



June 22, 2006

State Board of Administration of Florida  
c/o The Florida Hurricane Catastrophe Fund  
1801 Hermitage Boulevard  
Tallahassee, FL 32308

RE: Insurance Capital Build-Up Incentive Program Application

Dear Members,

Enclosed you will find Royal Palm Insurance Company's Application for the Insurance Capital Build-Up Incentive Program and accompanying documentation for your consideration.

Thank you for the opportunity to apply to participate in this program. If you should have any questions, please feel free to contact me at any time.

Sincerely,

W. Lockwood Burt  
President

WLB/sf  
Enclosures

**STATE BOARD OF ADMINISTRATION OF FLORIDA  
INSURANCE CAPITAL BUILD-UP INCENTIVE PROGRAM ("PROGRAM")  
APPLICATION**

*IMPORTANT NOTES:*

- 1. INCOMPLETE APPLICATIONS WILL BE RETURNED TO THE APPLICANT, UNREVIEWED.*
- 2. THE FIRST TIME A WORD APPEARS IN THIS APPLICATION THAT HAS A SPECIAL DEFINITION, IT WILL BE SO INDICATED WITH AN ASTERISK (\*). THE DEFINITION IS CONTAINED IN RULE 19ER06-3, F.A.C., WHICH IS AVAILABLE ON THE BOARD'S WEBSITE, [WWW.SBAFLA.COM](http://WWW.SBAFLA.COM), UNDER "INSURANCE CAPITAL BUILD-UP INCENTIVE PROGRAM" THEN "RULE 19ER06-3".*

**Part I: Basic Information**

**CONTACT INFORMATION:**

Application Date: June 22, 2006  
Insurer's\* Name ("Applicant\*"): Royal Palm Insurance CNAIC #: 12538  
Group Name, if applicable: none Group NAIC #: none  
Address of Administrative Office: Ste. 400, 140 S. Atlantic Ave., Ormond Beach, FL  
Contact Name and Title: W. Lockwood Burt, President 32176  
Telephone Number: 386-677-4453 Fax Number: 386-673-1630  
Email Address: burt@ormondre.com

**SURPLUS NOTE\* REQUESTED:**

Principal Amount of Surplus Note Requested: \$25,000,000  
Date funds are desired: December 1, 2006  
Amount of New Capital\* contributed: \$25,000,000  
Anticipated date New Capital infused: December 1, 2006  
Will the New Capital be encumbered? no If yes, describe: \_\_\_\_\_  
Source of New Capital: Ritchie Risk Linked Strategies Trading, LTD  
Address for the source of New Capital: Malabar Gates, 30 E. Broadway, Pembroke HM 19,  
Contact Name for the source of New Capital: David Govrin, Managing Director Bermuda

**STATE BOARD OF ADMINISTRATION OF FLORIDA  
INSURANCE CAPITAL BUILD-UP INCENTIVE PROGRAM ("PROGRAM")  
APPLICATION**

Telephone Number for the source of New Capital: 441-278-0774  
Fax Number for the source of New Capital: 441-278-0778  
Email Address for the Contact for the source of New Capital: dgovrin@ritchiecapital.com  
Name of depository for New Capital: Suntrust Bank of Volusia County  
Address of depository for New Capital: 2570 W. International Speedway Blvd., Suite 100  
Daytona Beach, FL 32114  
Contact Name for the depository and Title: Bill Davison, President  
Telephone Number for the depository: 386-258-2550  
Fax Number for the depository: 386-258-2531  
Email Address for the Contact at the depository: bill.davison@suntrust.com

**FINANCIAL INFORMATION:**

Current Surplus\* amount as of latest month end: \$64,000,000  
Surplus as of most recently filed financial statement with the Office\*: no statement filed  
Annualized Net Written Premium\* as of latest month end: not applicable  
Annualized Net Written Premium as of most recently filed financial statement with the Office:  
not applicable  
Current ratio of Net Written Premium to Surplus as of latest month end: not applicable  
Date Applicant estimates reaching the Minimum Writing Ratio\*, if not already obtained: June 30, 2006



## **Part II - Business Plan**

**Question:** Provide an executive summary of the Applicant's business plan including the number of new policies the Applicant intends to write as a result of this Program and time frames for writing such policies. Also, indicate the target areas of the state where the Applicant plans to write new policies. Discuss in a separate paragraph the prospects for the long term repayment of the Surplus Note indicating any circumstances which might prohibit or interfere with full repayment.

**Answer:** Royal Palm Insurance Company received its Certificate of Authority on March 31, 2006 with \$65,000,000 in capital and began business on April 1, 2006 by assuming 115,894 homeowners and condominium owners policies from Allstate Floridian Insurance Company and Allstate Floridian Indemnity Insurance Company. Both of these companies have announced plans to non-renew an additional 120,000 homeowners and condominium unit owners policies beginning in November 2006. The policyholders impacted by these announced non-renewals live in 63 of Florida's 67 counties.

If Royal Palm is successful in obtaining a surplus note for \$25,000,000 from the State Board of Administration the owners of Royal Palm will contribute an additional \$25,000,000 in equity capital to the company bringing its total capital and surplus to \$115,000,000. This will enable Royal Palm to write a significant portion of the Allstate business that is going to be non-renewed and will provide Allstate agents with a market (other than Citizens) for a significant amount of new business. (See attached projection)

Royal Palm's current inforce portfolio of business should generate gross written premiums of approximately \$250,000,000 at Royal Palm's current rates. It is estimated that writing the additional business from Allstate agents will generate an additional \$272,000,000 of annual gross written premium. This is more premium than can be supported with Royal Palm's existing capital. Financial projections assuming the additional capital and the additional written premium indicate the following ratios, assuming no CAT loss:

Year Ended	Policies in Force at 12/31	Gross Written Premium for the Year ended 12/31	Net Written Premium for the Year ended 12/31	Statutory Capital and Surplus at 12/31	Ratio of Net Written to Surplus
December 31, 2006	147,322	\$297,223,000	\$288,640,000	\$90,680,000	2.52
December 31, 2007	260,590	\$707,297,000	\$513,547,000	\$137,162,000	3.74

These premium to surplus ratios show both the need for additional capital and Royal Palm's intention to substantially exceed the net written ratio of two to one required by the State Board of Administration.

Financial projections included in this application indicate that the prospects for repayment are good (see business plan in Part IV of this application). Significant hurricane activity causing losses in excess of Royal Palm's reinsurance protection and equity capital would be the only circumstance that would prohibit or interfere with full repayment.

# Instrat® Analysis

## Royal Palm - Preliminary Growth Template

### Total Growth Portfolio

#### Policy

County	Count	RPIC Premium
Alachua	3,207	\$3,663,931
Baker	654	\$1,552,607
Bay	2,322	\$5,628,662
Bradford	1,056	\$5,134,040
Brevard	3,375	\$8,840,382
Broward	6,956	\$20,628,733
Calhoun	788	\$1,870,725
Charlotte	1,343	\$3,164,975
Citrus	1,723	\$3,079,361
Clay	1,186	\$1,451,916
Collier	3,252	\$9,068,832
Columbia	1,633	\$5,555,082
De Soto	166	\$206,656
Dixie	199	\$478,279
Duval	7,651	\$13,469,416
Escambia	3,854	\$11,389,226
Flagler	1,219	\$1,863,113
Franklin	1,042	\$2,893,640
Gadsden	2,411	\$5,792,134
Gilchrist	332	\$548,242
Glades	7	\$11,058
Gulf	345	\$798,637
Hamilton	287	\$681,343
Hardee	9	\$21,366
Hendry	41	\$67,295
Hernando	1,111	\$2,211,787
Highlands	152	\$187,274
Hillsborough	1,347	\$2,850,469
Holmes	484	\$1,149,024
Indian River	899	\$2,300,368
Jackson	1,540	\$3,655,985
Jefferson	735	\$1,744,902
Lafayette	154	\$365,598
Lake	1,108	\$1,715,106
Lee	3,965	\$10,028,744
Leon	12,226	\$26,331,840
Levy	210	\$432,609
Liberty	191	\$453,437
Madison	972	\$1,473,095
Manatee	1,163	\$2,790,892
Marion	1,791	\$1,575,493
Martin	1,448	\$5,470,983
Miami-Dade	4,328	\$14,856,982

*Total Growth Portfolio*  
**Policy**

<b>County</b>	<b>Count</b>	<b>RPIC Premium</b>
Monroe	41	\$122,387
Nassau	2,141	\$4,166,773
Okaloosa	2,217	\$6,912,093
Okeechobee	3	\$7,571
Orange	4,973	\$6,296,089
Osceola	304	\$461,384
Palm Beach	5,786	\$14,992,348
Pasco	1,228	\$2,604,051
Pinellas	4,506	\$8,636,465
Polk	888	\$1,657,501
Putnam	1,278	\$1,747,644
Santa Rosa	1,957	\$4,872,997
Sarasota	1,759	\$3,538,052
Seminole	2,330	\$3,520,207
St Johns	1,789	\$4,094,513
St Lucie	843	\$1,951,653
Sumter	261	\$280,679
Suwannee	557	\$1,730,683
Taylor	156	\$309,668
Union	328	\$778,677
Volusia	4,683	\$6,585,979
Wakulla	1,107	\$4,602,424
Walton	1,102	\$4,116,277
Washington	994	\$1,481,910
<b>TOTALS</b>	<b>120,113</b>	<b>\$272,922,263</b>





## **Part II - Reinsurance Program**

**Question:** Provide a descriptive summary and a chart of your reinsurance program for the 2006 hurricane season showing the results pre and post infusion of New Capital. Indicate the Insurer's 100-year probable maximum loss (PML) associated with the various model(s) used to determine the 100-year PML. Identify the model(s) and version numbers used to determine the PML(s).

