone other than these specified parties.

Thomas Howell Ferguson B.A.

April 5, 2011

HomeWise Preferred Insurance Company

Statements of Admitted Assets, Liabilities, and Capital and Surplus - Statutory Basis

	December 31,	
	2010	2009
Admitted assets		
Cash and invested assets:		
Short-term investments	\$ 4,228,797	\$ 26,512,091
Cash and cash equivalents	<u>2,982,117</u>	<u>28,499,823</u>
Total cash and invested assets	7,210,914	55,011,914
Accrued investment income	2,571	4,693
Premiums receivable, net	146,350	21,152,661
Reinsurance balances recoverable	2,855,422	3,057,603
Federal income taxes recoverable	2,688,811	2,724,399
Electronic data processing equipment, net	-	2,489
Receivables from parent and affiliates	7,742,679	6,594,042
Other assets	<u>423,303</u>	<u>2,186,985</u>
Total admitted assets	<u>\$ 21,070,050</u>	<u>\$ 90,734,786</u>
Liabilities and capital and surplus		
Liabilities:		
Loss and loss adjustment expense reserves	\$ 16,600,468	\$ 36,314,180
Unearned premiums, net	95,054	8,826,461
Reinsurance premiums payable	-	26,964,766
Provision for reinsurance	-	170,000
Other accrued expenses	58,087	1,036,548
Taxes, licenses, and fees payable	<u>-</u>	<u>134,330</u>
Total liabilities	16,753,609	73,446,285
Capital and surplus	<u>4,316,441</u>	<u>17,288,501</u>
Total liabilities and capital and surplus	<u>\$ 21,070,050</u>	<u>\$ 90,734,786</u>

See accompanying notes.

HomeWise Preferred Insurance Company

Statements of Operations - Statutory Basis

	<u>Years ended</u> <u>2010</u>	<u>December 31,</u> <u>2009</u>
Underwriting income:		
Premiums earned, net of reinsurance ceded	\$ 4,889,290	\$ 22,810,636
Underwriting expenses:		
Loss and loss adjustment expenses incurred	26,149,630	26,395,360
Underwriting, acquisition, and other expenses	<u>(5,587,377)</u>	<u>5,935,709</u>
Total underwriting expenses	<u>20,562,253</u>	<u>32,331,069</u>
Net underwriting loss	(15,672,963)	(9,520,433)
Net investment income	40,319	153,172
Realized capital losses	(8,741)	-
Other income	<u>273,113</u>	<u>750,913</u>
Loss before federal income tax expense (benefit)	(15,368,272)	(8,616,348)
Federal income tax expense (benefit)	<u>35,588</u>	<u>(2,749,549)</u>
Net loss	<u>\$ (15,403,860)</u>	<u>\$ (5,866,799)</u>

See accompanying notes.

HomeWise Preferred Insurance Company

Statements of Changes in Capital and Surplus - Statutory Basis

Years ended December 31, 2010 and 2009

	Common Stock		Paid-in Surplus	Unassigned Funds		Total
	Shares	Par Value				
Balance as of December 31, 2008	1,500,000	\$ 1,500,000	\$ 25,500,000	\$ (4,075,105)	\$	22,924,895
Capital contributions	-	-	2,000,000	-		2,000,000
Change in deferred income taxes	-	-	-	251,583		251,583
Change in nonadmitted assets	-	-	-	(1,851,178)		(1,851,178)
Change in provision for reinsurance	-	-	-	(170,000)		(170,000)
Net loss	-	-	-	(5,866,799)		(5,866,799)
Balance as of December 31, 2009	1,500,000	1,500,000	27,500,000	(11,711,499)		17,288,501
Capital contributions	-	-	2,000,000	-		2,000,000
Change in deferred income taxes	-	-	-	5,346,302		5,346,302
Change in nonadmitted assets	-	-	-	(5,084,502)		(5,084,502)
Change in provision for reinsurance	-	-	-	170,000		170,000
Net loss	-	-	-	(15,403,860)		(15,403,860)
Balance as of December 31, 2010	1,500,000	\$ 1,500,000	\$ 29,500,000	\$ (26,683,559)	\$	4,316,441

See accompanying notes.

HomeWise Preferred Insurance Company

Statements of Cash Flows - Statutory Basis

	Years ended December 31,	
	<u>2010</u>	<u>2009</u>
Operating activities		
Premiums (paid) collected, net of reinsurance	\$ (9,793,723)	\$ 30,394,636
Net investment income received	42,441	163,737
Other income received	323,711	777,234
Losses and loss adjustment expenses (paid) recovered	(45,661,161)	2,476,951
Underwriting, acquisition, and other expenses recovered (paid)	5,447,662	(9,007,847)
Federal income taxes recovered	<u>-</u>	<u>104,157</u>
Net cash (used in) provided by operating activities	<u>(49,641,070)</u>	<u>24,908,868</u>
 Financing activities		
Proceeds from capital contributions	2,000,000	2,000,000
Other miscellaneous proceeds (uses)	<u>(159,930)</u>	<u>(9,500,729)</u>
Net cash provided by (used in) financing activities	<u>1,840,070</u>	<u>(7,500,729)</u>
 Net (decrease) increase in cash and cash equivalents	(47,801,000)	17,408,139
 Cash at beginning of year	<u>55,011,914</u>	<u>37,603,775</u>
 Cash at end of year	\$ <u>7,210,914</u>	\$ <u>55,011,914</u>
 Cash consists of the following:		
Cash and cash equivalents	\$ 2,982,117	\$ 28,499,823
Short-term investments	<u>4,228,797</u>	<u>26,512,091</u>
	\$ <u>7,210,914</u>	\$ <u>55,011,914</u>

See accompanying notes.

HomeWise Preferred Insurance Company
Notes to Statutory Basis Financial Statements

Years ended December 31, 2010 and 2009

1. Summary of Significant Accounting Policies

Organization and Description of Company

HomeWise Preferred Insurance Company (the Company), a wholly-owned subsidiary of HomeWise Holdings, Inc. (HHI), is domiciled in the state of Florida. The Company was incorporated on May 31, 2006, and received its Certificate of Authority from the Florida Office of Insurance Regulation (the Office) on May 31, 2006. The Company received a Certificate of Authority from the Texas Department of Insurance on September 7, 2007, and began writing policies in Texas on October 31, 2007, and discontinued Texas underwriting operations in May 2008. The Company received a Certificate of Authority from the South Carolina Department of Insurance on March 10, 2008, and began writing policies on July 30, 2009. The Company stopped writing policies in South Carolina in March 2010. The Company is affiliated with HomeWise Management Company (HMC) and HomeWise Insurance Company (HIC), which are wholly-owned subsidiaries of HHI.

On February 19, 2010, the Company filed a plan to discontinue writing lines of business (Plan) with the Office. The Plan provides for the Company to discontinue all of its current business by issuing notices of nonrenewal to policyholders at the end of their current policy terms. The Company cannot write new business under the provisions of the Plan. The Company has not written any new business since August 2009 and has not renewed any policies since June 2010. The Company anticipates that its last policy will expire on or before June 30, 2011. The Company will continue to provide claims services to its policyholders during this time and until the ultimate resolution of all claims. As described more fully in Note 10, effective July 1, 2010, the Company executed policy rights transfer and assumption reinsurance agreements that transferred certain in-force policies meeting HIC's underwriting guidelines to HIC as of June 1, 2010.

Upon filing the Plan, the Company notified Demotech, Inc. (Demotech), a financial rating organization who had previously issued a Financial Stability Rating of "A" - Exceptional on the Company. In response to the Plan, Demotech withdrew its rating on the Company.

The Company writes and has written homeowners' and comprehensive dwelling fire coverage in the states of Florida, South Carolina, and Texas, areas that are exposed to damage from hurricanes and severe storms. The Company attempts to mitigate its exposure to losses from storms by purchasing quota share and catastrophe reinsurance coverage. However, such a storm, depending on its path and severity, could result in losses to the Company exceeding its reinsurance protection and could have a material adverse effect on the financial condition and results of operations of the Company.

