Homewise Preferred Insurance Company Insolvency Report June 30, 2015

Prepared by:







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Receivership information:

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

Scope:

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

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

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

Chapter 631

INSURER INSOLVENCY; GUARANTY OF PAYMENT

631.398

Prevention of insolvencies.

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

(1)

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

(2)

The office shall:

(a)

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

(b)

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

(3)

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

History.

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

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

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

<u>Business</u>

Historical information related to the company is as follows:

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

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

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

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

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

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

Management

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

President/CEO – Dale Stephen Hammond

Vice President/CFO – Timothy Lyons Journy

Secretary/General Counsel – Diane Eileen Falcone

Other Directors- Timothy A. Paddock

Stephen C. Backman Dorothy A. Brink Stephen M. Sandford

Background/Events of Impact

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

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

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

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

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

Loss Reserves

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

Loans from Reinsurers

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

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

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

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

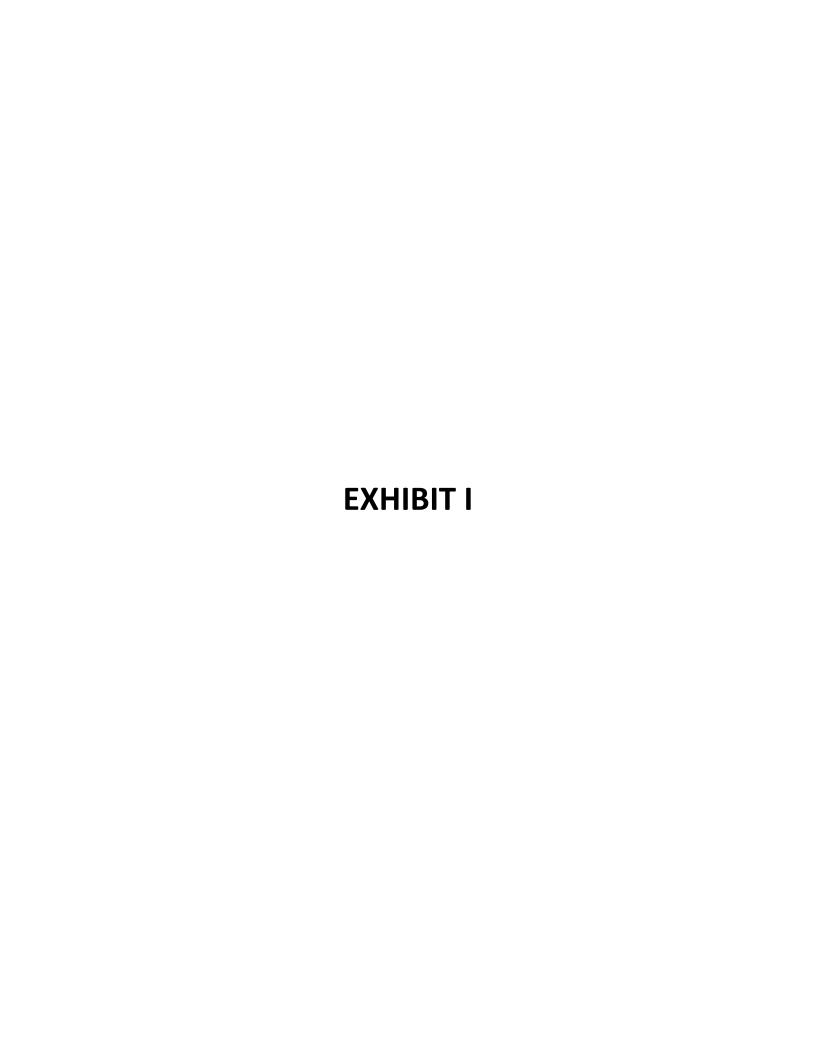
Conclusion

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

References

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

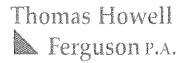
Exhibit 2 - Organizational Chart: Homewise Insurance Company and its Affiliates



Statutory Basis Financial Statements and Other Financial Information

HomeWise Preferred Insurance Company

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



Statutory Basis Financial Statements and Other Financial Information

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

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Report of Independent Auditors

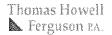
The Board of Directors HomeWise Preferred Insurance Company

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

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

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

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



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

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

Thomas Howell Feynma B.a.