**Answer:** Royal Palm's reinsurance program for 2006 provides coverage to a gross loss of over \$590 million dollars. This reinsurance is provided directly by various reinsurance companies and indirectly by an assignment of recoveries from Allstate's participation in the Florida Hurricane Catastrophe Fund and other Allstate reinsurance arrangements. This coverage substantially exceeds the 100-year PML determined by AIR CLASIC/2 v7.0 of \$419 million or the 100-year PML determined by RMS RiskLinkv6.0 of \$502 million. In fact, the reinsurance coverage for the first event approximates the 250 year event calculated by AIR. (See chart attached)

In addition, Royal Palm has purchased a series of reinstatement premium protection covers and second event reinsurance to protect itself in the event a first event triggering reinstatement obligations and/or a second major event in a single season. In total, the limit for second event coverage, assuming the FHCF is exhausted, is \$290 million excess of the company's \$10 million retention. The company also purchased \$30 million of coverage for a third event. This third event coverage provides the company with reinsurance up to the attachment point of the Florida Hurricane Catastrophe Fund, if that coverage is not exhausted by the first two events. The company has \$15 million of reinsurance limit available for a fourth event in addition to any coverage available from the Florida Hurricane Catastrophe Fund (see attached charts).

Under current plans, Royal Palm does not require the surplus note or additional capital until December 1, 2006. Therefore, the company does not anticipate changing its current reinsurance program until 2007. At that time, Royal Palm anticipates needing approximately \$1 billion of reinsurance. It's estimated that the FHCF will provide coverage of \$426 million. The balance of the program, approximately \$600 million, will need to be placed in the open market. This will require Royal Palm to obtain approximately \$280 million of additional first event coverage. A chart outlining the proposed reinsurance structure for 2007 is attached. Royal Palm has already initiated discussions with reinsurers with respect to reinsurance needs for the 2007 wind season and is also exploring capital markets alternatives for a portion of the required coverage.

## **Reinsurance Program**

- 1) Modeling results –  
2006 Actual  
2007 Projected

**Instrat® Analysis****Royal Palm Insurance Company**  
Hurricane Analysis**Current Portfolio****RMS RiskLink v6.0 Long Term**

Return Period	Mar 06
1,000	\$1,291,892,235
500	\$1,034,451,226
250	\$797,018,021
100	\$502,234,562
50	\$329,867,571
20	\$180,795,667

Pure Premium \$40,031,712

Exposure Summary:

TIV \$23,585,828,643

Risk Count 115,894

**AIR CLASIC/2 v7.0**

Return Period	Mar 06
1,000	\$928,761,196
500	\$748,246,082
250	\$599,516,569
100	\$419,072,418
50	\$279,610,200
20	\$144,684,273

Pure Premium \$30,190,274

**Projected 2007/2008 Portfolio****RMS RiskLink v6.0 Long Term**

Return Period	
1,000	\$2,667,852,195
500	\$2,140,199,874
250	\$1,652,070,650
100	\$1,044,603,150
50	\$686,297,921
20	\$376,869,634

Pure Premium \$83,407,983

Exposure Summary:

TIV \$48,499,691,092

Risk Count 235,642

**NOTES:**

- 1) Losses are net of deductibles and do not include inuring reinsurance
- 2) Losses include storm surge but exclude demand surge

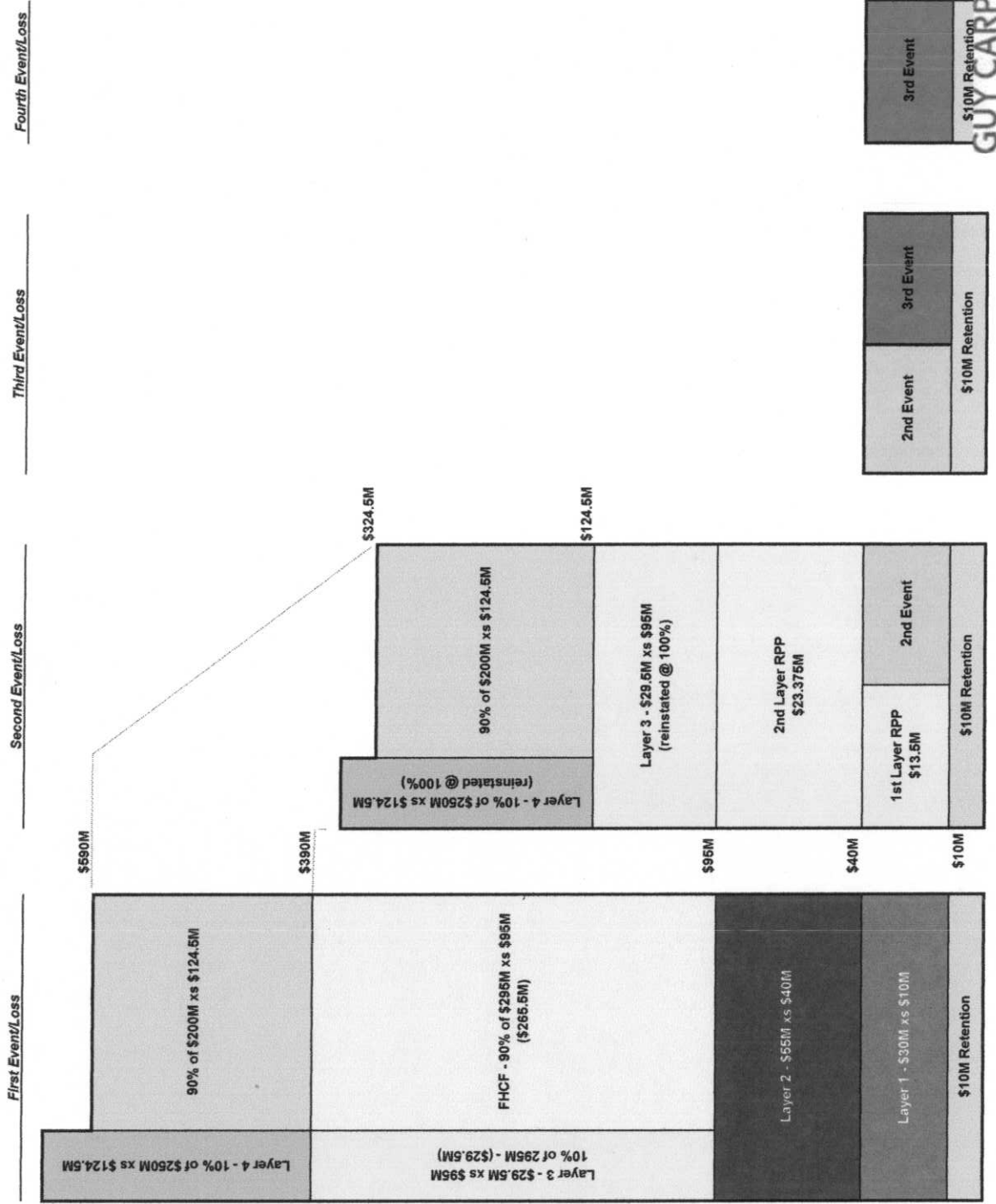
## **Reinsurance Program**

2) 2006 Reinsurance Program (Actual)  
Chart



**Royal Palm Insurance Company**  
 Property Catastrophe XOL Structure at June 1, 2006

- 100 Year PML RMS 6.0  
 \$502.2M

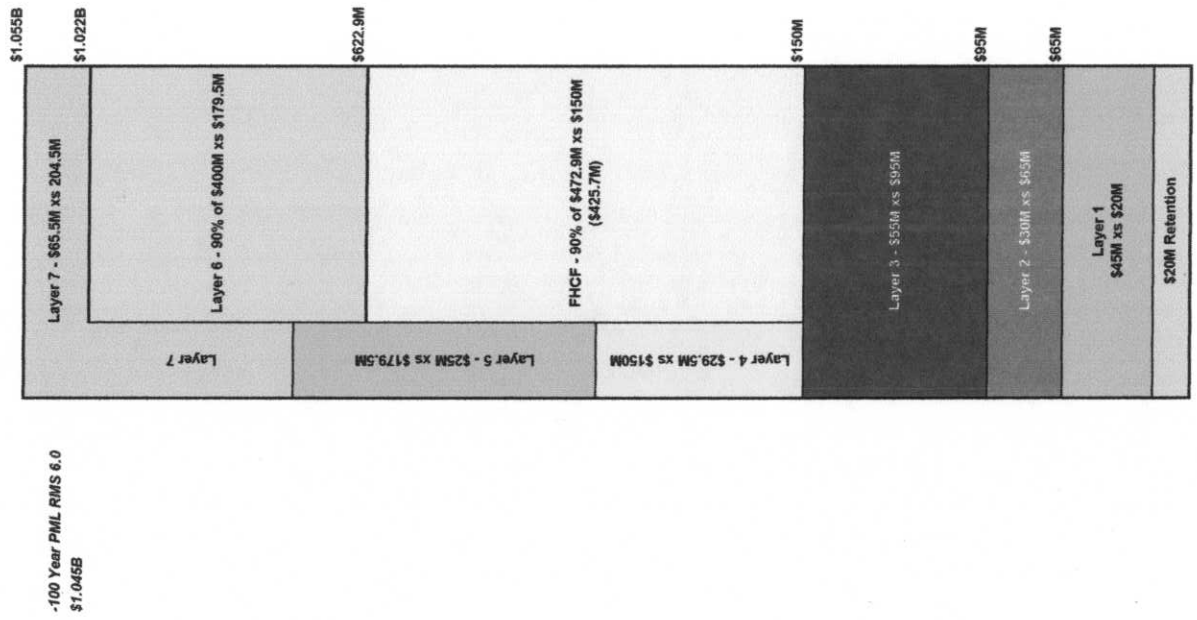


## **Reinsurance Program**

### 3) 2007 Reinsurance Program (Projected) Chart



Royal Palm Insurance Company  
Projected Property Catastrophe XOL Structure at June 1, 2007