HomeWise Preferred Insurance Company

Notes to Statutory Basis Financial Statements

1. Summary of Significant Accounting Policies (continued)

Basis of Presentation

The accompanying statutory basis financial statements have been prepared in accordance with statutory accounting practices (SAP) prescribed or permitted by the Florida Office of Insurance Regulation (the Office). Such statutory practices require preparation of the financial statements in accordance with the National Association of Insurance Commissioners' (NAIC) *Accounting Practices and Procedures Manual* subject to deviations prescribed by the Office. SAP is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America (GAAP). Such practices vary in certain respects from those under GAAP. The Company's significant accounting practices and the variances from GAAP are summarized below:

- Certain assets designated as "nonadmitted," principally past-due uncollected premiums, prepaid expenses, and other assets not specifically identified as an admitted asset within the *Accounting Practices and Procedures Manual*, are excluded from the accompanying statements of admitted assets, liabilities, and capital and surplus and are charged directly to unassigned surplus. Under GAAP, such assets would be included in the balance sheet at net realizable values.
- Loss and loss adjustment expense reserves and unearned premiums ceded to reinsurers have been reported as reductions of the related liabilities rather than as assets as would be required under GAAP.
- Cash in the statements of cash flows represents cash, cash equivalents, and short-term investments with remaining maturities of one year or less. Under GAAP, the corresponding caption of cash and cash equivalents would include cash balances and investments with initial maturities of three months or less.
- The costs of acquiring and renewing business are expensed when incurred. Under GAAP, such costs, to the extent recoverable, would be deferred and amortized over the effective period of the related insurance policies.
- Deferred tax assets are limited to 1) the amount of federal income taxes paid in prior years that can be recovered through loss carrybacks for existing temporary differences that reverse by the end of the subsequent calendar year, plus 2) the lesser of the remaining gross deferred tax assets expected to be realized within one year of the financial statement date or 10% of capital and surplus excluding any net deferred tax assets, electronic data processing (EDP) equipment and operating software and any net positive goodwill, plus 3) the amount of remaining gross deferred tax assets that can be offset against existing gross deferred tax liabilities. The remaining

HomeWise Preferred Insurance Company

Notes to Statutory Basis Financial Statements

1. Summary of Significant Accounting Policies (continued)

Basis of Presentation (continued)

deferred tax assets are nonadmitted. Beginning in 2009, gross deferred income tax assets are reduced by a valuation allowance if the Company determines it is more likely than not that some portion or all of the gross deferred tax assets will not be realized. Deferred taxes do not include amounts for state income taxes. Under GAAP, state income taxes would be included in the computation of deferred taxes, a deferred tax asset would be recorded for the amount of gross deferred tax assets expected to be realized in future years, and a valuation allowance would be established for deferred tax assets not realizable.

- Commissions allowed by reinsurers on business ceded are reported as a reduction of expense when incurred to the extent the amount does not exceed actual acquisition costs, rather than being deferred and amortized with deferred policy acquisition costs as would be required by GAAP. Commissions in excess of the acquisition costs, if any, would be deferred and recognized over the policy term consistent with GAAP.
- A provision for reinsurance is recorded as a liability and the change between years is recorded as a gain or loss directly to unassigned surplus. This provision is determined in accordance with NAIC Annual Statement instructions and generally provides for a reserve for uncollectible reinsurance.
- Certain other reported amounts are classified or presented differently in the financial statements prepared on the basis of SAP than they would be under GAAP. Statutory requirements require that the financial statements of the Company be filed with state regulatory authorities. Accordingly, the financial statements are presented in a format similar to the filed annual statement, which differs from the format of financial statements presented under GAAP. Required statutory disclosures that are not applicable to the Company are not included in the notes to these statutory financial statements.

Other significant accounting practices are as follows:

Recognition of Premium Revenues

Premiums are recorded as earned on a daily pro rata basis over the contract period that the related policies are expected to be in force. The portion of premiums not earned at the end of the year is recorded as unearned premiums. Premiums collected prior to the effective date of the policy are recorded as a liability.

HomeWise Preferred Insurance Company

Notes to Statutory Basis Financial Statements

1. Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

Cash and cash equivalents include demand deposits with several financial institutions and other highly liquid investments with original maturities of three months or less and certificates of deposit with original maturities of one year or less and are principally stated at cost, which approximates fair value.

Concentration of Credit Risk

The Company's financial instruments exposed to concentrations of credit risk consist primarily of its cash and cash equivalents, reinsurance recoveries, and premium revenue. The Company maintains its cash and cash equivalents at several financial institutions. Deposits with financial institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per depositor. Bank deposit accounts, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts.

Electronic Data Processing (EDP) Equipment

The admitted value of the Company's EDP equipment (none at December 31, 2010) is limited to 3% of capital and surplus. The admitted portion is reported at cost, less accumulated depreciation of \$0 and \$12,886 at December 31, 2010 and 2009, respectively. EDP equipment is depreciated using the straight-line method over the lesser of its useful life or three years. Depreciation expense charged to operations was \$6,529 and \$12,175 in 2010 and 2009, respectively.

During 2010, the Company sold or disposed of its EDP equipment, recognizing a capital loss of \$8,741 on the transaction.

Reinsurance

The accompanying statutory basis financial statements reflect reserves for premiums and losses and loss adjustment expenses (LAE), net of reinsurance ceded (see Note 6). Those reinsurance arrangements allow management to control exposure to potential losses arising from large risks and catastrophic events. A significant portion of the reinsurance is effected under a quota share reinsurance agreement. Amounts recoverable from reinsurers are estimated in a manner consistent with the loss and LAE reserves associated with the reinsured policies. Reinsurance premiums, losses, and LAE are accounted for on bases consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts.

HomeWise Preferred Insurance Company

Notes to Statutory Basis Financial Statements

1. Summary of Significant Accounting Policies (continued)

Loss and Loss Adjustment Expense (LAE) Reserves

Loss and LAE reserves represent the estimated ultimate net cost of all unpaid reported and unreported losses and LAE. The reserves for unpaid losses and LAE are estimated using individual case-basis estimates for reported losses and actuarial estimates for losses incurred but not yet reported. Those estimates are subject to the effects of trends in loss severity and frequency. Although considerable variability is inherent in such estimates, management believes that the reserves for losses and LAE are adequate. The estimates are continually reviewed and adjusted as necessary as experience develops or new information becomes known; such adjustments are included in current operations. The ultimate settlement of losses and LAE may vary significantly from the estimated amounts included in the financial statements. The Company does not discount its loss and LAE reserves.

The anticipated effect of inflation is implicitly considered when estimating liabilities for losses and LAE. While anticipated price increases due to inflation are considered in estimating the ultimate claim costs, the increase in average severities of claims is caused by a number of factors that vary with the individual type of policy written. Future average severities are projected based on historical trends adjusted for implemented changes in underwriting standards, policy provisions, and general economic trends. Those anticipated trends are monitored based on actual development and the estimated liabilities are modified if necessary.

Loss and LAE reserves are reported net of reinsurance recoverables for unpaid losses and LAE. Losses and LAE ceded through reinsurance are credited against losses and LAE incurred.

Guaranty Fund and Residual Market Pool Assessments

The Company is subject to assessments by a Florida guaranty fund, a residual market pool, and a state catastrophe reinsurance pool. The activities of this fund and these pools include collecting funds from solvent insurance companies to cover losses resulting from the insolvency or rehabilitation of other insurance companies or deficits generated by Florida Insurance Guaranty Association (FIGA), Citizens Property Insurance Corporation (Citizens), and the Florida Hurricane Catastrophe Fund (FHCF).

The Company's policy is to recognize its obligation for guaranty fund, Citizens, and FHCF assessments when the Company has the information available to reasonably estimate its liabilities. Guaranty fund, Citizens, and FHCF assessments are generally available for recoupment from policyholders and as such, amounts assessed are recorded as a recoverable asset. Amounts recoverable are generally expected to be collected during the year following assessment.

HomeWise Preferred Insurance Company

Notes to Statutory Basis Financial Statements

1. Summary of Significant Accounting Policies (continued)

Guaranty Fund and Residual Market Pool Assessments (continued)

The Company was assessed \$1,525,451 by FIGA in 2009 (none in 2010). The FIGA assessment recoverable from policyholders was \$0 and \$1,525,451 at December 31, 2010 and 2009, respectively.

Certain Citizens and FHCF assessments are collected from policyholders as policies are written and subsequently remitted to the assessing entity. Amounts (payable to) due from policyholders for these assessments were \$(7,800) and \$270,044 at December 31, 2010 and 2009, respectively. The amount recoverable for overpaid assessments to Citizens and FHCF totaled \$204,593 at December 31, 2010. The liability for assessments collected but not remitted to Citizens and FHCF totaled \$920,549 at December 31, 2009.

Income Taxes

The Company calculates its state and federal income tax liabilities based upon the statutory rates in effect during the year.

Subsequent Events

The Company has evaluated subsequent events through April 5, 2011, the date the financial statements were available to be issued. During the period from December 31, 2010 to April 5, 2011, the Company did not have any material recognizable subsequent events.

