

INSOLVENCY REPORT

NORTHERN CAPITAL INSURANCE COMPANY

Receivership Information/Reference –

| | |
|-----------------------------|---|
| Name of Receivership | Northern Capital Insurance Company |
| Receivership Number | 526 |
| Date of Conservation | N/A |
| Date of Rehabilitation | April 12, 2010 |
| Date of Liquidation | May 1, 2010 |

Scope – As provided in the Provider Contract between the “Receiver of the Estate of Northern Capital Insurance Company,” (the Receiver being the Florida Department of Financial Services, Division of Rehabilitation and Liquidation), hereinafter referred to as “Receiver,” and Law, Redd, Crona & Munroe, P.A., hereinafter referred to as “Provider” effective June 29, 2012, under Section 5, SCOPE OF WORK, states in part:

5.3.7 Prepare Insolvency Summary Report (“Insolvency Report”), pursuant to the requirements of *Chapter 631.398(3), Florida Statutes*.

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

The 2016 Florida Statutes

[Title XXXVII](#)
INSURANCE

[Chapter 631](#)
INSURER INSOLVENCY; GUARANTY OF
PAYMENT

[View Entire Chapter](#)

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.—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.

Information relied on to prepare this insolvency report for Northern Capital Insurance Company (NCIC or the Company) was obtained from Provider's review of files provided directly from the Receiver on back up data storage and also through secure email transmission during the forensic phase of the Provider Contract. The documents used in preparing the insolvency report were reviewed by Jeanne Allen, CPA, at various times during the time period October 2016 through December 2016. Certain document copies and electronic data used in preparing the insolvency report were initially obtained during forensic procedures directly from the Receiver at 2020 Capital Circle SE and also from the Receiver's warehouse on Sessions Rd. beginning in July 2012 and continuing at various times through March 2015. During this phase of the Provider's contract, documents were reviewed by the following individuals:

- William Thompson, CPA
- Jeanne Allen, CPA
- Richard Law, CPA
- Lynn Graybar, CPA

Business – Historical information related to the company is as follows:

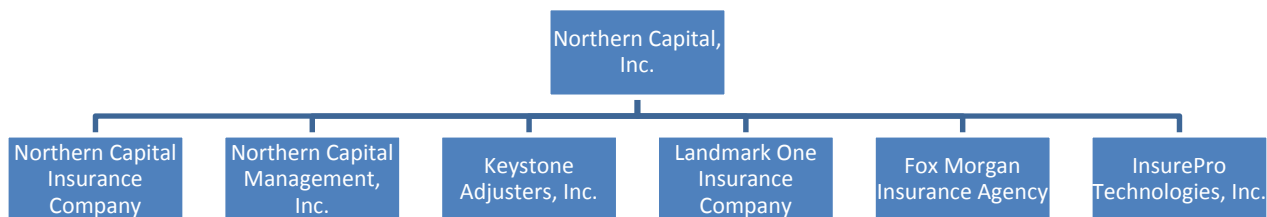
- Date and Location of Incorporation – NCIC was originally incorporated on December 9, 2004 in the state of Florida. NCIC was a wholly-owned subsidiary of Northern Capital, Inc. (NCI), a holding company domiciled in the state of Florida. NCIC's principal place of business was Miami, Florida. Landmark One Insurance Company (LOIC) was originally incorporated on October 12, 2007 (date per Division of Corporations records) in the state of Florida, and was also a wholly-owned subsidiary of NCI. Effective February 19, 2009, LOIC changed its name to Northern Capital Select Insurance Company (NCSIC). NCSIC was merged with NCIC through a statutory merger effective December 31, 2009. Our report will refer to both LOIC and NCSIC, and should be read interchangeably.
- Date Company began doing business in Florida – NCIC was originally organized and incorporated on December 9, 2004. On May 4, 2006, NCIC received its certificate of authority from the Florida Office of Insurance Regulation (FOIR), and commenced insurance operations on that date. LOIC was originally incorporated on October 12, 2007. On October 19, 2007, LOIC received its certificate of authority from the FOIR, and commenced insurance operations on December 12, 2007.

- Lines of business and certificates of authority – On May 4, 2006, NCIC was issued a license as a property and casualty insurer in the State of Florida to write Homeowners Multi Peril line of insurance coverage under Company Code No. 06-201269516. By letter dated August 8, 2008 from the OIR, NCIC was authorized for the following additional lines of business: Fire, Allied Lines, Commercial Multi Peril, Inland Marine, Other Liability, Commercial Auto Liability, Commercial Auto Physical Damage, Glass, Burglary and Theft and Miscellaneous Casualty. On October 19, 2007, LOIC was issued a license as a property and casualty insurer in the State of Florida to write Homeowners Multi Peril line of insurance coverage under Company Code No. 07-261225840. By letter dated August 8, 2008 from the OIR, LOIC was authorized for the following additional lines of business: Fire, Inland Marine, Private Passenger Auto Liability and Private Passenger Auto Physical Damage.
- Geographic – NCIC and NCSIC operated out of Miami, Florida.
- Operating results – Summary financial information below is presented in a somewhat non-comparative format due to the merger (LOIC was merged into NCIC as the surviving company effective December 31, 2009) that occurred just a few months prior to NCIC becoming insolvent, and ultimately ordered into liquidation. Accordingly, the financial information in this report has been extracted from the annual statements filed for the year ended December 31, 2008 showing each company on a separate basis, prior to any Administrative Supervision or merger, as well as presenting financial information from the annual statement filed for the year ended December 31, 2009 for NCIC subsequent to the merger. Also presented is the financial information for NCIC subsequent to the merger for the period ended February 28, 2010, which was the monthly filing under Administrative Supervision that was submitted with the petition filed by OIR for the rehabilitation and liquidation.