### **Part III - INTERROGATORIES**

1. Will the New Capital contribution be in excess of the Minimum Contribution? No.
2. Have profits been retained to grow Surplus over the last five years? Not applicable.
3. Will profits be retained to grow Surplus should the Applicant be granted the Surplus Note proceeds associated with this program? Yes.
4. Does the Applicant have a related company or other person or entity that is willing to guarantee the Applicant's Surplus Note under this Program? No.
5. Although not required, is the Applicant willing to commit collateral for the purpose of securing the state's interest in the proceeds of the Surplus Note? No.
6. Although not required, is the Applicant willing to deposit 10% or more of the proceeds derived from the Surplus Note in an account managed by the state? Yes.
7. Although not required, is the Applicant willing to repay interest and principal for one year in advance? No.
8. Are there any commitments that the Applicant is willing to make as a condition of issuing the Surplus Note that would lessen the risk of default? No.
9. Has the Applicant fully placed its 2006 hurricane season reinsurance program? Yes.
10. If the 2006 hurricane season reinsurance has been fully placed, can the Insurer withstand a 1 in 100-year event? Yes.
11. What is the Applicant's current writing ratio? Applicant has not received its first account from Allstate. It is estimated that gross written premium will average about \$12,000,000 per month under the reinsurance treaty.
12. What was the Applicant's writing ratio for the last five years? Not applicable.
13. Is the Applicant willing to commit to a writing ratio in excess of the minimum for the duration of the Surplus Note? If so, note any adverse impact upon policyholder security. Yes.
14. Does the Applicant have a rating from a rating agency? If so, indicate the agency and the rating, how long the rating has been in effect, and whether or not the Applicant has ever been downgraded by a rating agency and the circumstances. Yes; Demotech®. "A"; for approximately 30 days. The rating has never been downgraded.
15. Is the Applicant currently being investigate by any federal or state regulatory authority? No.
16. Is the Applicant under any type of regulatory control or order? No.



**Part IV**  
**DOCUMENTS**  
(attached)

1. A detailed business plan; which includes:
  - a. A written description of the Applicant's current level of policy coverage for residential property in Florida covering the peril of wind.
  - b. Pro forma statements which outline the policy writings for the next three years and that distinguish between wind and ex-wind policy writings.
  - c. If the Applicant's ratio of Net Written Premium to Surplus does not equal or exceed 2:1, include a written strategy for increasing the ratio within sixty days of receiving the proceeds derived from the Surplus Note.
  - d. A description of the Applicant's strategy to maintain or increase the Minimum Writing Ratio within 60 days of receiving the proceeds derived from the Surplus Note and to maintain such ratio for the duration of the Surplus Note.
2. A copy of the Applicant's most recent audited financial statement and copies of the audited financial statements for the prior two years.
3. Copy of the most recent annual statement of the National Association of Insurance Commissioners required to be filed by authorized insurers pursuant to Section 624.424, F.S.
4. A resolution from the Applicant's governing board which contains the following:
  - a. A statement clearly authorizing the Applicant to participate in the program;
  - b. A statement that the Applicant's governing board has reviewed the Surplus Note, Form SBA 15-2, which is available on the Board's website, [www.sbafla.com](http://www.sbafla.com), under "Insurance Capital Build-Up Incentive Program" then "Surplus Note," and that the Applicant is able to comply with the requirements of the Surplus Note including the requirement that the New Capital be unencumbered;
  - c. A statement that the Applicant, if selected, intends to meet all the requirements of the Program including but not limited to meeting the Surplus and writing ratios.
5. Provide a list of all officers and board members.
6. Provide biographical information on the executive officers.
7. A signed copy of the attestation in Part IX of this application.
8. If any items listed in this Application are not provided, please identify the item and provide an explanation as to why it was not provided.

**ROYAL PALM INSURANCE COMPANY**

**Plan of Operations**  
**June, 2006**

## **INTRODUCTION AND PLAN OF OPERATIONS**

Royal Palm Insurance Company ("Royal Palm") is a Florida domestic insurance company established in March 2006 with \$65 million of capital to take advantage of the business opportunities resulting from the recent hurricane losses in Florida and other parts of the Gulf region. Royal Palm received a Certificate of Authority on March 31<sup>st</sup> and began business by assuming 116,000 policies from Allstate effective April 1<sup>st</sup>. Royal Palm is making application to the SBA for a Surplus Note in the amount of \$25,000,000 in order to provide sufficient capital to assume 120,000 policies of new business from Allstate agents. If the application is approved, an additional \$25,000,000 of equity capital will be contributed to Royal Palm.

The Plan of Operations includes a description of the capital structure and history, management, insurance products, marketing, reinsurance, and proforma financial statements.

### **Capital Structure and History**

Ritchie Risk-Linked LLC ("Ritchie"), the owner of Royal Palm, is a Delaware limited liability company owned by Ritchie Risk-Linked Strategies Trading, Ltd. ("Risk-Linked")

Duncan Goldie-Morrison and Brian Murphy are the Managers ("Managers") of Ritchie and will provide managerial supervision while maintaining all voting rights, subject to an Operating Agreement. The equity of Royal Palm is \$30,000,000 provided by Ritchie. Additionally, Risk-Linked provided \$35,000,000 in the form of Surplus Notes.

Duncan Goldie-Morrison is President and Brian Murphy is a Senior Managing Director of Ritchie Capital Management, L.L.C. ("RCM"). RCM is an alternative investment firm founded in 1997 and headquartered in Geneva, Illinois with affiliated offices in New York, London, Hong Kong and Bermuda. Its mission is to provide superior risk-adjusted absolute returns through diversified alternative investment strategies.

The Member and Managers of Ritchie Risk-Linked, LLC are:

#### **Brian Murphy**

Senior Managing Director, Ritchie Capital Management, L.L.C. ("RCM") Mr. Murphy joined RCM in December 2004. Prior to joining the firm, Mr. Murphy was Senior Vice President and a member of the Board of Directors of Converium Reinsurance. He was responsible for Group Risk Pooling (a global risk-taking facility providing internal reinsurance to all Converium legal entities, where his activities included marketing, structuring, pricing, portfolio analysis/optimization and claims) and New Products. From 1978 through 1998, Mr. Murphy worked in several capacities at Guy Carpenter & Company, including: (1997–1998) President and CEO of Marsh & McLennan Risk Products and President of Normandy Reinsurance Company, Ltd. (Bermuda); and (1978–1997) Managing Director of Guy Carpenter & Company.

**Duncan Goldie-Morrison** President, of RCM joined RCM in October 2003. Prior to joining RCM, he was Managing Director, Head of Global Markets Group and Asia at Bank of America Corporation from 1993 to 2003. He was responsible for the origination, syndication, sales, trading, and

research components of the bank's debt businesses. He was also responsible for interest rate, credit, and commodity derivatives, and foreign exchange. From 1991 to 1993, Mr. Goldie-Morrison was a Senior Director of Swaps and Syndicates at NatWest Markets in London.

**Ritchie Risk-Linked  
Strategies Trading, Ltd.**

Risk-Linked is an alternative investment company formed in July of 2004 and managed by RCM. It seeks to generate attractive risk-adjusted returns that are uncorrelated with the returns of more traditional strategies executed through the financial markets by investing broadly in the insurance and reinsurance markets through instruments including insurance and reinsurance contracts; insurance-related securities and derivatives; structured finance vehicles; and private equity investments in the insurance and reinsurance sectors. The economic results of these instruments are based on underlying exposures of property and casualty, life insurance, aviation, workers' compensation, and other insurance-related risks.

Risk-Linked, RCM, the Managers, Ritchie and all of the parties involved in the capital structure of Royal Palm have never previously withdrawn or discontinued a particular line of business in Florida. Additionally, none of the parties have had applications denied in any other states.

**Management of Royal Palm Insurance Company**

Brian Murphy will serve as Royal Palm's Chairman. W. Lockwood (Locke) Burt will serve as President of Royal Palm. The Vice President of Underwriting, Roseann Bradley; the Vice President of Claims, Tony DiPardo; and the Treasurer, Don Brocksmit; are officers and employees of Ormond Re Group, Inc. and its subsidiaries.

Royal Palm entered a Managing General Agency and Claims Administration Agreement with Security First Managers, LLC. Security First Managers, L.L.C. entered into agreements with Ormond Insurance and Reinsurance Management Services, Inc. ("Ormond Re") who provides underwriting and claims supervision, MacNeill Group, Inc. ("MacNeill") who provides policy administration, Insurance Servicing & Adjusting Company ("ISAC") who provides claims administration on behalf of Royal Palm.