Use of Estimates

The preparation of statutory basis financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the statutory basis financial statements, and the reported amounts of revenues and expenses during the reporting period. Such estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and described in the financial statements.

2. Regulatory Requirements and Restrictions

Florida Statute 624.408 requires the Company to maintain capital and surplus of \$4 million or 10% of the Company's total liabilities for losses, loss adjustment expenses, and unearned premiums, whichever is greater, and to meet the risk-based capital requirements as discussed in Note 9. Additionally, Florida Statute 624.4095 requires the Company to maintain a ratio of the product of written premiums times 0.90 to surplus of no greater than 10-to-1 for gross written premiums and 4-to-1 for net written premiums. The Company is in compliance with these requirements.

HomeWise Preferred Insurance Company

Notes to Statutory Basis Financial Statements

2. Regulatory Requirements and Restrictions (continued)

Additionally, the Company is required to maintain deposits pursuant to Florida, Texas, and South Carolina statutes or consent orders to help secure the payment of claims. Cash on deposit in the amount of \$353,399 and \$344,623 has been assigned to the Office as of December 31, 2010 and 2009, respectively, and certificates of deposit in the amounts of \$1,131,168 and \$3,129,997 have been assigned to the Texas and South Carolina Departments of Insurance as of December 31, 2010 and 2009, respectively, to satisfy this requirement. These amounts are included in cash and cash equivalents in the accompanying statements of admitted assets, liabilities, and capital and surplus at December 31, 2010 and 2009.

3. Investments

Short-term investments consist of money market funds that have a maturity of one year or less from the date of purchase and are stated at cost, which approximates fair value.

Major categories of the Company's net investment income are summarized as follows:

	Years ended December 31,	
	2010	2009
Cash and cash equivalents	\$ 51,447	\$ 239,207
Investment expenses	(11,128)	(86,035)
Net investment income	<u>\$ 40,319</u>	<u>\$ 153,172</u>

4. Premiums Receivable

Premiums receivable include amounts due from HomeWise Management Company, the Company's managing general agent (MGA), who collects all premiums and remits them to the Company. The Company nonadmits balances due from insureds and deferred installments for which a portion of the receivable is more than 90 days past due and exceeds the related unearned premium. Premiums receivable are charged to bad debt expense in the period determined uncollectible. Recoveries received on amounts previously charged-off are credited to bad debt expense in the period received.

Premiums receivable consists of the following:

	December 31,	
	2010	2009
Premiums receivable, gross	\$ 152,956	\$ 21,166,116
Nonadmitted premiums receivable	(6,606)	(13,455)
Premiums receivable, net	<u>\$ 146,350</u>	<u>\$ 21,152,661</u>

HomeWise Preferred Insurance Company

Notes to Statutory Basis Financial Statements

5. Loss and Loss Adjustment Expense (LAE) Reserves

The following table provides a reconciliation of the beginning and ending reserve balances for losses and LAE, net of reinsurance recoverables.

	December 31,	
	2010	2009
	<i>(in thousands)</i>	
Loss and LAE reserves at beginning of year	\$ 36,314	\$ 19,867
Losses and LAE incurred related to:		
Current year	16,465	33,009
Prior years	<u>9,685</u>	<u>(6,614)</u>
	26,150	26,395
Losses and LAE paid related to:		
Current year	9,522	3,279
Prior years	<u>36,342</u>	<u>6,669</u>
	45,864	9,948
Loss and LAE reserves at end of year	<u>\$ 16,600</u>	<u>\$ 36,314</u>

Anticipated reinsurance recoverables on unpaid losses and LAE are approximately \$1,349,000 and \$5,555,000 at December 31, 2010 and 2009, respectively. Reinsurance recoverables on paid losses and LAE are approximately \$2,624,000 and \$3,058,000 at December 31, 2010 and 2009, respectively.

Net incurred losses and LAE attributable to insured events of prior years have developed unfavorably by \$9,685,000 in 2010 and favorably by \$(6,614,000) in 2009, as a result of reestimation of unpaid losses and loss adjustment expenses. Original estimates are decreased or increased as additional information becomes known regarding individual claims.

6. Reinsurance

Certain premiums and benefits are ceded to other insurance companies under various reinsurance agreements. The reinsurance agreements provide the Company with increased capacity to write more risks and maintain its exposure to loss within its capital resources. As of December 31, 2010 and 2009, the Company's reinsurance program consisted of catastrophe excess of loss reinsurance and quota share treaties. Following is a summary of the reinsurance coverage.

Effective June 1, 2010, the Company and its affiliated company, HomeWise Insurance Company (collectively, the Reinsured), entered into a quota share reinsurance agreement with Greenlight Reinsurance Ltd. (Greenlight). Under the terms of the agreement, Greenlight assumes a percentage (80% on policies written through December 31, 2010, with loss dates between June 1 and December 31, 2010; 90% on policies written through December 31, 2010, with loss dates after December 31, 2010; 85% on policies written after December 31, 2010, through May 31,

HomeWise Preferred Insurance Company

Notes to Statutory Basis Financial Statements

6. Reinsurance (continued)

2011; and 80% on policies written thereafter) of the Reinsured's incurred losses and loss adjustment expenses, subject to several exclusions. The Reinsured cedes a percentage of their gross premiums (equal to the percentage of losses assumed by Greenlight as described above), subject to several exclusions, after deducting a portion of the cost of the excess of loss reinsurance treaties, described below. The agreement is effective through May 31, 2012.

The reinsurance agreement is subject to a loss retention corridor, whereby the Reinsured retains losses above a minimum gross loss ratio ranging from 40.33% to 42.26% up to a maximum gross loss ratio ranging from 62.91% to 65%. Maximum losses ceded under this agreement are limited to 93% of the premiums earned for policies written through December 31, 2010, and 90% of the premiums earned for policies written thereafter. The ceding commission from Greenlight is equal to 31% of Greenlight's share of gross written premium, prior to the deduction of any premiums paid for catastrophe excess of loss protection. Additionally, the Reinsured is allowed a profit commission on a sliding scale basis for loss ratios under 42.26%. The current and prior year (described below) ceding commissions have been recorded as a reduction of underwriting, acquisition, and other expenses in the accompanying statements of operations.

Effective June 1, 2009, the Reinsured entered into quota share reinsurance agreements with Signet Star Re (Signet), Hannover Reinsurance (Ireland) Ltd. (Hannover), and Greenlight Reinsurance Ltd. (Greenlight) (collectively, the Reinsurers). Signet has a 30% participation. Hannover and Greenlight each have a 35% participation.

Under the terms of the agreements, as amended June 30, 2009, the Reinsurers assume a percentage (85% on policies written through December 31, 2009, and 75% on policies written thereafter) of the Reinsured's incurred losses and loss adjustment expenses, subject to several exclusions. The Reinsured cedes a percentage (85% on policies written through December 31, 2009, and 75% on policies written thereafter) of their gross premiums, subject to several exclusions, after deducting a portion of the cost of the excess of loss reinsurance treaties, described below. The quota share agreements with Signet and Hannover expired on May 31, 2010, while the agreement with Greenlight expires on May 31, 2011.

The reinsurance agreements are subject to loss retention corridors, whereby the Reinsured retains losses above a minimum gross loss ratio ranging from 25% to 33% up to a maximum gross loss ratio ranging from 37% to 42%. The limitations on maximum losses ceded under this agreement vary by participating reinsurer. The ceding commission from the Reinsurers is equal to a blended rate of 31.07% of the Reinsurers' share of gross written premium, prior to the deduction of any premiums paid for catastrophe excess of loss protection.

The Company did not enter into or engage in any loss portfolio transfer for any lines of business during 2010 or 2009.

HomeWise Preferred Insurance Company

Notes to Statutory Basis Financial Statements

6. Reinsurance (continued)

The catastrophe excess of loss coverage is provided by agreements with commercial reinsurers and by the FHCF. Coverage under the FHCF is limited to qualifying storms occurring in the state of Florida. For the year ended December 31, 2010, the commercial excess of loss treaties generally provide coverage on ultimate net losses of approximately \$6,700,000 in excess of \$15,000,000, not to exceed approximately \$13,400,000 for all occurrences. The FHCF provided coverage for 90% of the losses from qualifying catastrophic events in excess of approximately \$27,200,000 up to a maximum of approximately \$101,900,000, plus 100% of qualifying losses in excess of approximately \$5,200,000 (drop down layer) up to a maximum of approximately \$15,200,000. For the year ended December 31, 2009, the commercial excess of loss treaties generally provide coverage on ultimate net losses of approximately \$129,500,000 in excess of \$6,870,000, not to exceed approximately \$244,800,000 for all occurrences. The FHCF provided coverage for 90% of the losses from qualifying catastrophic events in excess of approximately \$101,300,000 up to a maximum of approximately \$498,300,000, plus 100% of qualifying losses in excess of approximately \$6,900,000 (drop down layer) up to a maximum of approximately \$16,900,000.