| | <u>2/28/2010</u> | <u>12/31/2009</u> | <u>12/31/2008</u> | <u>12/31/2008</u> |
|--------------------------|------------------|-------------------|-------------------|-------------------|
| | Combined | Combined | NCIC | LOIC |
| Net Premiums Earned | \$ 6,365,643 | \$ 55,020,304 | \$ 38,046,637 | \$ 18,412,453 |
| Underwriting Gain (Loss) | \$ (7,300,593) | \$ (25,632,057) | \$ 2,795,346 | \$ 1,587,266 |
| Net Income (Loss) | \$ (6,390,232) | \$ (15,591,425) | \$ 2,152,165 | \$ 1,609,757 |

- Ownership – NCIC and LOIC were part of a holding company system, and were wholly owned subsidiaries of Northern Capital, Inc. Northern Capital, Inc. was primarily owned by Alexander Anthony (64.75%) and Albert Fernandez (27.75%). All other individuals combined owned less than 10% of the remaining common stock of NCI as follows: Wayne Fletcher (6%), Juan Carlos Miguez (1%) and Maria DiGiorgio (.5%).

As of the 2008 Annual Statement for both NCIC and LOIC, the holding company group was as follows:



- Affiliates – NCIC and LOIC engaged Northern Capital Management (NCM) as the Companies’ exclusive managing general agent (MGA) as representative for the production, servicing and acceptance of insurance as authorized under the Company’s certificate of authority, and to manage NCIC and LOIC’s policy and claims administration functions. Under the terms of the contracts, NCM was to solicit insurance policies on behalf of the Companies’ from independent insurance agencies, and pay agent commissions, policy processing fees and other acquisition-related costs. NCM contracted with service companies to issue policies, adjust claims and provide administrative support. NCM contracted with Keystone Adjusters, another affiliate, under a claims administration services agreement to provide loss adjusting and investigating services on behalf of both NCIC and LOIC. Fox Morgan Insurance Agency (FMA), a licensed insurance agency primarily writing personal lines business, was acquired in November 2007 to write business for NCIC and LOIC. Insure Pro Technologies (IPRO), a software development company specializing in the development of insurance policy processing and administration software, was formed in February 2008 under NCI. NCIC and LOIC contracted with IPRO to develop software and administer their policy processing. Also, Arlington Risk Services (ARS) was developed as a risk inspection services division under KA in July 2008. ARS provided risk inspection services to NCIC and LOIC.

Management – People involved with the ownership and management of the Company are listed below.

- Directors and officers – NCI’s Holding Company Registration filed in August 2009 lists the following individuals as officers and directors of both NCIC and NCSIC:
 - Alexander Anthony – Chairman/Director
 - Wayne Fletcher – President and CEO
 - Juan Carlos Miguelez – Vice President-COO/Claims
 - Maria DiGiorgio – Corporate Secretary/General Counsel
 - Kevin Walton – Treasurer/Chief Financial Officer (not listed as an officer on the 2009 annual statement)
 - Albert Fernandez – Vice President-Business Development (listed as Vice Chairman of NCSIC)
 - John Laurie, CPA – Director (not listed as a director for NCSIC; also not listed as a director on the 2009 annual statement)
 - Julie Pellegrini – Director of Personal Lines (not listed as a director on the 2009 annual statement)
 - William Brauer – Vice President of Commercial Lines (not listed as a director for NCSIC; also not listed as a director on the 2009 annual statement)

- Michael Brookman was listed as a Director on the April 2009 Holding Company Registration (appointed November 12, 2008)
- Timothy Butler was listed as Vice President of Personal Lines on the April 2009 Holding Company Registration
- Management, other accounting and key personnel of NCIC and LOIC were as follows:
 - Wayne Fletcher – President and CEO (employment agreement dated 1/24/2006)
 - Juan Carlos Miguelez – Vice President-COO/Claims (employment agreement dated 1/24/2006)
 - Maria DiGiorgio – Corporate Secretary/General Counsel (employment agreement dated 1/25/2006)
 - Kevin Walton (previously Michael Samach* per the April 2009 Holding Company Registration) – Treasurer/Chief Financial Officer
 - Albert Fernandez – Vice President-Business Development (employment agreement dated 7/1/2007)
 - Timothy Butler – Vice President of Personal Lines (employment agreement dated 6/9/2008)
 - William Brauer – Vice President of Commercial Lines (employment agreement dated 3/4/2008)

* By letter dated July 22, 2008, OIR was notified that Michael Samach was appointed as CFO of NCIC and LOIC, who replaced Abraham Garzon who had resigned the position to explore other professional opportunities. The letter also stated that Mr. Garzon would continue to work with the Companies as Senior Finance Advisor to the Executive Committee.

Background/Events of Impact – NCIC and LOIC, both wholly-owned subsidiaries of NCI, were domiciled in the state of Florida. NCIC was incorporated on December 9, 2004, and received its certificate of authority from the Florida Office of Insurance Regulation (FOIR) and began insurance operations on May 4, 2006. LOIC was incorporated on October 12, 2007, received its certificate of authority from FOIR on October 19, 2007 and began insurance operations on December 12, 2007. The Companies were headquartered in Miami, Florida, and were only licensed in the state of Florida.