April 4, 2007

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

December 31, 2006

Admitted assets	
Cash and invested assets:	
Cash and cash equivalents	\$ 10,041,157
Total cash and invested assets	10,041,157
Accrued investment income	8,041
Premiums receivable, net	1,445,571
Net deferred tax asset	174,541
Other assets	1,239
Total admitted assets	\$ 11,670,549
Liabilities and capital and surplus Liabilities:	
Loss and loss adjustment expense reserves	\$ 26,437
Unearned premiums, net	1,365,429
Other accrued expenses	80,766
Taxes, licenses, and fees payable	1,098
Federal income taxes payable	21,842
Payable to affiliates	507,723
Total liabilities	2,003,295
Capital and surplus	9,667,254
Total liabilities and capital and surplus	\$ 11,670,549

Statement of Operations - Statutory Basis

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

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

HomeWise Preferred Insurance Company

Statement of Changes in Capital and Surplus - Statutory Basis

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

	Common Stock	Stock	Paid-in	Unassigned	
	Shares	Par Value	Surplus	Funds	Total
Balance at May 31, 2006 (inception)	•	· 89	· \$	ı •⁄9	ı 69
Issuance of common stock	100,000	100,000	0,900,000	I	10,000,000
Change in net deferred income taxes	ŧ	3	1	174,541	174,541
Change in nonadmitted assets	1	1	,	(353)	(353)
Net loss	3	24	1	(506,934)	(506,934)
Balance at December 31, 2006	100,000	\$ 100,000	100.000 \$ 100.000 \$ 9.900.000 \$ (332.746) \$ 9.667.254	\$ (332,746)	\$ 9,667,254

See accompanying notes.

Statement of Cash Flows - Statutory Basis

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

Operating activities Premiums collected, net of reinsurance Net investment income received Underwriting, acquisition, and other expenses paid Federal income taxes recovered	\$ 11,878 277,520 (774,293) 18,535
Net cash used in operating activities	(466,360)
Financing and miscellaneous activities Proceeds from common stock issued Other cash provided	10,000,000 507,517
Net cash provided by financing and miscellaneous activities	10,507,517
Net increase in cash	10,041,157
Cash at beginning of period	
Cash at end of period	\$ 10,041,157

Notes to Statutory Basis Financial Statements

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

1. Summary of Significant Accounting Policies

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

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

Basis of Presentation

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

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

Notes to Statutory Basis Financial Statements

1. Summary of Significant Accounting Policies (continued)

Basis of Presentation (continued)

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

Other significant accounting practices are as follows:

Cash and Cash Equivalents

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

Notes to Statutory Basis Financial Statements

1. Summary of Significant Accounting Policies (continued)

Concentration of Credit Risk

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

Reinsurance

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

Loss and Loss Adjustment Expense (LAE) Reserves

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

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

Notes to Statutory Basis Financial Statements

1. Summary of Significant Accounting Policies (continued)

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

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

Recognition of Premium Revenues

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

Guaranty Fund and Residual Market Pool Assessments

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

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

Income Taxes

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

Use of Estimates

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

Notes to Statutory Basis Financial Statements

2. Regulatory Requirements

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

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

3. Investment Income

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

Cash and cash equivalents	\$ 285,354
Investment expenses	(2.520)
Net investment income	\$282,834

4. Premiums Receivable

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

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

Premiums receivable, gross	\$	1,445,924
Nonadmitted premiums receivable	***********	(353)
Premiums receivable, net	\$	1,445,571

Notes to Statutory Basis Financial Statements

5. Loss and Loss Adjustment Expense (LAE) Reserves

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

	(în	thousands)
Loss and LAE reserves at beginning of year Losses and LAE incurred related to:	\$	-
Current year		26
Prior years		26
Losses and LAE paid related to:		
Current year		-
Prior years		-
Loss and LAE reserves at end of year	\$	_26

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

6. Reinsurance

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

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

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

Notes to Statutory Basis Financial Statements

6. Reinsurance (continued)

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

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

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

		<u>Written</u>	 <u>Earned</u>
Direct premiums	\$	1,458,799	\$ 93,365
Ceded premiums	******	(1.011)	(1,006)
Net premiums	\$	1.457.788	\$ 92,359

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

7. Income Taxes

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

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

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

Gross DTAs	\$	174,541
Gross DTLs		
Net DTAs		174,541
Nonadmitted DTAs	_	
Net admitted DTAs	\$	174,541
Increase in nonadmitted DTAs	\$	

B. Unrecognized DTLs

There are no unrecognized DTLs.