For 2009, the Company and its affiliated company, HomeWise Insurance Company, entered into the commercial catastrophe excess of loss coverage agreements described above. The 2009 amounts shown above represent the Company's share of the total agreement.

The FHCF provides coverage for named hurricanes only and provides no coverage after the one time limit is exhausted. The drop down layer provides for one automatic reinstatement at 100% of its original limit. Reinsurance premiums for the FHCF are paid on a total insured value basis. In the event of a loss assessment, the Company may recoup the assessment from its policyholders.

Effective June 1, 2009, the Company executed reinsurance premium protection agreements to reinsure the reinstatement premium payment obligations which accrue to the Company under the commercial catastrophe excess of loss agreements. The coverage is limited to 100% of the original contracted reinsurance placement.

The Company's reinsured risks are treated, to the extent of the reinsurance, as though they are risks for which the Company is not liable. However, the Company remains liable in the event the reinsuring entities do not meet their obligations under the reinsurance agreements. Given the quality of the reinsuring entities, management believes this possibility to be remote. See Note 5 for recoveries from reinsurers relating to paid and unpaid losses and LAE.

HomeWise Preferred Insurance Company

Notes to Statutory Basis Financial Statements

6. Reinsurance (continued)

The effects of reinsurance on premiums written and earned are as follows:

	Years ended December 31,			
	2010		2009	
	Written	Earned	Written	Earned
Direct premiums	\$ 6,119,533	\$ 82,240,650	\$ 160,368,923	\$ 178,187,470
Assumed premiums	-	-	(358,142)	1,076,433
Ceded premiums	<u>(9,961,650)</u>	<u>(77,351,360)</u>	<u>(146,953,637)</u>	<u>(156,453,267)</u>
Net premiums	<u>\$ (3,842,117)</u>	<u>\$ 4,889,290</u>	<u>\$ 13,057,144</u>	<u>\$ 22,810,636</u>

The following table summarizes the effect of ceded unearned premiums on the direct unearned premiums reserve and provides the related commission equity at December 31:

	2010	2009
Direct unearned premiums	\$ 3,731,439	\$ 79,852,556
Ceded unearned premiums	<u>(3,636,385)</u>	<u>(71,026,095)</u>
Unearned premiums, net	<u>\$ 95,054</u>	<u>\$ 8,826,461</u>
Commission equity, net	<u>\$ (903,000)</u>	<u>\$ (19,901,000)</u>

The following table shows the effect of reinsurance on loss and loss adjustment expenses incurred:

	Years ended December 31,	
	2010	2009
Direct losses and loss adjustment expenses incurred	\$ 44,228,185	\$ 109,477,975
Assumed losses and loss adjustment expenses incurred	75,264	(8,567,013)
Ceded losses and loss adjustment expenses incurred	<u>(18,153,819)</u>	<u>(74,515,602)</u>
Losses and loss adjustment expenses incurred, net	<u>\$ 26,149,630</u>	<u>\$ 26,395,360</u>

At December 31, 2010 and 2009, unsecured reinsurance recoverables on paid and unpaid losses and LAE and unearned premiums by reinsurer that were equal to or greater than 3% of surplus are as follows:

	2010	2009
Signet Star (Berkley Insurance Company)	\$ 1,495,000	\$ 12,183,000
Florida Hurricane Catastrophe Fund	892,000	10,753,000

For the years ended December 31, 2010 and 2009, recoveries under reinsurance contracts amounted to \$22,793,223 and \$92,416,072, respectively.

HomeWise Preferred Insurance Company

Notes to Statutory Basis Financial Statements

7. Policy Assumption Agreement

The Company had cancellations or other policy adjustments on assumed written premiums of \$(358,412) during 2009 (none in 2010) under a policy assumption agreement with Citizens. The Company provides a ceding commission to Citizens at a varying rate based on the aggregate number of policies assumed to cover the acquisition costs incurred by Citizens.

8. Income Taxes

Income before federal income taxes differs from taxable income principally due to differences in loss and LAE reserves and unearned premiums for tax and statutory basis financial reporting purposes.

State income taxes are classified as taxes, licenses, and fees in the NAIC Annual Statement and as underwriting, acquisition, and other expenses in the accompanying statements of operations.

A. The components of net deferred tax assets (DTAs) and deferred tax liabilities (DTLs) at December 31, are as follows:

	2010		
	Ordinary	Capital	Total
Total gross DTAs	\$ 7,398,227	\$ -	\$ 7,398,227
Total gross DTLs	-	-	-
Net DTA			7,398,227
Nonadmitted DTAs			7,398,227
Net admitted DTA			\$ -
Increase in nonadmitted DTAs			\$ 5,346,302

	2009		
	Ordinary	Capital	Total
Total gross DTAs	\$ 2,078,604	\$ -	\$ 2,078,604
Total gross DTLs	26,679		26,679
Net DTA			2,051,925
Nonadmitted DTAs			(2,051,925)
Net admitted DTAs			\$ -
Increase in nonadmitted DTAs			\$ 1,776,874

The Company has not elected to admit additional DTAs pursuant to SSAP 10R, paragraph 10(e) at December 31, 2010. The current period election does not differ from the prior reporting period.

HomeWise Preferred Insurance Company

Notes to Statutory Basis Financial Statements

8. Income Taxes (continued)

The amount of each result or component of the calculation, by tax character, of paragraphs 10.a., 10.b.i., 10.b.ii., and 10.c. are as follows:

	2010		
	Ordinary	Capital	Total
Can be recovered through loss carrybacks (10.a.)	\$ -	\$ -	\$ -
Lesser of:			
Expected to be recognized within one year (10.b.i.)	-	-	-
Ten percent of adjusted capital and surplus (10.b.ii.)	503,100	-	503,100
Adjusted gross DTAs offset against existing DTLs (10.c.)	-	-	-
Risk-based capital level used in paragraph 10.d.:			
Total adjusted capital			4,316,441
Authorized control level			1,291,153

	2009		
	Ordinary	Capital	Total
Can be recovered through loss carrybacks (10.a.)	\$ -	\$ -	\$ -
Lesser of:			
Expected to be recognized within one year (10.b.i.)	-	-	-
Ten percent of adjusted capital and surplus (10.b.ii.)	-	-	-
Adjusted gross DTAs offset against existing DTLs (10.c.)	26,679	-	26,679
Risk-based capital level used in paragraph 10.d.:			
Total adjusted capital			17,288,501
Authorized control level			5,980,770

The following amounts resulting from the calculation in paragraphs 10.a., 10.b., and 10.c. are as follows:

	2010	2009
Admitted DTAs	\$ -	\$ -
Admitted assets	21,070,050	90,734,786
Statutory surplus	4,316,441	17,288,501
Total adjusted capital	4,316,441	17,288,501

HomeWise Preferred Insurance Company

Notes to Statutory Basis Financial Statements

8. Income Taxes (continued)

B. Unrecognized DTLs:

Not applicable.