NCIC commenced business in May 2006 and was primarily a homeowners' insurance company, writing business exclusively in the state of Florida, an area that is exposed to damage from hurricanes and severe storms. Prior to 2008, NCIC grew organically by writing business through an MGA Agreement with NCM, effective March 1, 2006. Beginning in 2008, NCIC supplemented its growth with a policy assumption from Citizens Property Insurance Company (Citizens) "take-out" business, authorized by consent order on January 2, 2008 for up to 20,000 policies (93545-07-CO) and later, for up to an additional 20,000 policies authorized by consent order on January 21, 2009 (102141-09-CO). NCIC launched a commercial lines program in 2008 and began writing premiums for Inland Marine in August 2008.

On January 2, 2008, NCIC entered into an agreement with Citizens for the assumption of up to 20,000 policies over a period of 18 months, the first of which occurred in February 2008 when NCIC assumed approximately 4,000 policies totaling \$6.7 million. NCIC assumed written premium totaling approximately \$21 million during 2008 and reported ceding commission of approximately \$4.8 million.

LOIC commenced business in December 2007 and was also primarily a homeowners' insurance company. All of LOIC's initial business was "take-out" business, authorized by consent order on October 24, 2007 for up to 50,000 policies (92324-07-CO). LOIC also had an MGA agreement with NCM, effective October 10, 2007. LOIC had both organic and "take-out" business in 2008 and 2009. In April 2009, LOIC changed its name to Northern Capital Select Insurance Company (NCSIC), and later, NCSIC was merged into NCIC, effective December 31, 2009.

On December 17, 2007, LOIC assumed written premiums totaling approximately \$12.9 million under a policy assumption agreement with Citizens. LOIC incurred ceding commissions at 16% totaling approximately \$2.07 million. During February 2008, LOIC entered into an agreement with Citizens for the assumption of approximately 2,200 policies totaling \$3.7 million.

In addition to the MGA Agreement, NCIC and LOIC had Claims Administration Services Agreements (Claims Agreements) with an affiliate, Keystone Adjusters, Inc. (KA), effective August 15, 2007 and October 10, 2007, respectively. Per the Claims Agreements, NCIC and LOIC paid KA monthly fees to administer their claims. There were also Cost Allocation Agreements between NCIC, LOIC, NCM, KA, Northern Capital, Inc. Fox Morgan Insurance Agency (FMI) and InsurePro Technologies (IPRO). Under the Cost Allocation Agreements, costs incurred by NCIC, such as rent, wages, D&O and E&O insurance, were allocated by NCIC to the various affiliates. These Cost Allocation Agreements began in 2006, and participants were added on an annual basis as they began operations. There was also a Tax Allocation Agreement between NCI and all of its affiliates (NCIC, NCM, KA, FMI and IPRO).

On May 27, 2009, both companies were placed into Administrative Supervision for the purpose of monitoring the companies' reinsurance programs as the OIR had concerns that NCIC and NCSIC would be unable to secure adequate catastrophe reinsurance for the 2009 hurricane season. Consent orders were issued for NCIC (104435-09-CO) and NCSIC (104435-09-CO) to initiate the Administrative Supervision for a period of 120 days, requiring the companies' provide a corrective action plan the OIR addressing placement of satisfactory reinsurance. The consent orders put certain restrictions new and renewal agreements, underwriting business and other company activities.

On June 5, 2009, the OIR appointed Rector & Associates as the Deputy Supervisor to conduct a review to confirm that placement of a 1 in 100 year event reinsurance program could be financially supported, and they later issued a report that showed the companies would be able to afford the reinsurance coverage. When the companies filed their 2nd quarter 2009 statement in August 2009, the results showed material deviations from the projected numbers used for the Rector report. Accordingly, the OIR issued consent orders on September 23, 2009 that extended the Administrative Supervision for an additional 60 days (NCIC – 10660-09-CO and NCSIC – 106635-09-CO) and monitored the company through required monthly filings and corrective action plans filed by the companies. Management was instructed to seek additional capital due to declining financial strength.

Management worked on obtaining additional capital to support the companies through the fall of 2009. The companies filed an application of merger in October 2009 whereby NCSIC would be merged into NCIC while continuing to seek additional capital to support the companies. OIR continued to monitor the companies'

efforts in this regard. On November 20, 2009, the OIR issued second consent orders extending the period of Administrative Supervision for an additional 120 days.

Early in December 2009, the FOIR became aware that the financial position of NCSIC had declined drastically and it ceased writing all new business after monthly statements showed that the NCSIC had declined to the minimum surplus requirement, and soon after ceased renewing business. While the Company had an alternative runoff plan for NCSIC with its reinsurers to participate in the recapitalization of NCIC, the OIR determined that the plan was not viable and the OIR then approved the merger of the NCSIC with NCIC.

Exam Resources was appointed as the Deputy Supervisor during this time period and expanded the Administrative Supervision into full supervision with a permanent presence at the Company. All transactions in excess of \$25,000 were to be reviewed. A review of the monthly statements by OIR and the Deputy Supervisor to monitor the financial condition of the Company continued through February 2010.

On February 19, 2010, the OIR was notified by NCIC that the Company was under-reserved by approximately \$6.4 million, after receiving the actuarial valuation for 2009. This increase to the reserves resulted in a direct hit to surplus, and left the Company impaired as of December 31, 2009 with a surplus of \$2.6 million. The reinsurers were not able to recapitalize NCIC with this new actuarial information.