The above-mentioned Ormond Re employees will serve Royal Palm on a part-time basis and Ormond Re will be paid a fee for their time.

The resumes of all the management team for Royal Palm are:

**CHAIRMAN OF  
THE BOARD**

**Brian Murphy**

Has over 30 years of insurance industry experience. He began his insurance career in 1974 with Hartford Insurance Group. He worked in various roles at Guy Carpenter for over 20 years included various levels of Senior Management.

He later joined Converium Reinsurance and was in charge of Global Risk Pooling. Joined Ritchie Capital Management, L.L.C. in December, 2004.

**DIRECTOR**

**David Govrin**

Has over 16 years of insurance industry experience. He joined RCM in February 2005 and manages the group's property & casualty activities. Previously, he co- led Citigroup's Structured Insurance Products Group from July 2002 – October 2004. From 1997 through 2002, he was a Vice President with Goldman Sachs in the insurance products group. From 1989 through 1997, he was a Senior Vice President with Guy Carpenter & Company.

**PRESIDENT  
AND DIRECTOR**

**W. Lockwood (Locke) Burt**

Began his insurance career in 1974. Since 1980 has served as President of Ormond Re Group. A licensed insurance and reinsurance broker, he served on the Board of the Florida Association of Domestic Insurance Co's and as President of the Independent Reinsurance Underwriters and Brokers Association. A licensed attorney and former member of the Florida Senate.

**TREASURER  
AND DIRECTOR**

**Donald G. Brocksmith**

A CPA who began his career in 1969 with KPMG Peat Marwick. Entered the insurance business in 1974 and held accounting or audit management positions with several firms including Great American, RLI, General Ins. Co., and Harbor Insurance Group. Joined Ormond Re in 1998.

**VICE PRESIDENT  
UNDERWRITING**

**Roseann Bradley**

Began her insurance career in Orlando in 1972 as a personal lines rating supervisor for Unigard Mutual. Served in underwriting positions with Shelby Mutual and CNA until she became an insurance agent in 1985. Joined Ormond Re in 1998 after 10 years with the Reidman Agency in Jacksonville.

**VICE PRESIDENT  
CLAIMS**

**A.L. (Tony) DiPardo**

An attorney who began his insurance career with Maryland Casualty in



1953. Joined Ormond Re in 1980.  
Past President of the Excess and  
Surplus Lines Claims Association of the  
United States.

DIRECTOR

Aimee Geiger

She joined RCM in August 2003 and  
currently works on the company's  
insurance initiatives. Prior to joining  
RCM, she was a Second Vice President  
at Northern Trust Company where she  
had been employed since August 1996.

### **Responsibilities of Management**

Brian Murphy and Locke Burt work collectively to develop business opportunities, continuously evaluate the strategy and review the company's reinsurance program. Locke Burt also provides overall supervision of the activities of the company's service providers, MacNeill, Ormond Re and ISAC; interact with the state regulators; and manage the day to day operations of Royal Palm.

Responsibilities for the legal department include maintenance of corporate records, timely approval of form, rate and licensing filings and requests, review of insurance contract forms and all contract documents used by the company, and corporate litigation. The legal department is overseen by Locke Burt.

### **Underwriting and Pricing under the management of the Vice President - Underwriting**

Roseann Bradley's responsibilities include establishing underwriting policy and risk selection criteria, developing policy forms, assuring risk premium rate adequacy, identifying target customer groups and geographic market areas, compiling underwriting documentation for policy and rate filings, developing premium system specifications, and assuring the accuracy of application information. In addition, the underwriting department also works with MacNeill's actuary in determining premium rates, preparing rate filings and other related activities.

### **Claims under the management of the Vice President - Claims**

Tony DiPardo's responsibilities include establishing claim handling procedures, developing claim system specifications, review of all insurance contract wordings, and monitoring of the external claims environment. In addition, the claims department also supervises the claims settlement services provided by ISAC to ensure that individual claims are settled within prescribed policy provisions.

### **Finance under the management of the Treasurer**

Don Brocksmith's responsibilities include maintaining the accounting records and the system of internal controls, establishing and maintaining regulatory and management information reporting, developing and maintaining banking and investor relationships, assuring the timely collection of cash and maintaining planning systems. In addition, the finance department also supervises the outside investment manager and ensure compliance with the guidelines established by the investment committee of the Board of Directors.

### **Marketing**

The marketing program focuses on supporting the 1,000 Allstate agencies currently being licensed to produce business on behalf of Royal Palm.

### **Underwriting Policy**

Royal Palm's underwriting policy is to deliver realistically priced homeowners policies and to achieve an underwriting profit. This objective will be achieved through strict adherence to underwriting selection criteria and pricing. Underwriting is provided by Ormond Re and overseen by Roseann Bradley.

### **Ratings**

Royal Palm has received a Financial Stability Rating® of "A (Exceptional)" from Demotech, Inc.

### **Reserves**

Royal Palm will maintain unearned premium and claim reserves. The reserves will be determined net of the amounts recoverable from reinsurers. Reserves will be reviewed by the company's consulting actuary on a periodic basis.

### **Reinsurance**

Royal Palm will use excess of loss reinsurance to limit its exposure to loss from single weather related events, typically hurricanes. Royal Palm also purchased excess of loss and facultative reinsurance to limit its total loss in the event of large loss to a single high valued home.

### **Cash and Investments**

The cash and investment portfolio is invested conservatively in US Government and highly rated corporate bonds. The portfolio is managed by Morgan Stanley.

### **Claims Policy**

Royal Palm's claims are administered by an outside service provider, Insurance Servicing and Adjusting Co. ("ISAC") based in Fort Lauderdale. The company has been providing independent loss adjustment services in Florida since 1956. This outside adjustment firm is supervised by Royal Palm's Vice President of Claims, Tony DiPardo.

### **Consultants and Service Providers**

MANAGING GENERAL AGENT

Security First Managers LLC

Subcontractors:

Underwriting and Claims Supervision

Ormond Insurance and Reinsurance  
Management Services, Inc.

Policy Administration

MacNeill Group, Inc.

Claims Administration

Insurance Servicing and Adjusting Co

ACTUARY

Jerry Vogel

AUDITOR

Wiss and Company

INVESTMENT ADVISORS

Morgan Stanley  
Sage Advisory Services, Ltd.

REINSURANCE BROKER

Guy Carpenter & Company, Inc

REGULATORY COUNSEL

Colodny, Fass, Talenfeld,  
Karlinsky & Abate PA

## **PRODUCTS**

### **Insurance Products**

Royal Palm began business on March 31, 2006. Initial premium volume came from a quota share reinsurance assumption of 116,000 homeowners and condominium owners policies from Allstate on April 1, 2006. Royal Palm will begin writing voluntary homeowners business through Allstate agencies on August 1, 2006.

### **Pricing**

Royal Palm's approved rates are 10% higher than the rates currently being utilized by ASI Assurance Company. Royal Palm's forms are identical to those utilized by ASI Assurance Company.

### **Selection Process**

The attainment of underwriting profit is achieved through the maintenance of low expense ratios and underwriting of applicants meeting the company's strict underwriting criteria. Proof of prior coverage will be required. All new business will be subject to physical inspections. The \$25.00 per policy cost of this external inspection will be absorbed by the insurance company. Only applicants meeting the company's risk selection standards are accepted into the insurance portfolio.

### **Policy Forms**

Royal Palm will offer HO-3, HO-6, HO-8, DP-1 and DP-3 forms. The HO-3 policy is the form used to insure most Florida homes. The form covers the dwelling on an all risk basis subject to the exclusions and limitations in the policy. Personal property is covered on a named peril basis. Replacement cost coverage is available for the dwelling and personal property. The policy also contains other limitations on coverage for extra living expense, theft of personal property, and mold. In contrast, the HO-8 policy is a named peril policy covering specific causes of loss (fire or lightning, windstorm or hail, explosion, theft, riot or civil commotion, aircraft, vehicles,

vandalism, volcanic eruption) and damage caused by sinkholes. The HO-8 policy typically covers the actual cash value of the property lost or damaged. Both the HO-3 and the HO-8 provide coverage for medical payments and liability claims. The DP-1 is a dwelling fire policy. It is a named peril policy that is similar to the HO-8. Unlike the HO-8, the dwelling fire policy does not provide coverage for liability or medical claims of third parties but those coverages and coverage for contents can be added for an additional premium. Royal Palm will also offer coverage to condominium owners under a standard HO-6 policy form.

## **MARKETING**

### **Security First Managers LLC**

Royal Palm has entered into a managing general agency agreement with Security First Managers ("Security First"). Security First will be contractually responsible for production and underwriting of new business, appointing and servicing local agents, issuing policies and endorsements, handling customer inquiries regarding their policies or insurance claims, and adjusting and paying all claims. For performing these services, Royal Palm will pay Security First a commission. In addition, Security First will charge each insured a policy fee of \$25.00, as permitted by Florida law. This commission and fee income will be used to pay local agents commission; MacNeill's fee for underwriting and servicing the business; ISAC's fee for claims service, Ormond's fee for producing business, accounting and supervision services, and expenses of the agency.