C. Current tax and change in deferred tax:

The provisions for income taxes incurred on earnings for the years ended December 31 are:

	<u>2010</u>	<u>2009</u>
Current year income tax expense	\$ -	\$ (2,724,398)
Prior year under (over) accrual	<u>35,588</u>	<u>(25,151)</u>
Current income taxes incurred	<u>\$ 35,588</u>	<u>\$ (2,749,549)</u>

The tax effect of temporary differences that give rise to significant deferred tax assets and deferred tax liabilities is as follows:

	<u>December 31,</u> <u>2010</u>	<u>2009</u>	<u>Change</u>
Deferred Tax Assets:			
Discount on unpaid losses and LAE	\$ 436,997	\$ 878,652	\$ (441,655)
20% of unearned premiums	6,464	600,199	(593,735)
Nonadmitted assets	2,246	91,258	(89,012)
Organizational costs	58,570	64,193	(5,623)
Charitable contribution	170	170	-
Net operating loss	<u>6,893,780</u>	<u>444,132</u>	<u>6,449,648</u>
Total DTAs	7,398,227	2,078,604	5,319,623
Nonadmitted DTAs	<u>(7,398,227)</u>	<u>(2,051,925)</u>	<u>(5,346,302)</u>
Admitted DTAs	<u>-</u>	<u>26,679</u>	<u>(26,279)</u>
Deferred Tax Liabilities:			
Depreciation of fixed assets	-	4,954	(4,954)
Other	<u>-</u>	<u>21,725</u>	<u>(21,725)</u>
Total DTLs	<u>-</u>	<u>26,679</u>	<u>(26,679)</u>
Net admitted DTAs	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

HomeWise Preferred Insurance Company

Notes to Statutory Basis Financial Statements

8. Income Taxes (continued)

The change in net deferred income taxes is comprised of the following:

	December 31,		
	<u>2010</u>	<u>2009</u>	<u>Change</u>
Total gross DTAs	\$ 7,398,227	\$ 2,078,604	\$ 5,319,623
Total gross DTLs	-	26,679	(26,679)
Net DTA	<u>\$ 7,398,227</u>	<u>\$ 2,051,925</u>	5,346,302
Deferred tax on change in net unrealized capital gains			-
Change in net deferred income tax			<u>\$ 5,346,302</u>

D. Reconciliation of federal income tax rate to actual effective rate:

The significant book-to-tax adjustments were as follows:

	<u>2010</u>	<u>Percentage of Pre-Tax Income</u>
Provision computed at statutory rate	\$ (5,225,213)	(34.00)%
Change in nonadmitted assets	89,012	0.58
Other	<u>(174,513)</u>	<u>(1.14)</u>
Total	<u>\$ (5,310,714)</u>	<u>(34.56)%</u>
Federal income tax	\$ 35,588	0.23 %
Change in deferred taxes	<u>(5,346,302)</u>	<u>(34.79)</u>
Statutory income taxes	<u>\$ (5,310,714)</u>	<u>(34.56)%</u>

E. Operating loss and tax credit carryforwards and protective tax deposits:

- At December 31, 2010, the Company had no unused capital losses and \$20,275,823 of net operating loss carryforwards available to offset future taxable income.
- The following is income tax expense that is available for recoupment in the event of future net losses:

<u>Year</u>	<u>Amount</u>
2010	\$ -
2009	-

- The Company did not have any protective tax deposits under Section 6603 of the Internal Revenue Code.

HomeWise Preferred Insurance Company

Notes to Statutory Basis Financial Statements

8. Income Taxes (continued)

F. Consolidated federal income tax return:

The Company's federal income tax return is consolidated with the following:

HomeWise Holdings, Inc.
HomeWise Insurance Company
HomeWise Management Company

The method of allocation between the companies is subject to written agreement, approved by the Board of Directors. Allocation is based upon separate return calculations with current credit for net losses. Intercompany balances are settled quarterly.

9. Capital and Surplus

The Company has authorized 2,000,000 shares of \$1 par value common stock, of which 1,500,000 shares are issued and outstanding at December 31, 2010 and 2009. HHI is the sole shareholder. HHI made a \$2,000,000 cash contribution of additional paid-in capital in 2010 and 2009. No other classes of common or preferred shares were issued during 2010 or 2009.

Property and casualty insurance companies are subject to certain Risk-based Capital (RBC) requirements as specified by the NAIC. Under those requirements, the amount of capital and surplus maintained by a property and casualty insurance company is to be determined based on the various risk factors related to it. The Company is in compliance with the RBC requirements at December 31, 2010 and 2009.

The maximum amount of dividends that may be paid by property and casualty insurance companies without prior approval of the Office is subject to restrictions relating to statutory surplus and net income. Furthermore, in accordance with the Company's Certificate of Authority Consent Order, during the first three years of operations it may only pay dividends that are approved in advance by the Office. The Company did not declare or pay any dividends during the years ended December 31, 2010 and 2009.

10. Related Party Transactions

The Company is a wholly-owned subsidiary of HHI and is affiliated with HMC and HIC, which are also wholly-owned subsidiaries of HHI.

HomeWise Preferred Insurance Company

Notes to Statutory Basis Financial Statements

10. Related Party Transactions (continued)

Effective July 1, 2010, the Company executed a Policy Rights Agreement with HIC whereby the Company sells all of its rights, title, and interests in policy information developed by the Company to HIC. The agreement is in furtherance of the Company's discontinuance plan filed with the OIR and is intended to provide HIC with the information necessary for HIC to determine which of the Company's policies will be offered replacement coverage with HIC. As compensation for the policy rights, HIC will pay a fee equal to 5% of HIC's direct written premium related to the replacement coverage. Payment will be made quarterly and is due within 45 days of the end of the calendar quarter. Additionally, policies were transferred to HIC that were to be offered replacement coverage by HIC and that acknowledged HIC as primary obligor for loss responsibility as of June 1, 2010. In consideration of the acceptance of the loss responsibility on these policies, the associated unearned premiums were remitted to HIC. The total amount of premium transferred to HIC under this agreement during 2010 is \$40,228,661 and is recorded as a reduction of the Company's direct written premium. Also, in recognition of the disproportionate allocation of FHCF costs associated with the policy transfer and its related activity, the Company transferred \$3 million of FHCF premiums to HIC.

Effective June 1, 2010, the Company executed an Assumption Reinsurance Agreement with HIC, whereby the Company cedes, and HIC assumes, 100% of the liability of the Company under the policies assumed by HIC arising on or after the effective date. As compensation, the Company transfers 100% of the unearned premium of the assumed policies as of the effective date to HIC, less a ceding commission. The total amount of premium assumed by HIC during 2010 is \$403,198.

During 2010, the commissions relating to the Policy Rights and Assumption Reinsurance Agreements totaled approximately \$4,090,000 and are reported as a reduction of underwriting, acquisition, and other expenses.

Effective May 31, 2006, the Company entered into a managing general agency agreement with HMC. Pursuant to the agreement, HMC provides to the Company premium billing, claims management, and underwriting functions. During 2010 and 2009, expenses incurred related to this agreement totaled \$12,849,983 and \$39,669,929, respectively. During 2010 and 2009, HMC forgave \$1,190,400 and \$2,000,000 of those expenses, respectively.

Effective May 31, 2006, the Company entered into a service agreement with HHI. Pursuant to the agreement, HHI provides capital management services, investor management and relations, and assists with overall general management of the Company. This agreement was terminated by mutual consent, effective July 1, 2010. During 2010 and 2009, expenses incurred related to this agreement totaled \$523,712 and \$1,570,043, respectively. During 2010, HHI forgave \$513,649 of those expenses. Additionally, in 2010 and 2009 the Company received capital contributions from HHI (see Note 9).

HomeWise Preferred Insurance Company

Notes to Statutory Basis Financial Statements

10. Related Party Transactions (continued)

The Company is also party to a Cost Allocation Agreement with HIC, HMC, and HHI in which expenses benefiting more than one company are allocated based upon direct allocation or revenue allocation rules, whichever is most appropriate for the expense. As a result of the Cost Allocation Agreement and the other transactions described above, the Company has a receivable due from HIC of \$5,254,595 and \$333,407, at December 31, 2010 and 2009, respectively; a receivable due from HMC of \$1,974,435 and \$5,533,989 at December 31, 2010 and 2009, respectively; and a receivable due from HHI of \$513,649 and \$726,646 at December 31, 2010 and 2009, respectively.

11. Premiums Produced by Managing General Agents or Third Party Administrators

The Company uses a managing general agent, HMC, to write and administer insurance products. The total premium produced and serviced through the contract during 2010 is summarized below. The Company retains underwriting authority for all policies issued under these agreements.

<u>Name and Address</u>	<u>FEI Number</u>	<u>Exclusive Contract</u>	<u>Type of Business Written</u>	<u>Type of Authority Granted</u>	<u>Direct Premium Written</u>
HomeWise Management Company, Inc. 18302 Highwoods Preserve Parkway, Suite 110 Tampa, FL 33647	20-3395152	Yes	Homeowners	Binding, premium collection, claims adjustment, and underwriting	\$ 45,758,013

12. Leases

On May 3, 2007, the Company entered into an operating lease agreement for office space in San Antonio, Texas, which was effective July 6, 2007, through July 31, 2012. The Company terminated this agreement in November 2010.

In addition, the Company pays rent to HIC under the Cost Allocation Agreement for facilities it uses in Tampa, Florida. These facilities are leased by HIC from a third party. The Company recognized rent expense of \$166,100 under this agreement. Through July 1, 2010, expenses associated with this lease were allocated equally between the Company and HIC. Subsequent to July 1, 2010, expenses were no longer allocated to the Company in accordance with the plan of discontinuance.