The OIR facilitated an active due diligence period with another Florida domestic insurer seeking to purchase the Company. In the event that the purchase did not occur, NCIC filed a Consent to Receivership and Liquidation in order to facilitate an orderly transition into receivership. On February 25, 2010, NCIC consented to the entry of an order of Rehabilitation appointing the Department as receiver for purposes of Rehabilitation, Injunction, and Notice of Automatic Stay, pursuant to Section 631.051, Florida Statutes. NCIC further consented to entry of an order of liquidation, without further notice or hearing, if in the sole discretion of the Receiver that further efforts to rehabilitate the Company would be useless.

On March 25, 2010, NCIC filed its monthly financial statement for February 2010 which showed surplus at a negative \$3,933,783, thus rendering NCIC insolvent pursuant to Section 31.061, Florida Statutes.

Per letter dated April 7, 2010, OIR notified the Chief Financial Officer of the Department of Financial Services that delinquency proceedings should be initiated against NCIC. As described in the April 7th letter, and summarized above, OIR worked diligently over a one year period to address issues the companies were facing resulting from a concentration of risk in Dade, Broward and Palm Beach Counties.

On April 8, 2010, the Receiver filed a petition for rehabilitation, injunction, and notice of automatic stay, and liquidation plan of NCIC, citing that the Company is no longer writing new insurance policies and that serious questions exist as to the ability to continue as a viable insurance company, monthly financial statements submitted under terms of Administrative Supervision as of February 2010 reflected that the company was insolvent, and given NCIC's admitted insolvency and the commencement of the 2010 hurricane season, the Department requested entry of an Order of rehabilitation that would allow conservation of the assets of NCIC and allow time to assist policyholders in locating and transitioning to another insurer. The Department further

requested an Order of Liquidation would become effective on May 1, 2010, unless the Department petitioned for either an extension, or a shortening of, the rehabilitation period prior to that date, with all policies cancelled as of May 30, 2010 as part of the Liquidation Order.

On April 12, 2010, a consent order was issued appointing the Florida Department of Financial Services as Receiver for purposes of rehabilitation, injunction, and notice of automatic stay (Case No. 2010-1230), followed on the same day by a consent order of liquidation, rendering the Company insolvent as provided in Sections 631.011(12), (14), and 631.051(1), Florida Statutes.

On June 1, 2012, the Court entered an order approving the Receiver's motion for approval of holders report and for authorization to transfer return premium funds as unclaimed property. The Receiver paid \$33,467,186.10 in return premium to approximately 33,380 NCIC policyholders. The Receiver's Holders Report reflected 1,619 checks totaling \$726,961.33 in unclaimed property.

On August 8, 2013, the Court entered an order approving the Receiver's first interim claims report and recommendation which addressed non-guaranty claims in Classes 2, 4 and 8. The first interim claims report reflected 271 filed claims totaling \$9,042,260.34, of which the Receiver recommended to allow \$49,724.98.

On December 18, 2013, the Court entered an order approving the Receiver's second interim claims report and recommendation which addressed non-guaranty claims in Classes 3, 5 and 6. The second interim claims report reflected 57,148 filed claims totaling \$46,600,213.43, of which the Receiver recommended to allow \$11,185,861.12.

On July 22, 2014, the Court entered an order approving the Receiver's third interim claims report and recommendation which addressed certain non-guaranty claims in Classes 2, 8 and 11. The third interim claims report reflected 42 claims filed for a total amount claimed of \$5,870,929.79, of which the Receiver recommended to allow \$3,607.29.

The Receiver filed an action against the directors and officers of NCIC for breach of fiduciary duty, negligence, and avoidance of fraudulent transfers in Miami-Dade County Circuit Court, Case No. 14-1770. The Receiver collected \$1,000,000 under the D&O insurance policy. The Receiver later filed an action against the surplus carrier Ironshore on behalf of the directors and officers of NCIC for refusal to participate in the Miami-Dade case in the United States District Court for the Northern District of Florida styled *The Florida Department of Financial Services, et al. v. Ironshore Indemnity, Inc.*, Case No 4:16-cv-002590-RH. The Receiver collected \$1,250,000 from Ironshore.

Underwriting Results – NCIC’s underwriting results and costs are summarized in the tables below. Net premium written was reported as follows:

| | 2/10/2010 | 12/31/2009 | 12/31/2008 | 12/31/2008 |
|----------------------------|----------------------|----------------------|----------------------|----------------------|
| | Combined | Combined | NCIC | LOIC |
| Premiums Written – Direct | \$ 14,836,519 | \$ 107,188,325 | \$ 53,293,688 | \$ 17,639,509 |
| Premiums Written – Assumed | 7,345 | 10,707,141 | 21,030,025 | 10,119,642 |
| Premiums Written – Ceded | 0 | 65,405,825 | 27,739,408 | 13,645,257 |
| Premiums Written – Net | <u>\$ 14,829,174</u> | <u>\$ 52,489,641</u> | <u>\$ 46,584,305</u> | <u>\$ 14,113,894</u> |

NCIC reported premiums earned, underwriting deductions, underwriting loss and net loss as follows:

| | 2/28/2010 | 12/31/2009 | 12/31/2008 | 12/31/2008 |
|--------------------------|-----------------------|------------------------|---------------------|---------------------|
| | Combined | Combined | NCIC | LOIC |
| Net Premiums Earned | \$ 6,365,643 | \$ 55,020,304 | \$ 38,046,637 | \$ 18,412,453 |
| Underwriting Deductions | \$ 13,666,236 | \$ 80,652,360 | \$ 35,251,290 | \$ 16,825,188 |
| Underwriting Gain (Loss) | \$ (7,300,593) | \$ (25,632,057) | \$ 2,795,346 | \$ 424,292 |
| Net Income (Loss) | <u>\$ (6,390,232)</u> | <u>\$ (15,591,425)</u> | <u>\$ 2,152,165</u> | <u>\$ 1,609,757</u> |