### **Licensing**

Royal Palm is domiciled in Florida. Security First is a licensed managing general agency currently licensed and operating in the State of Florida.

## **REINSURANCE**

### **Reinsurance**

Royal Palm will use excess of loss catastrophe reinsurance to limit Royal Palm's exposure to loss from single weather related events, typically hurricanes.

Royal Palm's reinsurance program for 2006 provides coverage to a gross loss of over \$590 million dollars. This reinsurance is provided directly by various reinsurance companies and indirectly by an assignment of recoveries from Allstate's participation in the Florida Hurricane Catastrophe Fund and other Allstate reinsurance arrangements.

This coverage substantially exceeds the 100-year PML determined by AIR CLASIC/2 v7.0 of \$419 million or the 100-year PML determined by RMS RiskLinkv6.0 of \$502 million. In fact, the reinsurance coverage for the first event is essentially equivalent to the 250 year event calculated by AIR (see chart attached).

In addition, Royal Palm has purchased a series of reinstatement premium protection covers and second event reinsurance to protect itself in the event a first event triggering reinstatement obligations and/or a second major event in a single season. In total, the limit for second event coverage, assuming the FHCF is exhausted, is \$290 million excess of the company's \$10 million retention. The company also purchased \$30 million of coverage for a third event. This third event coverage provides the company with reinsurance up to the attachment point of the Florida Hurricane Catastrophe Fund, if that coverage is not exhausted by the first two events. The company has \$15 million of reinsurance limit available for a fourth event in addition to any coverage available from the Florida Hurricane Catastrophe Fund (see attached charts).

Under current plans, Royal Palm does not require the surplus note or additional capital until December 1, 2006. Therefore, the company does not anticipate changing its current reinsurance program until 2007. At that time, Royal Palm anticipates needing approximately \$1 billion of reinsurance. It's estimated that the FHCF will provide coverage of \$426 million. The balance of the program, approximately \$600 million, will need to be placed in the open market. This will require Royal Palm to obtain approximately \$280 million of additional first event coverage. A chart outlining the proposed reinsurance structure for 2007 is attached. Royal Palm has already initiated discussions with reinsurers with respect to reinsurance needs for the 2007 wind season and is also exploring capital markets alternatives for a portion of the required coverage.

## **PROFORMA**

### **Proforma Statements**

Royal Palm has prepared three sets of Pro forma statements including the following scenarios:

- No catastrophic losses over a 3 year period from 2006 to 2008.
- Two catastrophes in 2007.
- Two catastrophes in 2006, 2007 and 2008.

## **Reinsurance Program**

- 1) Modeling results –  
2006 Actual  
2007 Projected

**Instrat® Analysis****Royal Palm Insurance Company**  
Hurricane Analysis**Current Portfolio****RMS RiskLink v6.0 Long Term**

Return Period	Mar 06
1,000	\$1,291,892,235
500	\$1,034,451,226
250	\$797,018,021
100	\$502,234,562
50	\$329,867,571
20	\$180,795,667

Pure Premium \$40,031,712

Exposure Summary:

TIV \$23,585,828,643

Risk Count 115,894

**AIR CLASIC/2 v7.0**

Return Period	Mar 06
1,000	\$928,761,196
500	\$748,246,082
250	\$599,516,569
100	\$419,072,418
50	\$279,610,200
20	\$144,684,273

Pure Premium \$30,190,274

**Projected 2007/2008 Portfolio****RMS RiskLink v6.0 Long Term**

Return Period	
1,000	\$2,667,852,195
500	\$2,140,199,874
250	\$1,652,070,650
100	\$1,044,603,150
50	\$686,297,921
20	\$376,869,634

Pure Premium \$83,407,983

Exposure Summary:

TIV \$48,499,691,092

Risk Count 235,642

**NOTES:**

- 1) Losses are net of deductibles and do not include inuring reinsurance
- 2) Losses include storm surge but exclude demand surge

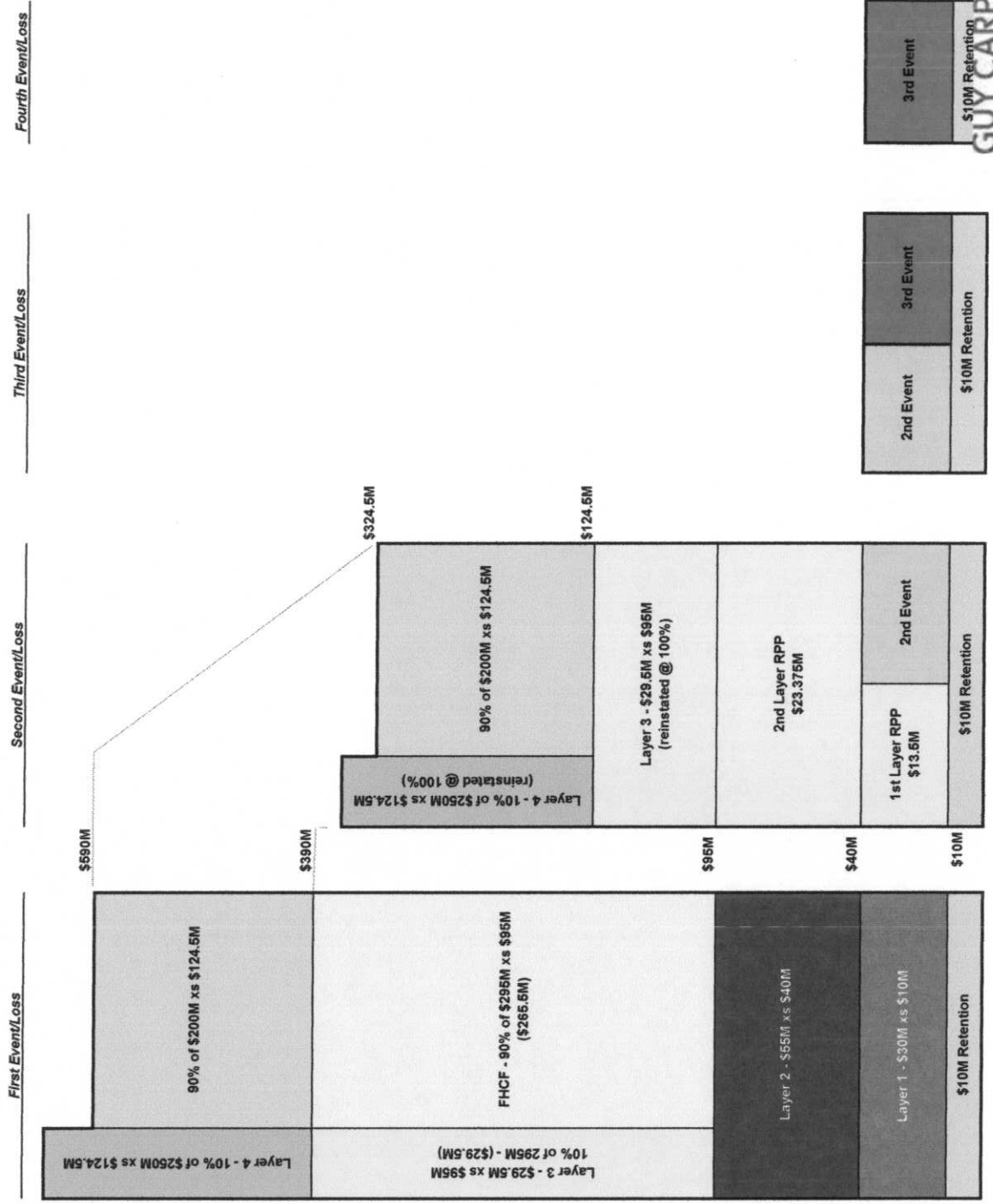
## **Reinsurance Program**

2) 2006 Reinsurance Program (Actual)  
Chart





**Royal Palm Insurance Company**  
*Property Catastrophe XOL Structure at June 1, 2006*



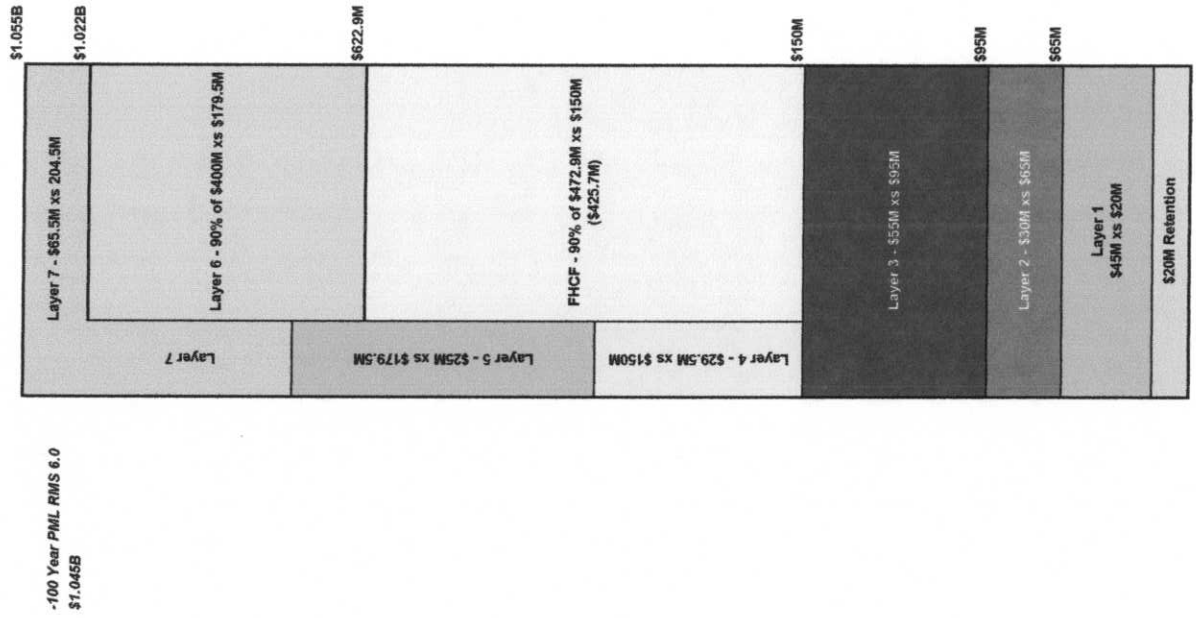
- 100 Year PML RMS 6.0  
\$502.2M

## **Reinsurance Program**

### 3) 2007 Reinsurance Program (Projected) Chart



Royal Palm Insurance Company  
Projected Property Catastrophe XOL Structure at June 1, 2007