HomeWise Preferred Insurance Company

Notes to Statutory Basis Financial Statements

12. Leases (continued)

Total rent expense for leases was \$248,503 and \$340,103 for the years ended December 31, 2010 and 2009, respectively. The current year rent expense includes \$166,100 in reimbursements made to HIC for the Company's share of the rent expense for the Tampa, Florida, office space operating lease.

13. Reconciliation of Annual Statement to Audited Financial Statements

Differences exist between amounts reported in the audited statutory financial statements and those reported in the annual statements of the Company for the year ended December 31, 2010, resulting from reclassification of certain accounts and the turnaround effect of 2009 audit adjustments that were processed in 2010. Presented below is a reconciliation of amounts previously reported to the Office and those amounts appearing in the audited statutory financial statements for the year ended December 31, 2010.

	Audited Financial Statement Amount	Annual Statement Amount	Increase (Decrease)
December 31, 2010			
Total admitted assets	\$ 21,070,050	\$ 20,558,453	\$ 511,597
Total liabilities	16,753,609	16,242,012	511,597
Total capital and surplus	4,316,441	4,316,441	-
Net loss	15,403,860	15,403,487	373

Other Financial Information

SUMMARY INVESTMENT SCHEDULE

Schedule 1

Investment Categories	Gross Investment Holdings		Admitted Assets as Reported in the Annual Statement	
	1 Amount	2 Percentage	3 Amount	4 Percentage
1. Bonds:				
1.1 U.S. treasury securities.....		0.0		0.0
1.2 U.S. government agency obligations (excluding mortgage-backed securities):				
1.21 Issued by U.S. government agencies.....		0.0		0.0
1.22 Issued by U.S. government sponsored agencies.....		0.0		0.0
1.3 Non-U.S. government (including Canada, excluding mortgage-backed securities).....		0.0		0.0
1.4 Securities issued by states, territories and possessions and political subdivisions in the U.S.:				
1.41 States, territories and possessions general obligations.....		0.0		0.0
1.42 Political subdivisions of states, territories & possessions & political subdivisions general obligations.....		0.0		0.0
1.43 Revenue and assessment obligations.....		0.0		0.0
1.44 Industrial development and similar obligations.....		0.0		0.0
1.5 Mortgage-backed securities (includes residential and commercial MBS):				
1.51 Pass-through securities:				
1.511 Issued or guaranteed by GNMA.....		0.0		0.0
1.512 Issued or guaranteed by FNMA and FHLMC.....		0.0		0.0
1.513 All other.....		0.0		0.0
1.52 CMOs and REMICs:				
1.521 Issued or guaranteed by GNMA, FNMA, FHLMC or VA.....		0.0		0.0
1.522 Issued by non-U.S. Government issuers and collateralized by mortgage-backed securities issued or guaranteed by agencies shown in Line 1.521.....		0.0		0.0
1.523 All other.....		0.0		0.0
2. Other debt and other fixed income securities (excluding short-term):				
2.1 Unaffiliated domestic securities (includes credit tenant loans and hybrid securities).....		0.0		0.0
2.2 Unaffiliated non-U.S. securities (including Canada).....		0.0		0.0
2.3 Affiliated securities.....		0.0		0.0
3. Equity interests:				
3.1 Investments in mutual funds.....		0.0		0.0
3.2 Preferred stocks:				
3.21 Affiliated.....		0.0		0.0
3.22 Unaffiliated.....		0.0		0.0
3.3 Publicly traded equity securities (excluding preferred stocks):				
3.31 Affiliated.....		0.0		0.0
3.32 Unaffiliated.....		0.0		0.0
3.4 Other equity securities:				
3.41 Affiliated.....		0.0		0.0
3.42 Unaffiliated.....		0.0		0.0
3.5 Other equity interests including tangible personal property under lease:				
3.51 Affiliated.....		0.0		0.0
3.52 Unaffiliated.....		0.0		0.0
4. Mortgage loans:				
4.1 Construction and land development.....		0.0		0.0
4.2 Agricultural.....		0.0		0.0
4.3 Single family residential properties.....		0.0		0.0
4.4 Multifamily residential properties.....		0.0		0.0
4.5 Commercial loans.....		0.0		0.0
4.6 Mezzanine real estate loans.....		0.0		0.0
5. Real estate investments:				
5.1 Property occupied by company.....		0.0		0.0
5.2 Property held for production of income (including \$.....0 of property acquired in satisfaction of debt).....		0.0		0.0
5.3 Property held for sale (including \$.....0 property acquired in satisfaction of debt).....		0.0		0.0
6. Contract loans.....		0.0		0.0
7. Receivables for securities.....		0.0		0.0
8. Cash, cash equivalents and short-term investments.....		0.0	7,210,914	100.0
9. Other invested assets.....		0.0		0.0
10. Total invested assets.....	0	0.0	7,210,914	100.0

See report of independent auditors.



SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES

For the year ended December 31, 2010

(To be filed by April 1)

Of HomeWise Preferred Insurance Company

Address (City, State, Zip Code): Tampa FL 33647

NAIC Group Code.....4111

NAIC Company Code.....12582

Employer's ID Number.....20-4791515

The Investment Risks Interrogatories are to be filed by April 1. They are also to be included with the Audited Statutory Financial Statements.

Answer the following interrogatories by reporting the applicable U.S. dollar amounts and percentages of the reporting entity's total admitted assets held in that category of investments.

1. Reporting entity's total admitted assets as reported on Page 2 of this annual statement. \$.....20,558,453

2. Ten largest exposures to a single issuer/borrower/investment.

	1	2	3	4
	Issuer	Description of Exposure	Amount	Percentage of Total Admitted Assets
2.01	Federated Investors	Money Market Preim Cash Obligations Fund	\$.....4,228,798	20.570 %
2.02	SunTrust Bank	Certificates of Deposit	\$.....1,000,000	4.864 %
2.03	Florida Dept of Fin. Services	Treasury Cash Fund Deposit	\$.....353,399	1.719 %
2.04	SunTrust Bank	Certificate of Deposit	\$.....106,168	0.516 %
2.05	Wachovia Bank	Certificate of Deposit	\$.....2,500	0.012 %
2.06			\$.....0.000	0.000 %
2.07			\$.....0.000	0.000 %
2.08			\$.....0.000	0.000 %
2.09			\$.....0.000	0.000 %
2.10			\$.....0.000	0.000 %

3. Amounts and percentages of the reporting entity's total admitted assets held in bonds and preferred stocks by NAIC rating.

	1	2
<u>Bonds</u>		
3.01 NAIC-1	\$.....9,990,671	48.596 %
3.02 NAIC-2	\$.....0.000	0.000 %
3.03 NAIC-3	\$.....0.000	0.000 %
3.04 NAIC-4	\$.....0.000	0.000 %
3.05 NAIC-5	\$.....0.000	0.000 %
3.06 NAIC-6	\$.....0.000	0.000 %
<u>Preferred Stocks</u>		
3.07 P/RP-1	\$.....0.000	0.000 %
3.08 P/RP-2	\$.....0.000	0.000 %
3.09 P/RP-3	\$.....0.000	0.000 %
3.10 P/RP-4	\$.....0.000	0.000 %
3.11 P/RP-5	\$.....0.000	0.000 %
3.12 P/RP-6	\$.....0.000	0.000 %

4. Assets held in foreign investments:

4.01 Are assets held in foreign investments less than 2.5% of the reporting entity's total admitted assets?	Yes [X] No []
If response to 4.01 above is yes, responses are not required for interrogatories 5-10.	
4.02 Total admitted assets held in foreign investments	\$.....0.000 %
4.03 Foreign-currency-denominated investments	\$.....0.000 %
4.04 Insurance liabilities denominated in that same foreign currency	\$.....0.000 %

5. Aggregate foreign investment exposure categorized by NAIC sovereign rating:

	1	2
5.01 Countries rated NAIC-1	\$.....0.000	0.000 %
5.02 Countries rated NAIC-2	\$.....0.000	0.000 %
5.03 Countries rated NAIC-3 or below	\$.....0.000	0.000 %

6. Largest foreign investment exposures by country, categorized by the country's NAIC sovereign rating:

	1	2
<u>Countries rated NAIC-1:</u>		
6.01 Country 1	\$.....0.000	0.000 %
6.02 Country 2	\$.....0.000	0.000 %
<u>Countries rated NAIC-2:</u>		
6.03 Country 1	\$.....0.000	0.000 %
6.04 Country 2	\$.....0.000	0.000 %
<u>Countries rated NAIC-3 or below:</u>		
6.05 Country 1	\$.....0.000	0.000 %
6.06 Country 2	\$.....0.000	0.000 %