Reinsurance – In 2008, NCIC and LOIC purchased reinsurance with commercial reinsurers on a combined basis, and also through the Florida Hurricane Catastrophe Fund (FHCF). For the underwriting year June 1, 2008 through May 31, 2009, NCIC’s catastrophe excess of loss (XOL) treaties provided coverage to and slightly above the 100 year event Probably Maximum Loss (PML) in excess of retention of approximately \$4.65 million and \$2.8 million for NCIC and LOIC, respectively. This was provided in part through the commercial reinsurance coverage (approximately \$48.7 million and \$13.3 million for NCIC and LOIC, respectively) and through the FHCF, Temporary Increase in Coverage Level (TICL) at the 90% reimbursement level and Limited Apportionment Coverage (LAC) (approximately \$198.3 million and \$65.4 million for NCIC and LOIC, respectively). LOIC also purchased commercial reinsurance coverage of \$6 million and LAC offered by the State of Florida. The commercial coverage purchased on a combined basis between NCIC and LOIC was purchased to 95%, with the companies retaining 5% of the loss to each layer. Both Companies purchased a coverage limit that provided separate coverage to their 100 year event PML, but if one company had disproportionately higher losses, additional reinsurance coverage would be available to that company. Ceded premiums written for the year ended December 31, 2008 were approximately \$27.7 million and \$13.6 million for NCIC and LOIC, respectively.

During the underwriting year beginning June 1, 2009, which coincides with the Company’s insolvency, the Companies were looking to structure their reinsurance similar to the previous underwriting year to provide coverage to the 100 year PML. Reinsurance for the underwriting year June 1, 2009 through May 31, 2010 is further discussed in the background section above, as the Companies’ were placed under Administrative Supervision by OIR for the purpose of monitoring the Companies’ reinsurance.

Reinsurance payable and recoverable amounts reported were as follows:

| | <u>2/28/2010</u> | <u>12/31/2009</u> | <u>12/31/2008</u> | <u>12/31/2008</u> |
|-------------------------|------------------|-------------------|-------------------|-------------------|
| | Combined | Combined | NCIC | LOIC |
| Reinsurance Payable | \$ 8,884,138 | \$ 8,884,138 | \$ 1,803,215 | \$ 2,537,695 |
| Reinsurance Recoverable | \$ - | \$ - | \$ - | \$ - |

Financial: The following table shows a high level snapshot of NCIC's financial position:

| | <u>2/28/2010</u> | <u>12/31/2009</u> | <u>12/31/2008</u> | <u>12/31/2008</u> |
|-----------------------|------------------|-------------------|-------------------|-------------------|
| | Combined | Combined | NCIC | LOIC |
| Total Admitted Assets | \$ 71,856,859 | \$ 65,238,120 | \$ 49,562,275 | \$ 24,608,077 |
| Total Liabilities | \$ 75,790,641 | \$ 64,077,343 | \$ 31,309,593 | \$ 14,865,024 |
| Statutory Surplus | \$ (3,933,783) | \$ 1,160,776 | \$ 18,252,682 | \$ 9,743,053 |

NCIC's surplus was comprised of common stock, surplus notes, additional paid-in capital and unassigned funds. Prior to the merger as of 12/31/2009, Both NCIC and LOIC each had 1,000,000 shares of \$1 par value common stock issued and outstanding, and 100% owned by NCI.

NCIC was initially funded by a cash infusion from NCI, whereby the Holding Company used \$7 million to purchase 100% of the issued and outstanding common stock of NCIC. NCI also funded the startup of LOIC in 2007 by infusing \$10 million into the newly formed subsidiary as capital and policyholder surplus, and holding 100% of the issued and outstanding stock.

In 2007, NCIC issued two qualified surplus notes to NCI, its parent, in exchange for a total of \$8 million (\$5 million on March 20, 2007 and \$3 million on September 17, 2007). Interest was to accrue at the prime rate plus 2% on the unpaid balance, not to exceed 12% annually. Accrued interest was payable quarterly, upon approval by the OIR.

In 2007, NCIC recorded another \$2,800,000 as a capital contribution (paid in capital) from NCI. The audited statements disclosed that \$800,000 was received in 2008 as a capital contribution from NCI, and that NCIC received approval from OIR to record this receivable as an admitted asset at December 31, 2007.

Both NCIC and LOIC had independent audits performed for the year ended December 31, 2008. The auditors' reports were both dated June 5, 2009, and rendered an unqualified opinion for each company. During the time period that NCIC and LOIC were in operation, Section 624.408, Florida Statutes, required the Companies to maintain minimum capital and surplus of \$4 million and to meet the risk-based capital requirements. Additionally, Section 624.4095, Florida Statutes, required the Companies 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. As of the audited statements for the period ended December 31, 2008, both NCIC and LOIC were in compliance with these requirements. The Companies were also required by Florida Statutes to

each maintain a deposit of \$300K to help secure the payment of claims. Both NCIC and LOIC had cash deposits assigned to the OIR to satisfy this requirement.

There were some differences noted between the 2008 annual report and the audited financial statements for the period ended December 31, 2008 which were disclosed in the audited financial statements as reconciling differences between the amounts reported on the annual statement and the amounts reported in the audited financial statements. The most significant differences related to an increase in losses and loss reserves for incurred but not reported (IBNR) in the amount of \$3.27 million for NCIC and \$1.166 million for LOIC.