## **Financial Projections**

Projection A - No Catastrophe Losses

**Royal Palm Insurance Company**  
**Projected Income Statement - Statutory Basis**

<b>Revenues</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
Gross Premiums Written	\$297,223	\$707,297	\$795,707
Reinsurance Premiums Ceded	<u>-68,583</u>	<u>-193,750</u>	<u>-279,167</u>
Net Premiums Written	<u>\$228,640</u>	<u>\$513,547</u>	<u>\$516,540</u>
Net Earned Premiums	\$49,549	\$357,085	\$454,241
Investment Income	<u>5,689</u>	<u>16,627</u>	<u>24,912</u>
<b>Total Revenues</b>	<b>55,237</b>	<b>373,711</b>	<b>479,153</b>
<b>Expenses</b>			
Claims and Claims Expenses	20,968	97,773	130,180
Commissions on Policy Assumptions	0	0	0
Agents' commissions	0	0	0
Premium Taxes	2,853	14,146	15,914
General Agency Management Expenses	61,494	185,666	208,873
Underwriting and Processing Expenses	0	0	0
Direct Expenses	2,320	2,215	1,965
Assessments	0	0	0
Ceding Commission	0	0	0
Interest Expense on Surplus Notes	<u>55</u>	<u>1,325</u>	<u>1,259</u>
<b>Total Expenses</b>	<b><u>87,691</u></b>	<b><u>301,125</u></b>	<b><u>358,191</u></b>
<b>Income Before Income Taxes</b>	<b>-32,454</b>	<b>72,587</b>	<b>120,962</b>
Income Taxes - Current Tax	<u>1,401</u>	<u>37,250</u>	<u>47,333</u>
<b>Net Income</b>	<b><u>-\$33,854</u></b>	<b><u>\$35,337</u></b>	<b><u>\$73,629</u></b>

**Royal Palm Insurance Company**  
**Projected Balance Sheet - Statutory Basis**

<b>Assets</b>	<b>Opening</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
Investment Securities at Cost	\$60,000	\$249,000	\$464,000	\$619,000
Short term, Cash and Accrued Investment Income	<u>5,000</u>	<u>18,631</u>	<u>26,191</u>	<u>30,044</u>
	65,000	267,631	490,191	649,044
Direct Premiums Receivable	0	0	0	0
Excess of Loss Reinsurance Recoverable	0	0	0	0
Statutory Deferred Tax Asset		9,534	21,929	29,600
Other Assets	<u>0</u>	<u>520</u>	<u>390</u>	<u>260</u>
<b>Total Assets</b>	<u>\$65,000</u>	<u>\$277,685</u>	<u>\$512,510</u>	<u>\$678,905</u>
<b>Liabilities</b>				
Outstanding Losses after QS before XOL	\$0	\$7,679	\$38,876	\$62,761
Net Unearned Premium Reserve	0	179,091	335,554	397,853
Quota Share Premiums Payable	0	0	0	0
Excess of Loss Premiums Payable	0	0	0	0
Premium Taxes Payable		0	0	0
Underwriting and Processing Expenses Payable		0	0	0
Income Taxes	0	16	710	895
Other Liabilities	0	219	209	184
Miscellaneous	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Total Liabilities</b>	0	187,005	375,348	461,693
<b>Stockholders' Equity</b>				
Common Stock and Additional Paid-in Capital	30,000	55,000	55,000	55,000
Senior Surplus Notes, including accrued interest	0	25,000	23,750	22,500
Subordinated Surplus Notes, including accrued interest	35,000	35,000	35,000	35,000
Unassigned Surplus	<u>0</u>	<u>-24,320</u>	<u>23,412</u>	<u>104,712</u>
<b>Total Stockholders' Equity</b>	<u>65,000</u>	<u>90,680</u>	<u>137,162</u>	<u>217,212</u>
<b>Total Liabilities &amp; Equity</b>	<u>\$65,000</u>	<u>\$277,685</u>	<u>\$512,510</u>	<u>\$678,905</u>

**Royal Palm Insurance Company**  
**Projected Statement of Change in Surplus - Statutory Basis**

	<u>Opening</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Beginning Balance		\$65,000	\$115,000	\$113,750
Capital contributions		25,000	0	0
Issuance of Surplus Notes		25,000	0	0
Surplus Notes Repaid		0	-1,250	-1,250
		\$115,000	\$113,750	\$112,500
<u>Unassigned Surplus</u>				
Beginning Balance			-\$24,320	\$23,412
Statutory Earnings (loss)		-33,854	35,337	73,629
- Deferred Tax		9,534	12,395	7,671
Dividends Paid		0	0	0
<u>Change In:</u>				
Non-Admitted Assets		0	0	0
Change In Unassigned Surplus		-24,320	47,731	81,300
		-24,320	23,412	104,712
<b>Statutory Surplus - Ending</b>		<b>\$90,680</b>	<b>\$137,162</b>	<b>\$217,212</b>
Common Stock and Additional Paid-in Capital	\$30,000	\$55,000	\$55,000	\$55,000
Senior Surplus Notes, including accrued interest		25,000	23,750	22,500
Subordinated Surplus Notes, including accrued interest	35,000	35,000	35,000	35,000
Unassigned Surplus	0	-24,320	23,412	104,712
<b>Statutory Surplus</b>	<b>\$65,000</b>	<b>\$90,680</b>	<b>\$137,162</b>	<b>\$217,212</b>

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<b>Statutory Underwriting Ratios</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
Gross Written Premiums to Ending Surplus	3.3	5.2	3.7
Net Written Premiums to Ending Surplus	2.5	3.7	2.4
Change in Net Writings		124.6%	0.6%
Yield on Average Balance of Total Investments	3.16%	4.19%	4.20%
Change in Surplus	39.5%	51.3%	58.4%
Liabilities to Liquid Assets	69.9%	76.6%	71.1%
Agents Balances to Surplus	0.0%	0.0%	0.0%
Loss Ratio (NEP)	42.3%	27.4%	28.7%
Net Commission Ratio - after ceding commission (NWP)	0.0%	0.0%	0.0%
Other Expense Ratio (NWP)	29.2%	39.3%	43.9%
Combined Ratio	71.5%	66.7%	72.6%

## **Financial Projections**

Projection B - Two Catastrophe Losses in  
2007 (\$40,000,000 net loss)



**Royal Palm Insurance Company**  
**Projected Income Statement - Statutory Basis**

<b>Revenues</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
Gross Premiums Written	\$297,223	\$707,297	\$795,707
Reinsurance Premiums Ceded	<u>-68,583</u>	<u>-193,750</u>	<u>-279,167</u>
Net Premiums Written	<u>\$228,640</u>	<u>\$513,547</u>	<u>\$516,540</u>
Net Earned Premiums	\$49,549	\$357,085	\$454,241
Investment Income	<u>5,689</u>	<u>16,283</u>	<u>24,463</u>
<b>Total Revenues</b>	<b>55,237</b>	<b>373,367</b>	<b>478,703</b>
<b>Expenses</b>			
Claims and Claims Expenses	20,968	137,773	130,180
Commissions on Policy Assumptions	0	0	0
Agents' commissions	0	0	0
Premium Taxes	2,853	14,146	15,914
General Agency Management Expenses	61,494	185,666	208,873
Underwriting and Processing Expenses	0	0	0
Direct Expenses	2,320	2,215	1,965
Assessments	0	0	0
Ceding Commission	0	0	0
Interest Expense on Surplus Notes	<u>55</u>	<u>1,325</u>	<u>1,259</u>
<b>Total Expenses</b>	<b><u>87,691</u></b>	<b><u>341,125</u></b>	<b><u>358,191</u></b>
<b>Income Before Income Taxes</b>	<b>-32,454</b>	<b>32,243</b>	<b>120,512</b>
Income Taxes - Current Tax	<u>1,401</u>	<u>23,711</u>	<u>46,791</u>
<b>Net Income</b>	<b><u>-\$33,854</u></b>	<b><u>\$8,532</u></b>	<b><u>\$73,722</u></b>