7. Aggregate unhedged foreign currency exposure: \$.....0.000 %

6. Aggregate unhedged foreign currency exposure categorized by NAIC sovereign rating:		1	2
8.01	Countries rated NAIC-1	\$	0.000 %
8.02	Countries rated NAIC-2	\$	0.000 %
8.03	Countries rated NAIC-3 or below	\$	0.000 %

9. Largest unhedged foreign currency exposures by country, categorized by the country's NAIC sovereign rating:		1	2
Countries rated NAIC-1:			
9.01	Country 1:	\$	0.000 %
9.02	Country 2:	\$	0.000 %
Countries rated NAIC-2:			
9.03	Country 1:	\$	0.000 %
9.04	Country 2:	\$	0.000 %
Countries rated NAIC-3 or below:			
9.05	Country 1:	\$	0.000 %
9.06	Country 2:	\$	0.000 %

10. Ten largest non-sovereign (i.e. non-governmental) foreign issues:				
	1	2	3	4
	<u>Issuer</u>	<u>NAIC Rating</u>		
10.01			\$	0.000 %
10.02			\$	0.000 %
10.03			\$	0.000 %
10.04			\$	0.000 %
10.05			\$	0.000 %
10.06			\$	0.000 %
10.07			\$	0.000 %
10.08			\$	0.000 %
10.09			\$	0.000 %
10.10			\$	0.000 %

11. Amounts and percentages of the reporting entity's total admitted assets held in Canadian investments and unhedged Canadian currency exposure:		Yes [X]	No []
11.01	Are assets held in Canadian investments less than 2.5% of the reporting entity's total admitted assets? If response to 11.01 is yes, detail is not required for the remainder of Interrogatory 11.		
11.02	Total admitted assets held in Canadian Investments	\$	0.000 %
11.03	Canadian currency-denominated investments	\$	0.000 %
11.04	Canadian-denominated insurance liabilities	\$	0.000 %
11.05	Unhedged Canadian currency exposure	\$	0.000 %

12. Report aggregate amounts and percentages of the reporting entity's total admitted assets held in investments with contractual sales restrictions.		Yes [X]	No []
12.01	Are assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets? If response to 12.01 is yes, responses are not required for the remainder of Interrogatory 12.		
	1	2	3
12.02	Aggregate statement value of investments with contractual sales restrictions:	\$	0.000 %
Largest three investments with contractual sales restrictions:			
12.03		\$	0.000 %
12.04		\$	0.000 %
12.05		\$	0.000 %

13. Amounts and percentages of admitted assets held in the ten largest equity interests:		Yes [X]	No []
13.01	Are assets held in equity interest less than 2.5% of the reporting entity's total admitted assets? If response to 13.01 above is yes, responses are not required for the remainder of Interrogatory 13.		
	1	2	3
	<u>Name of Issuer</u>		
13.02		\$	0.000 %
13.03		\$	0.000 %
13.04		\$	0.000 %
13.05		\$	0.000 %
13.06		\$	0.000 %
13.07		\$	0.000 %
13.08		\$	0.000 %
13.09		\$	0.000 %
13.10		\$	0.000 %
13.11		\$	0.000 %

14. Amounts and percentages of the reporting entity's total admitted assets held in nonaffiliated, privately placed equities:		Yes [X]	No []
14.01	Are assets held in nonaffiliated, privately placed equities less than 2.5% of the reporting entity's total admitted assets? If response to 14.01 above is yes, responses are not required for the remainder of Interrogatory 14.		
	1	2	3
14.02	Aggregate statement value of investments held in nonaffiliated, privately placed equities:	\$	0.000 %
Largest three investments held in nonaffiliated, privately placed equities:			
14.03		\$	0.000 %
14.04		\$	0.000 %
14.05		\$	0.000 %

15. Amounts and percentages of the reporting entity's total admitted assets held in general partnership interests:

15.01 Are assets held in general partnership interests less than 2.5% of the reporting entity's total admitted assets?

Yes ☒ No ☐

If response to 15.01 above is yes, responses are not required for the remainder of Interrogatory 15.

1	2	3
15.02 Aggregate statement value of investments held in general partnership interests:	\$	0.000 %
Largest three investments in general partnership interests:		
15.03	\$	0.000 %
15.04	\$	0.000 %
15.05	\$	0.000 %

16. Amounts and percentages of the reporting entity's total admitted assets held in mortgage loans:

16.01 Are mortgage loans reported in Schedule B less than 2.5% of the reporting entity's total admitted assets?

Yes ☒ No ☐

If response to 16.01 above is yes, responses are not required for the remainder of Interrogatory 16 and Interrogatory 17.

1	2	3
Type (Residential, Commercial, Agricultural)		
16.02	\$	0.000 %
16.03	\$	0.000 %
16.04	\$	0.000 %
16.05	\$	0.000 %
16.06	\$	0.000 %
16.07	\$	0.000 %
16.08	\$	0.000 %
16.09	\$	0.000 %
16.10	\$	0.000 %
16.11	\$	0.000 %

Amount and percentage of the reporting entity's total admitted assets held in the following categories of mortgage loans:

	Loans
16.12 Construction loans	\$ 0.000 %
16.13 Mortgage loans over 90 days past due	\$ 0.000 %
16.14 Mortgage loans in the process of foreclosure	\$ 0.000 %
16.15 Mortgage loans foreclosed	\$ 0.000 %
16.16 Restructured mortgage loans	\$ 0.000 %

17. Aggregate mortgage loans having the following loan-to-value ratios as determined from the most current appraisal as of the annual statement date:

<u>Loan-to-Value</u>	<u>Residential</u>		<u>Commercial</u>		<u>Agricultural</u>	
	1	2	3	4	5	6
17.01 above 95%	\$ 0.000 %	\$ 0.000 %	\$ 0.000 %	\$ 0.000 %	\$ 0.000 %	\$ 0.000 %
17.02 91% to 95%	\$ 0.000 %	\$ 0.000 %	\$ 0.000 %	\$ 0.000 %	\$ 0.000 %	\$ 0.000 %
17.03 81% to 90%	\$ 0.000 %	\$ 0.000 %	\$ 0.000 %	\$ 0.000 %	\$ 0.000 %	\$ 0.000 %
17.04 71% to 80%	\$ 0.000 %	\$ 0.000 %	\$ 0.000 %	\$ 0.000 %	\$ 0.000 %	\$ 0.000 %
17.05 below 70%	\$ 0.000 %	\$ 0.000 %	\$ 0.000 %	\$ 0.000 %	\$ 0.000 %	\$ 0.000 %

18. Amounts and percentages of the reporting entity's total admitted assets held in each of the five largest investments in real estate:

18.01 Are assets held in real estate reported less than 2.5% of the reporting entity's total admitted assets?

Yes ☒ No ☐

If response to 18.01 above is yes, responses are not required for the remainder of Interrogatory 18.

Largest five investments in any one parcel or group of contiguous parcels of real estate.

Description	2	3
18.02	\$	0.000 %
18.03	\$	0.000 %
18.04	\$	0.000 %
18.05	\$	0.000 %
18.06	\$	0.000 %

19. Report aggregate amounts and percentages of the reporting entity's total admitted assets held in investments held in mezzanine real estate loans.

19.01 Are assets held in investments held in mezzanine real estate loans less than 2.5% of the reporting entity's admitted assets?

Yes ☒ No ☐

If response to 19.01 is yes, responses are not required for the remainder of Interrogatory 19.