The Company's financial position deteriorated throughout fiscal year 2009, ultimately reporting a negative surplus in excess of almost \$4 million as of the February 2010 monthly filing (as discussed above, the Company was required to submit monthly financial information under Administrative Supervision). The decrease in surplus is summarized in the table below:

| | 2/28/2010 | 12/31/2009 | 12/31/2008 | 12/31/2008 |
|----------------------------------|------------------|-------------------|-------------------|-------------------|
| | Combined | Combined | NCIC | LOIC |
| Common Stock | \$ 2,000,000 | \$ 2,000,000 | \$ 1,000,000 | \$ 1,000,000 |
| Surplus Notes | 8,000,000 | 8,000,000 | 8,000,000 | - |
| Additional Paid-in Capital | 17,800,000 | 17,800,000 | 8,800,000 | 9,000,000 |
| Unassigned Funds | (31,733,783) | (26,639,224) | 452,682 | (256,947) |
| Surplus As Regards Policyholders | \$ (3,933,783) | \$ 1,160,776 | \$ 18,252,682 | \$ 9,743,053 |

NCIC's investments were primarily government bonds, corporate bonds, loan-backed securities, structured securities and other short-term investments. NCIC also owned some real estate investments (buildings and land) held for income production (rental properties). NCIC and LOIC both had the required statutory deposit pledged as collateral to OIR. Cash and invested assets were as follows:

| | 2/28/2010 | 12/31/2009 | 12/31/2008 | 12/31/2008 |
|---------------------------------|------------------|-------------------|-------------------|-------------------|
| | Combined | Combined | NCIC | LOIC |
| Bonds | \$ 48,545,667 | \$ 49,327,445 | \$ 25,536,100 | \$ - |
| Real Estate | 2,809,130 | 2,821,904 | 2,564,643 | - |
| Cash and Short Term Investments | 8,212,701 | 2,866,594 | 15,483,631 | 22,162,370 |
| Cash and Invested Assets | \$ 59,567,498 | \$ 55,015,943 | \$ 43,584,374 | \$ 22,162,370 |

NCIC reported premiums earned, underwriting expenses and net loss as follows:

| | 2/28/2010 | 12/31/2009** | 12/31/2008 | 12/31/2008 |
|--------------------------------|------------------|---------------------|-------------------|-------------------|
| | Combined | Combined | NCIC | LOIC |
| Premiums Earned | \$ 6,365,643 | \$ 55,020,304 | \$ 38,046,637 | \$ 18,412,453 |
| Losses | 7,778,041 | 42,515,142 | 13,086,039 | 5,836,277 |
| Loss Adjustment Expenses | 1,144,859 | 7,271,888 | 3,097,276 | 2,004,060 |
| Other Underwriting Expenses | 4,743,336 | 30,865,330 | 19,067,975 | 8,984,851 |
| Total Underwriting Expenses | 13,666,236 | 80,652,360 | 35,251,290 | 16,825,188 |
| Net Underwriting Gain (Loss) | (7,300,593) | (25,632,057) | 2,795,346 | 1,587,266 |
| Investment and Other Income | 910,361 | 5,188,607 | 1,337,934 | 424,292 |
| Net Income (Loss) Before Taxes | (6,390,232) | (20,443,449) | 4,133,280 | 2,011,557 |
| Income Taxes | 0 | (4,852,024) | 1,981,115 | 401,800 |
| Net Income (Loss) | \$ (6,390,232) | \$ (15,591,425) | \$ 2,152,165 | \$ 1,609,757 |

** regarding 12/31/2009 balances: 1) losses are shown net of \$3,553,376 related to 2008 NCSIC (LOIC) loss reserves reported on the annual statement as a write-in, and 2) investment and other income includes \$2,247,720 in ceded commission income

General underwriting expenses, as reported by NCIC and summarized above, included management fees paid to an affiliated company, Northern Capital Management, Inc. Management fees and commissions comprised the largest portion of the other underwriting expenses.

Cash flows from premium collections, for loss and underwriting expenses paid and Net Cash from Operations for NCIC were as follows:

| | 2/28/2010 | 12/31/2009 | 12/31/2008 | 12/31/2008 |
|----------------------------------|------------------|-------------------|-------------------|-------------------|
| | Combined | Combined | NCIC | LOIC |
| Premiums Collected | \$ 14,059,540 | \$ 64,497,407 | \$ 45,014,210 | \$ 28,662,061 |
| Benefit and Loss Payments | \$ 5,890,697 | \$ 32,663,379 | \$ 10,176,750 | \$ 3,617,874 |
| Other Underwriting Expenses Paid | \$ 5,073,155 | \$ 31,517,130 | \$ 22,936,028 | \$ 10,586,556 |
| Net Cash from Operations | \$ 3,998,701 | \$ 4,092,510 | \$ 12,831,743 | \$ 14,572,875 |

Based on amounts reported by NCIC, net premium written, losses paid, change in net losses unpaid, net losses incurred and the percentage of net losses incurred to earned premiums were as follows:

| | 2/28/2010 | 12/31/2009 | 12/31/2008 | 12/31/2008 |
|-----------------------------|------------------|-------------------|-------------------|-------------------|
| | Combined | Combined | NCIC | LOIC |
| Net Premium Written | \$ 14,829,174 | \$ 52,489,641 | \$ 46,584,305 | \$ 14,113,894 |
| Net Losses Paid | \$ 5,890,697 | \$ 32,663,379 | \$ 10,176,750 | \$ 3,562,541 |
| Change in Net Losses Unpaid | \$ 1,887,344 | \$ 13,405,139 | \$ 2,909,289 | \$ 2,273,736 |
| Losses Incurred | \$ 7,778,041 | \$ 46,068,518 | \$ 13,086,039 | \$ 5,836,277 |
| Premiums Earned | \$ 6,365,643 | \$ 55,020,304 | \$ 38,046,637 | \$ 18,412,453 |
| Ratio | 122.2% | 83.7% | 34.4% | 31.7% |

Miscellaneous/Other – The MGA Agreement between NCIC and NCM was effective March 1, 2006. Under the agreement, NCM was entitled to a base commission equal to 22% of the Company’s Net Written Premium. In addition, NCIC’s MGA Agreement allowed NCM to charge a policy fee not to exceed \$25 per policy.