**Royal Palm Insurance Company**  
**Projected Balance Sheet - Statutory Basis**

<b>Assets</b>	<b>Opening</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
Investment Securities at Cost	\$60,000	\$249,000	\$464,000	\$619,000
Short term, Cash and Accrued Investment Income	<u>5,000</u>	<u>18,631</u>	<u>19,116</u>	<u>11,322</u>
	65,000	267,631	483,116	630,322
Direct Premiums Receivable	0	0	0	0
Excess of Loss Reinsurance Recoverable	0	0	0	0
Statutory Deferred Tax Asset		9,534	22,510	29,796
Other Assets	<u>0</u>	<u>520</u>	<u>390</u>	<u>260</u>
<b>Total Assets</b>	<b><u>\$65,000</u></b>	<b><u>\$277,685</u></b>	<b><u>\$506,016</u></b>	<b><u>\$660,379</u></b>
<b>Liabilities</b>				
Outstanding Losses after QS before XOL	\$0	\$7,679	\$58,876	\$70,761
Net Unearned Premium Reserve	0	179,091	335,554	397,853
Quota Share Premiums Payable	0	0	0	0
Excess of Loss Premiums Payable	0	0	0	0
Premium Taxes Payable		0	0	0
Underwriting and Processing Expenses Payable		0	0	0
Income Taxes	0	16	440	885
Other Liabilities	0	219	209	184
Miscellaneous	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Total Liabilities</b>	<b>0</b>	<b>187,005</b>	<b>395,078</b>	<b>469,683</b>
<b>Stockholders' Equity</b>				
Common Stock and Additional Paid-in Capital	30,000	55,000	55,000	55,000
Senior Surplus Notes, including accrued interest	0	25,000	23,750	22,500
Subordinated Surplus Notes, including accrued interest	35,000	35,000	35,000	35,000
Unassigned Surplus	<u>0</u>	<u>-24,320</u>	<u>-2,812</u>	<u>78,196</u>
<b>Total Stockholders' Equity</b>	<b><u>65,000</u></b>	<b><u>90,680</u></b>	<b><u>110,938</u></b>	<b><u>190,696</u></b>
 <b>Total Liabilities &amp; Equity</b>	 <b><u>\$65,000</u></b>	 <b><u>\$277,685</u></b>	 <b><u>\$506,016</u></b>	 <b><u>\$660,379</u></b>

**Royal Palm Insurance Company**  
**Projected Statement of Change in Surplus - Statutory Basis**

	<b>Opening</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
Beginning Balance		\$65,000	\$115,000	\$113,750
Capital contributions		25,000	0	0
Issuance of Surplus Notes		25,000	0	0
Surplus Notes Repaid		0	-1,250	-1,250
		\$115,000	\$113,750	\$112,500
<u>Unassigned Surplus</u>				
Beginning Balance			-\$24,320	-\$2,812
Statutory Earnings (loss)		-33,854	8,532	73,722
- Deferred Tax		9,534	12,976	7,286
Dividends Paid		0	0	0
<u>Change In:</u>				
Non-Admitted Assets		0	0	0
Change In Unassigned Surplus		-24,320	21,508	81,008
		-24,320	-2,812	78,196
<b>Statutory Surplus - Ending</b>		<b>\$90,680</b>	<b>\$110,938</b>	<b>\$190,696</b>
Common Stock and Additional Paid-in Capital	\$30,000	\$55,000	\$55,000	\$55,000
Senior Surplus Notes, including accrued interest		25,000	23,750	22,500
Subordinated Surplus Notes, including accrued interest	35,000	35,000	35,000	35,000
Unassigned Surplus	0	-24,320	-2,812	78,196
<b>Statutory Surplus</b>	<b>\$65,000</b>	<b>\$90,680</b>	<b>\$110,938</b>	<b>\$190,696</b>

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<b>Statutory Underwriting Ratios</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
Gross Written Premiums to Ending Surplus	3.3	6.4	4.2
Net Written Premiums to Ending Surplus	2.5	4.6	2.7
Change in Net Writings		124.6%	0.6%
Yield on Average Balance of Total Investments	3.16%	4.21%	4.22%
Change in Surplus	39.5%	22.3%	71.9%
Liabilities to Liquid Assets	69.9%	81.8%	74.5%
Agents Balances to Surplus	0.0%	0.0%	0.0%
Loss Ratio (NEP)	42.3%	38.6%	28.7%
Net Commission Ratio - after ceding commission (NWP)	0.0%	0.0%	0.0%
Other Expense Ratio (NWP)	29.2%	39.3%	43.9%
Combined Ratio	71.5%	77.9%	72.6%

## **Financial Projections**

Projection C - Two Catastrophe Losses in 2006, 2007 and 2008 (\$20,000,000 net loss in 2006; \$40,000,000 net loss in 2007; \$40,000,000 net loss in 2008)

**Royal Palm Insurance Company**  
**Projected Income Statement - Statutory Basis**

<b>Revenues</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
Gross Premiums Written	\$297,223	\$707,297	\$795,707
Reinsurance Premiums Ceded	-68,583	-193,750	-279,167
Net Premiums Written	<u>\$228,640</u>	<u>\$513,547</u>	<u>\$516,540</u>
Net Earned Premiums	\$49,549	\$357,085	\$454,241
Investment Income	<u>5,544</u>	<u>16,059</u>	<u>23,746</u>
<b>Total Revenues</b>	55,093	373,143	477,986
<b>Expenses</b>			
Claims and Claims Expenses	40,968	137,773	170,180
Commissions on Policy Assumptions	0	0	0
Agents' commissions	0	0	0
Premium Taxes	2,853	14,146	15,914
General Agency Management Expenses	61,494	185,666	208,873
Underwriting and Processing Expenses	0	0	0
Direct Expenses	2,320	2,215	1,965
Assessments	0	0	0
Ceding Commission	0	0	0
Interest Expense on Surplus Notes	55	1,325	1,259
<b>Total Expenses</b>	<u>107,691</u>	<u>341,125</u>	<u>398,191</u>
<b>Income Before Income Taxes</b>	-52,598	32,018	79,795
Income Taxes - Current Tax	<u>-5,359</u>	<u>23,440</u>	<u>33,043</u>
<b>Net Income</b>	<u>-\$47,239</u>	<u>\$8,579</u>	<u>\$46,753</u>

**Royal Palm Insurance Company**  
**Projected Balance Sheet - Statutory Basis**

<b>Assets</b>	<b>Opening</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
Investment Securities at Cost	\$60,000	\$249,000	\$464,000	\$619,000
Short term, Cash and Accrued Investment Income	<u>5,000</u>	<u>15,112</u>	<u>9,774</u>	<u>-8,258</u>
	65,000	264,112	473,774	610,742
Direct Premiums Receivable	0	0	0	0
Excess of Loss Reinsurance Recoverable	0	0	0	0
Statutory Deferred Tax Asset		9,825	22,608	30,397
Other Assets	<u>0</u>	<u>520</u>	<u>390</u>	<u>260</u>
<b>Total Assets</b>	<u>\$65,000</u>	<u>\$274,457</u>	<u>\$496,772</u>	<u>\$641,399</u>
<b>Liabilities</b>				
Outstanding Losses after QS before XOL	\$0	\$17,679	\$62,876	\$91,761
Net Unearned Premium Reserve	0	179,091	335,554	397,853
Quota Share Premiums Payable	0	0	0	0
Excess of Loss Premiums Payable	0	0	0	0
Premium Taxes Payable		0	0	0
Underwriting and Processing Expenses Payable		0	0	0
Income Taxes	0	-118	435	611
Other Liabilities	0	219	209	184
Miscellaneous	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Total Liabilities</b>	0	196,870	399,073	490,409
<b>Stockholders' Equity</b>				
Common Stock and Additional Paid-in Capital	30,000	55,000	55,000	55,000
Senior Surplus Notes, including accrued interest	0	25,000	23,750	22,500
Subordinated Surplus Notes, including accrued interest	35,000	35,000	35,000	35,000
Unassigned Surplus	<u>0</u>	<u>-37,414</u>	<u>-16,052</u>	<u>38,490</u>
<b>Total Stockholders' Equity</b>	<u>65,000</u>	<u>77,586</u>	<u>97,698</u>	<u>150,990</u>
<b>Total Liabilities &amp; Equity</b>	<u>\$65,000</u>	<u>\$274,457</u>	<u>\$496,772</u>	<u>\$641,399</u>

**Royal Palm Insurance Company**  
**Projected Statement of Change in Surplus - Statutory Basis**

	<u>Opening</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Beginning Balance		\$65,000	\$115,000	\$113,750
Capital contributions		25,000	0	0
Issuance of Surplus Notes		25,000	0	0
Surplus Notes Repaid		0	-1,250	-1,250
		<u>\$115,000</u>	<u>\$113,750</u>	<u>\$112,500</u>
<u>Unassigned Surplus</u>				
Beginning Balance			-\$37,414	-\$16,052
Statutory Earnings (loss)		-47,239	8,579	46,753
- Deferred Tax		9,825	12,783	7,789
Dividends Paid		0	0	0
<u>Change In:</u>				
Non-Admitted Assets		0	0	0
Change In Unassigned Surplus		<u>-37,414</u>	<u>21,362</u>	<u>54,542</u>
		<u>-37,414</u>	<u>-16,052</u>	<u>38,490</u>
<b>Statutory Surplus - Ending</b>		<b><u>\$77,586</u></b>	<b><u>\$97,698</u></b>	<b><u>\$150,990</u></b>
Common Stock and Additional Paid-in Capital	\$30,000	\$55,000	\$55,000	\$55,000
Senior Surplus Notes, including accrued interest		25,000	23,750	22,500
Subordinated Surplus Notes, including accrued interest	35,000	35,000	35,000	35,000
Unassigned Surplus	0	<u>-37,414</u>	<u>-16,052</u>	<u>38,490</u>
<b>Statutory Surplus</b>	<b><u>\$65,000</u></b>	<b><u>\$77,586</u></b>	<b><u>\$97,698</u></b>	<b><u>\$150,990</u></b>