1	2	3
19.02 Aggregate statement value of investments held in mezzanine real estate loans:	\$	0.000 %
Largest three investments held in mezzanine real estate loans:		
19.03	\$	0.000 %
19.04	\$	0.000 %
19.05	\$	0.000 %

20. Amounts and percentages of the reporting entity's total admitted assets subject to the following types of agreements:

	At Year-End		At End of Each Quarter		
	1	2	1st Qtr	2nd Qtr	3rd Qtr
20.01 Securities lending agreements (do not include assets held as collateral for such transactions)	\$	0.000 %	\$	\$	\$
20.02 Repurchase agreements	\$	0.000 %	\$	\$	\$
20.03 Reverse repurchase agreements	\$	0.000 %	\$	\$	\$
20.04 Dollar repurchase agreements	\$	0.000 %	\$	\$	\$
20.05 Dollar reverse repurchase agreements	\$	0.000 %	\$	\$	\$

21. Amounts and percentages of the reporting entity's total admitted assets for warrants not attached to other financial instruments, options, caps and floors:

	<u>Owned</u>		<u>Written</u>	
	1	2	3	4
21.01 Hedging	\$	0.000 %	\$	0.000 %
21.02 Income generation	\$	0.000 %	\$	0.000 %
21.03 Other	\$	0.000 %	\$	0.000 %

22. Amounts and percentages of the reporting entity's total admitted assets of potential exposure for collars, swaps, and forwards:

	<u>At Year-End</u>		<u>At End of Each Quarter</u>		
	1	2	1st Qtr	2nd Qtr	3rd Qtr
22.01 Hedging	\$	0.000 %	\$	\$	\$
22.02 Income generation	\$	0.000 %	\$	\$	\$
22.03 Replications	\$	0.000 %	\$	\$	\$
22.04 Other	\$	0.000 %	\$	\$	\$

23. Amounts and percentages of the reporting entity's total admitted assets of potential exposure for futures contracts:

	<u>At Year-End</u>		<u>At End of Each Quarter</u>		
	1	2	1st Qtr	2nd Qtr	3rd Qtr
23.01 Hedging	\$	0.000 %	\$	\$	\$
23.02 Income generation	\$	0.000 %	\$	\$	\$
23.03 Replications	\$	0.000 %	\$	\$	\$
23.04 Other	\$	0.000 %	\$	\$	\$

See report of independent auditors.

HomeWise Preferred Insurance Company

Selected General Interrogatories Relating to Reinsurance

December 31, 2010

- 7.1 Has the reporting entity reinsured any risk with any other entity under a quota share reinsurance contract that includes a provision that would limit the reinsurer's losses below the stated quota share percentage (e.g., a deductible, a loss ratio corridor, a loss cap, an aggregate limit, or any similar provisions)?.....Yes ☒ No ☐
- 7.2 If yes, indicate the number of reinsurance contracts containing such provisions.....1
- 7.3 If yes, does the amount of reinsurance credit taken reflect the reduction in quota share coverage caused by any applicable limiting provision(s)?.....Yes ☒ No ☐
- 9.1 Has the reporting entity ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates) for which during the period covered by the statement: (i) it recorded a positive or negative underwriting result greater than 5% of prior year-end surplus as regards policyholders or it reported calendar year written premium ceded or year-end loss and loss expense reserves ceded greater than 5% of prior year-end surplus as regards policyholders; (ii) it accounted for that contract as reinsurance and not as a deposit; and (iii) the contract(s) contain one or more of the following features or other features that would have similar results:
- (a) A contract term longer than two years and the contract is noncancellable by the reporting entity during the contract term;
 - (b) A limited or conditional cancellation provision under which cancellation triggers an obligation by the reporting entity, or an affiliate of the reporting entity, to enter into a new reinsurance contract with the reinsurer, or an affiliate of the reinsurer;
 - (c) Aggregate stop loss reinsurance coverage;
 - (d) A unilateral right by either party to commute the reinsurance contract, whether conditional or not, except for such provisions which are only triggered by a decline in the credit status of the other party;
 - (e) A provision permitting reporting of losses, or payment of losses, less frequently than on a quarterly basis (unless there is no activity during the period); or
 - (f) Payment schedule, accumulating retentions from multiple years or any feature inherently designed to delay timing of the reimbursement to the ceding entity.....Yes ☐ No ☒
- 9.2 Has the reporting entity during the period covered by the statement ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates), for which, during the period covered by the statement, it recorded a positive or negative underwriting result greater than 5% of prior year-end surplus as regards policyholders or it reported calendar year premium ceded or year-end loss and loss expense reserves ceded greater than 5% of prior year-end surplus as regards policyholders; excluding cessions to approved pooling agreements or to captive insurance companies that are directly or indirectly controlling, controlled by, or under common control with (i) one or more unaffiliated policyholders of the reporting entity, or (ii) an association of which one or more unaffiliated policyholders of the reporting entity is a member, where:
- (a) The written premium ceded to the reinsurer by the reporting entity or its affiliates represents fifty percent (50%) or more of the entire direct and assumed premium written by the reinsurer based on its most recently available financial statement; or
 - (b) Twenty-five percent (25%) or more of the written premium ceded to the reinsurer has been retroceded back to the reporting entity or its affiliates in a separate reinsurance contract?.....Yes ☐ No ☒

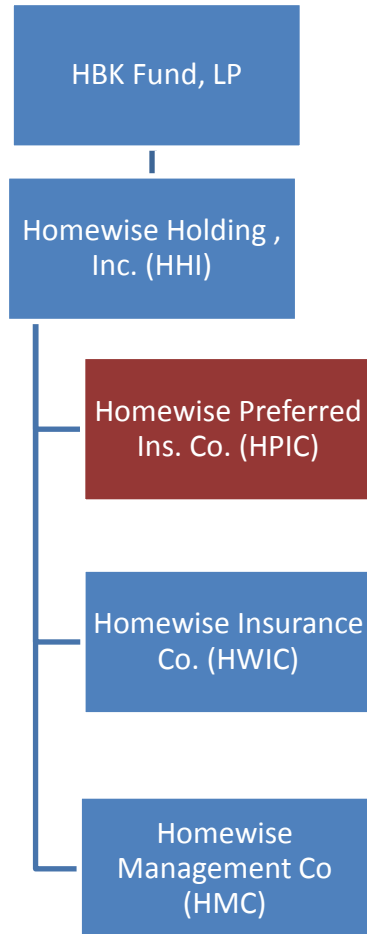
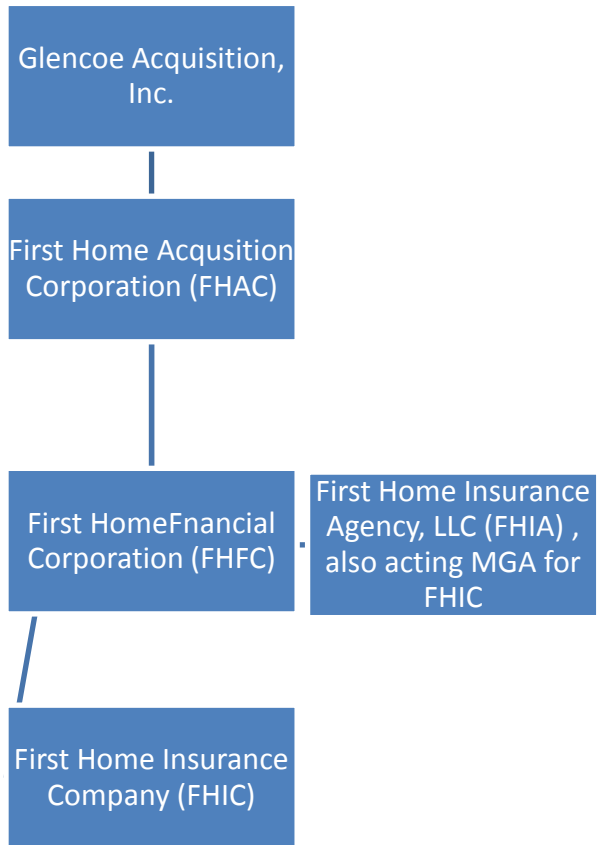
HomeWise Preferred Insurance Company

Selected General Interrogatories Relating to Reinsurance

- 9.3 If yes to 9.1 or 9.2, please provide the following information in the Reinsurance Summary Supplemental Filing for General Interrogatory 9:
- (a) The aggregate financial statement impact gross of all such ceded reinsurance contracts on the balance sheet and statement of income;
 - (b) A summary of the reinsurance contract terms and indicate whether it applies to the contracts meeting the criteria in 9.1 or 9.2; and
 - (c) A brief discussion of management's principle objectives in entering into the reinsurance contract including the economic purpose to be achieved.
- 9.4 Except for transactions meeting the requirements of paragraph 31 of SSAP No. 62, *Property and Casualty Reinsurance*, has the reporting entity ceded any risk under any reinsurance contract (or multiple contracts with the same reinsurer or its affiliates) during the period covered by the financial statement, and either:
- (a) Accounted for that contract as reinsurance (either prospective or retroactive) under statutory accounting principles (SAP) and as a deposit under generally accepted accounting principles (GAAP); or
 - (b) Accounted for that contract as reinsurance under GAAP and as a deposit under SAP?.....Yes ☐ No ☒
- 9.5 If yes to 9.4, explain in the Reinsurance Summary Supplemental Filing for General Interrogatory 9 (Section D) why the contract(s) is treated different for GAAP and SAP.

See report of independent auditors.

EXHIBIT II



ORGANIZATION CHART

Homeowners Choice (HCPCI) – Homewoners Choice Inc. (NASDAQ HCII)