The MGA Agreement between LOIC and NCM was effective October 10, 2007. Under the agreement, NCM was entitled to a base commission equal to 22% of the Company’s Net Written Premium. In addition, for “takeout” business from Citizens Property Insurance Corporation, the agreement provided for NCM to charge the difference between 22% and the ceded commissions retained by Citizens on take out policies. Accordingly, the net amount charged to LOIC would be 6% (22% less 16% ceding commission to Citizens). The agreement also allowed NCM to charge a policy fee not to exceed \$25 per policy.

The Claims Administration Services Agreement (NCIC’s Claims Agreement) between NCIC and KA was effective August 15, 2007. The agreement provided for monthly administrative fees equal to 6% of Company’s current month earned premium with respect to business administered under the agreement plus actual loss adjustment expenses related to the settlement of claims on behalf of Company including use of any independent adjusters, third party costs such as investigators, engineer fees and costs, expert fees and costs, and any legal expenses not associated with the actual litigation or legal representation of a claim.

The Claims Administration Services Agreement between LOIC and KA (LOIC’s Claims Agreement) was effective October 10, 2007, with terms similar to those of NCIC’s agreement with KA.

There were annual Cost Allocation Agreements between NCI, NCSIC (formerly LOIC), KA, NCIC, NCM, FMI and IPRO. The agreements provided that such costs would be determined each calendar quarter and billed to other party or parties within thirty (30) days after the end of each calendar quarter. The agreements also provided for payments to me made on such billed amounts within sixty (60) days after the end of each calendar quarter.

The Federal Income Tax Allocation Agreement (Tax Agreement) is dated November 28, 2007, retroactive to include tax year 2007, and is between NCI, the parent, and the following subsidiaries: LOIC, NCM, KA, NCIC and

FMI. In the agreement, the parent and subsidiaries are referred to severally as a Member Company, and collectively as the Affiliated Group. The Members that joined the group in 2006, 2007 and 2008 signed a federal income tax Form 1122 agreeing to be included in the federal tax return as part of the consolidated affiliated group.

According to the Tax Sharing Agreement, NCIC should be compensated for its loss in the year the loss is absorbed by the affiliated group. According to the "wait and see" method in the Tax Allocation Agreement, NCI will not be compensated for its loss until such time that it can absorb its loss on a standalone basis. NCIC was due to be compensated for losses incurred in the net amount of \$3,003,662, representing an allocation of the carryback and corrections to tax allocations made by the companies under the tax allocation agreement.

The following additional items were noted during the procedures performed as part of our forensic analysis of the intercompany balances and transfers: According to NCI's internal financial statements, NCM and KA paid cumulative dividends of \$9,789,028 and \$2,775,000, respectively, to NCI as of December 31, 2009. It was also noted that nearly \$1.1 million in dividends were paid by NCI to its investors during 2009. These investors included current and former officers and directors of NCIC and its affiliates, as well as companies controlled by current and former directors of NCIC and its affiliates. Since none of the affiliates, i.e. NCM, KA and NCI, had other significant sources of income outside of fees charged to NCIC, these dividends were tantamount to dividends being paid by NCIC. Additionally, our analysis indicated that NCIC was owed approximately \$15.5 million from its parent and affiliates at the time of liquidation, based on the various agreements and the Company's insolvency as of the February 28, 2010 filing of the monthly financial statement information.

Conclusion – Northern Capital Insurance Company operated over a relatively short time period. NCIC commenced business in May 2006 and was primarily a homeowners' insurance company. Prior to 2008, NCIC grew organically by writing business through and MGA Agreement with its affiliate, NCM. During 2008 and later years, NCIC supplemented its growth via Citizens Property Insurance Company "take-out" business. Landmark One Insurance Company commenced business in December 2007 and was also primarily a homeowners' insurance company. LOIC initially started up with only "take-out" business. LOIC also had an MGA Agreement with NCM to write business. In April 2009, LOIC changed its name to Northern Capital Select Insurance Company (NCSIC), and then later was merged into NCIC in an effort to recapitalize the Companies.

Both Companies had business primarily concentrated in Dade, Broward and Palm Beach Counties, in high-risk areas subject to hurricanes and severe storms that contributed to substantial reinsurance costs in order to obtain adequate excess of loss coverage. Both Companies also experienced higher than expected loss reserves and IBNR that resulted in actuarial adjustments that reduced statutory surplus as of December 31, 2008, as adjusted in the statutory financial statement audit, as well as significant actuarial adjustments that were recognized in 2009. The higher than expected loss adjustments ultimately resulted in the Company reporting negative surplus of approximately \$4 million in February 2010, and led to the initiation of rehabilitation and liquidation proceedings.

NCIC was essentially the primary source of income for all of the affiliated companies. Through fees paid to NCM, fees paid to KA and computer software charges paid to IPRO, NCIC effectively created income streams for these

affiliates. NCM and KA then paid dividends to NCI. These dividends were used by NCI for its operations, debt service, which initially created the funds for the formation of the insurance operations, and to pay dividends to its stockholders. Many of the stockholders were current and/or former Officers and/or Directors of the affiliated companies.