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<b>Statutory Underwriting Ratios</b>	<b><u>2006</u></b>	<b><u>2007</u></b>	<b><u>2008</u></b>
Gross Written Premiums to Ending Surplus	3.8	7.2	5.3
Net Written Premiums to Ending Surplus	2.9	5.3	3.4
Change in Net Writings		124.6%	0.6%
Yield on Average Balance of Total Investments	3.17%	4.22%	4.25%
Change in Surplus	19.4%	25.9%	54.5%
Liabilities to Liquid Assets	74.5%	84.2%	80.3%
Agents Balances to Surplus	0.0%	0.0%	0.0%
Loss Ratio (NEP)	82.7%	38.6%	37.5%
Net Commission Ratio - after ceding commission (NWP)	0.0%	0.0%	0.0%
Other Expense Ratio (NWP)	<u>29.2%</u>	<u>39.3%</u>	<u>43.9%</u>
Combined Ratio	<u>111.8%</u>	<u>77.9%</u>	<u>81.4%</u>





Not applicable



Not applicable



**UNANIMOUS CONSENT OF THE DIRECTORS  
OF ROYAL PALM INSURANCE COMPANY IN LIEU OF SPECIAL MEETING**

The undersigned, being the Directors of ROYAL PALM INSURANCE COMPANY (the "Company"), hereby adopt the following resolutions pursuant to Florida law, which Resolutions are to have the same force and effect as if passed by a unanimous vote of all of the Directors of the Company at a duly called and convened Special Meeting thereof:

RESOLVED, that the Company shall take all action necessary in order to participate in the Insurance Capital Build-Up Incentive Program established under Florida law ("Program"), and all such action taken, or to be taken, is hereby authorized, ratified and approved.

RESOLVED, that the Company shall take all action necessary in order to prepare, submit, negotiate, and enter various applications, business plans, reinsurance programs, and related documents (collectively "Program Documents") in order to the Company to apply for, and participate in, the Program, and all such action taken, or to be taken, is hereby authorized, ratified and approved.

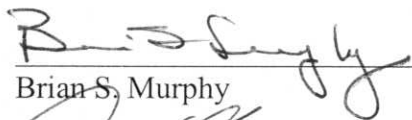
RESOLVED, that after review of the Surplus Note, Form SBA 15-2 (hereinafter referred to as the "Surplus Note" and as one of the "Program Documents"), a copy of which is attached as Exhibit A, the Company is able, and intends, to comply with the requirements of the Surplus Note, including the requirement that New Capital, as defined therein, be unencumbered.

RESOLVED, that the Company, if selected, intends to meet all requirements of the Program, including but not limited to, the surplus writing ratio requirements.

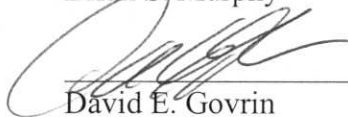
RESOLVED, that W. Lockwood Burt, President of the Company, has been, and is hereby, authorized to negotiate, execute, deliver and accept, on behalf of the Company and under terms and conditions as he deems to be appropriate, the Program Documents and any other agreements, documents and instruments as may be necessary or appropriate in order for the Company to participate in the Program, and all such agreements, documents and instruments are hereby authorized, ratified and approved.

IN WITNESS WHEREOF, the undersigned, being the Directors of ROYAL PALM INSURANCE COMPANY, do hereby execute this Unanimous Consent of the Directors in Lieu of Special Meeting as of the 12th day of June, 2006, for the purposes herein contained.


This Unanimous Consent is executed in lieu of holding a meeting of the Directors and shall have the same effect as action taken at a duly called meeting of the Directors at which all Directors were present and voting.

 , Director  
Brian S. Murphy

 , Director  
Donald G. Brocksmith

 , Director  
David E. Govrin

 , Director  
W. Lockwood Burt

 , Director  
Aimee A. Geiger



## **PART IV DOCUMENTS**

### 5 - List of all officers and board members:

Chairman of the Board – Brian Murphy

Director – David Govrin

President and Director – W. Lockwood (Locke) Burt

Treasurer and Director – Donald G. Brocksmith

Vice President Underwriting – Roseann Bradley

Vice President Claims – A.L. (Tony) DiPardo

Director – Aimee Geiger





## **PART IV DOCUMENTS**

### **6 - Biographical Information on Executive Officers:**

#### **Brian Murphy, Chairman of the Board**

Mr. Murphy has over 30 years of insurance industry experience. He began his insurance career in 1974 with Hartford Insurance Group and worked in various roles at Guy Carpenter for over twenty years including various levels of Senior Management. Mr. Murphy later joined Converium Reinsurance and was in charge of global risk pooling and joined Ritchie Capital Management, L.L. C. in December, 2004.

#### **David Govrin, Director**

Mr. Govrin has over 16 years of insurance industry experience. He joined Ritchie Capital in February 2005 and manages the group's property and casualty activities. Previously, Mr. Govrin co-lead Citigroup's Structured Insurance Products Group from July 2002 through October 2004. From 1997 through 2002, Mr. Govrin was Vice President with Goldman Sachs in the insurance products group. From 1989 through 1997, he was a Senior Vice President with Guy Carpenter & Company.

#### **W. Lockwood (Locke) Burt, President and Director**

Mr. Burt began his insurance career in 1974, and since 1980 has served as President of Ormond Re Group. A licensed insurance and reinsurance broker, he served on the Board of the Florida Association of Domestic Insurance Companies and as President of the Independent Reinsurance Underwriters and Brokers Association. Mr. Burt is a licensed attorney and former member of the Florida Senate.

#### **Donald G. Brocksmith, Treasurer and Director**

Mr. Brocksmith is a CPA who began his career in 1969 with KPMG Peat Marwick. Mr. Brocksmith entered the insurance business in 1974 and held accounting or audit management positions with several firms including Great American, RLI, General Insurance Company and Harbor Insurance Group and joined Ormond Re in 1998.

#### **Roseann Bradley, Vice President Underwriting**

Ms. Bradley began her insurance career in Orlando in 1972 as a personal lines rating supervisor for Unigard Mutual. She served in underwriting positions with Shelby Mutual and CAN until becoming an insurance agent in 1985. Ms. Bradley joined Ormond Re in 1998 after 10 years with the Reidman Agency in Jacksonville.

#### **A.L. (Tony) DiPardo, Vice President Claims**

Mr. DiPardo is an attorney who began his insurance career with Maryland Casualty in 1953. A Past President of the Excess and Surplus Lines Claims Association of the United States, Mr. DiPardo joined Ormond Re in 1980.

#### **Aimee Geiger, Director**

Ms. Geiger joined Ritchie Capital in August 2003 and currently works on the company's insurance initiatives. Prior to joining Ritchie, Ms. Geiger was a Second Vice President at Northern Trust Company where she had been employed since August 1996.



**STATE BOARD OF ADMINISTRATION OF FLORIDA  
INSURANCE CAPITAL BUILD-UP INCENTIVE PROGRAM ("PROGRAM")  
APPLICATION**

State Board of Administration of Florida  
c/o The Florida Hurricane Catastrophe Fund  
P.O. Box 13300  
Tallahassee, FL 32317-3300

**Part IX: Attestation**

To be eligible and to be considered for participation in the Program, Applicants must meet each of the statutory requirements listed below. To certify that the Applicant meets each requirement, check each of the boxes which follow the list of requirements.

1. The Surplus Note amount sought by the Applicant, or if the Applicant is part of a group, the amount sought by all group members when added together, does not exceed \$50 million.
2. An Applicant filing an application prior to July 1, 2006, must be able, prior to the execution of the Surplus Note, to show that the New Capital contributed equals the amount of the approved Surplus Note. The New Capital contributed must be in the form of Cash\* or Cash Equivalents\* as defined in Rule 19ER06-3, F.A.C.
3. An Applicant filing applications after July 1, 2006, must be able, prior to the execution of the Surplus Note, to show that the New Capital contributed is twice the amount of the approved Surplus Note. The New Capital must be in the form of Cash or Cash Equivalents.
4. Applicant's Surplus, New Capital contributions, and the Surplus Note must total at least \$50 million.

Applicant must be willing to commit to meeting a Minimum Writing Ratio of Net Written Premium to Surplus of 2:1 for the 20-year term of the Surplus Note.

- ☒ Affirms Applicant meets minimum qualifications.
- ☒ Affirms Surplus Note, Form SBA 15-2, has been reviewed and terms and conditions contained therein can be met by Applicant.
- ☒ Acknowledges and accepts all terms and conditions of Surplus Note.

We are each, respectively, executive officers of the Insurer making this application, acting within our authority in making the declarations listed in this application.

BY: 

TYPED NAME: Wallace L. Burt

TITLE: President/Director

DATE: June 12, 2006

BY: 

TYPED NAME: Donald G. Brocksmith

TITLE: Director

DATE: June 12, 2006



**Not Applicable**