References – The following documents were utilized in preparing the above insolvency report:

Legal documents referenced (L Series) –

- L-1 – Consent order, Case No. 85975-06-CO Regarding the Application for the issuance of a Certificate of Authority to Northern Capital Insurance Company to form an authorized domestic insurer
- L-2 – Certificate of Authority for NCIC
- L-3 – Letter dated 8/8/2008 from OIR authorizing additional lines of business for NCIC
- L-4 – Consent order, Case No. 91721-07-CO Regarding the Application for the issuance of a Permit to Landmark One Insurance Company to form an authorized domestic insurer and for the subsequent issuance of a Certificate of Authority
- L-5 – Certificate of Authority for LOIC
- L-6 – Letter dated 8/8/2008 from OIR authorizing additional lines of business for LOIC
- L-7 – Consent order, Case No. 92324-07-CO – approved the assumption of up to 50,000 policies (initial take out on, or about 12/17/2007, of no more than 18,000 policies)
- L-8 – Consent order, Case No. 93545-07-CO – approved the assumption of up to 20,000 policies (initial take out on, or about 2/12/2008, of no more than 10,000 policies)
- L-9 – Consent order, Case No. 102141-09-CO – approved the assumption of up to 20,000 additional policies (up to 9,600 personal lines policies and up to 2,400 high risk policies on or about March 17, 2009)
- L-10 – Consent order for Administrative Supervision, Case No. 104436-09-CO for NCIC (dated 5/27/2009)
- L-11 – Consent order for Administrative Supervision, Case No. 104435-09-CO for NCSIC (dated 5/27/2009)
- L-12 – Consent order extending period of Administrative Supervision, Case No. 106660-09-CO for NCIC (dated 9/23/2009)
- L-13 – Consent order extending period of Administrative Supervision, Case No. 106635-09-CO for NCSIC (dated 9/23/2009)
- L-14 – Second consent order extending period of Administrative Supervision, Case No. 106660-09-CO for NCIC (dated 11/20/2009)
- L-15 – Second consent order extending period of Administrative Supervision, Case No. 106635-09-CO for NCSIC (dated 11/20/2009)
- L-16 – Petition for order appointing the Florida Department of Financial Services as Receiver for purposes of liquidation, injunction, and notice of automatic stay, Case No. 2010-1230 (dated 4/8/2010)
 - Stipulation and consent to receivership and liquidation included as an attachment
- L-17 – Consent order appointing the Florida Department of Financial Services as Receiver for purposes of rehabilitation, injunction and notice of automatic stay, Case No. 2010-1230 (dated 4/12/2010)

- L-18 – Consent order appointing the Florida Department of Financial Services as Receiver for purposes of liquidation, injunction and notice of automatic stay, Case No. 2010-1230 (dated 4/12/2010)
- L-19 – Motion for approval of holders report and for authorization to transfer return premium funds to bureau of unclaimed property (dated 5/25/2015)
- L-20 – Order granting motion for approval of holders report and for authorization to transfer return premium funds to bureau of unclaimed property (dated 6/1/2012)
- L-21 – Motion for approval of 3rd interim claims report, claims distribution report, distribution accounting, and for order authorizing distribution (dated 7/22/2014)
- L-22 – Order approving Receiver’s motion for approval of 3rd claims report, claims distribution report, and distribution accounting, and authorizing distribution (dated 7/24/2014)

Financial reporting documents (F Series) –

- F-1 – NCIC’s 2009 annual statement
- F-2 – NCIC’s 2008 annual statement
- F-3 – LOIC’s 2008 annual statement
- F-4 – NCIC’s audited statutory financial statements for the year ended 12/31/2008
- F-5 – LOIC’s audited statutory financial statements for the year ended 12/31/2008
- F-6 – NCIC’s audited statutory financial statements for the year ended 12/31/2007

Other Documentation (O Series) –

- O-1 – NCIC’s Stock Certificate issued to NCI
- O-2 – NCIC’s Articles of Incorporation filed with the Secretary of State on 12/9/2004
- O-3 – NCIC’s Amended and Restated Articles of Incorporation filed with the Secretary of State on 10/3/2005
- O-4 – NCIC’s Amended and Restated Articles of Incorporation filed with the Secretary of State on 2/6/2006
- O-5 – NCIC’s Bylaws as amended 2/1/2006
- O-6 – LOIC’s Stock Certificate issued to NCI
- O-7 – LOIC’s Articles of Incorporation filed with the Secretary of State on 10/12/2007
- O-8 – LOIC’s Amended Articles of Incorporation filed with the Secretary of State on 2/19/2009
- O-9 – LOIC’s Bylaws approved 10/10/2007
- O-10 – NCI’s Holding Company Registration as of 8/19/2009
- O-11 – NCI’s Holding Company Registration as of 4/14/2009
- O-12 – Notice of change in CFO and Board member appointed
- O-13 – NCIC’s Articles of Merger effective 12/31/2009
- O-14 – Wayne Fletcher employment agreement
- O-15 – Juan Carlos Miguelez employment agreement
- O-16 – Maria DiGiorgio employment agreement
- O-17 – Albert Fernandez employment agreement
- O-18 – Timothy Butler employment agreement

- O-19 – William Brauer employment agreement
- O-20 – NCIC's MGA Agreement
- O-21 – LOIC's MGA Agreement
- O-22 – NCIC's Claims Services Agreement
- O-23 – Cost Sharing Agreements
- O-24 – Tax Allocation Agreements