Notes to Statutory Basis Financial Statements

7. Income Taxes (continued)

C. Current tax and change in deferred tax:

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

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

DTAs	<u>Statutory</u>	<u>Tax</u>	Difference	Tax Effect
Unpaid losses and LAE	\$ 26,437	\$ 24,584	\$ 1,853	\$ 630
Unearned premiums	1,365,430	1,092,344	273,086	92,849
Organizational costs	-	238,418	238,418	81,062
Gross DTAs				\$ <u>174.541</u>
Nonadmitted DTAs				\$ <u> </u>

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

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

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

E. Operating loss and tax credit carryforwards:

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

Notes to Statutory Basis Financial Statements

7. Income Taxes (continued)

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

F. Consolidated federal income tax return:

The Company files a consolidated tax return with the following:

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

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

8. Capital and Surplus

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

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

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

9. Related Party Transactions

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

Notes to Statutory Basis Financial Statements

9. Related Party Transactions (continued)

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

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

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

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

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

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

11. Subsequent Events

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

Notes to Statutory Basis Financial Statements

11. Subsequent Events (continued)

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



Armusi Statement for the year 2006 of the HomeWise Preferred Insurance Company

SUMMARY INVESTMENT SCHEDULE

		Gros Investment (Admitted Assets in the Annual	
	Investment Categories	1 Amount	2 Percentage	3 Amount	4 Percentage
			- Signatura de	Tanodia	1 0/00/1/2009
i. Bo	nds:				
1.1	U.S. treasury securities	***************************************	0.0		0.0
1.2	U.S. government agency obligations (excluding mortgage-backed securities):				
	1.21 Issued by U.S. government agencies		0.0		0.0
	1.22 Issued by U.S. government sponsored agencies	************************	0.0	***************************************	0.0
1.3	Foreign government (including Canada, excluding mortgage-backed securities)	***************************************	0.0	***************************************	0.0
1.4	Securities issued by states, territories and possessions and political subdivisions in the U.S.:				
	1.41 States, territories and possessions general obligations		0.0		0.0
	1.42 Political subdivisions of states, territories & possessions & political subdivisions general obligations	***************************************	0.0		0.
	1.43 Revenue and assessment obligations	***************************************	0.0		0.
	1.44 Industrial development and similar obligations	*****	0.0		0.
1.5	Mortgage-backed securities (includes residential and commercial MBS):				
	1.51 Pass-through securities:				
	1.511 Issued or guaranteed by GNMA	***************************************	0.0	**********************	0.
	1.512 Issued or guaranteed by FNMA and FHLMC	*******************************	0.0	}	0.0
	1.513 All other	***************************************	0.0	harry 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1	.,0.
	1.52 CMOs and REMICs:				
	1.521 Issued or guaranteed by GNMA, FNMA, FHLMC or VA	}}*********	0.0	hab/64/free//byree/byirraeaaaaa	0.0
	1.522 Issued by non-U.S. Government issuers and collateralized by mortgage-backed		***************************************		
	securities issued or guaranteed by agencies shown in Line 1.521	//**/>-****	0.0	edella management accommon	0.0
	1.523 All other		0.0	~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~	0.
2. Oth	er debt and other fixed income securities (excluding short-term):				
2.1	Unaffiliated domestic securities (includes credit tenant loans rated by the SVO)	***************************************	0.0		0.
2.2	Unaffiliated foreign securities	***********************	0.0		0.0
2.3	Affiliated securities	}**	0.0	P****************************	0.0
3. Eq	uity interests:		[
3.1	Investments in mutual funds	***************************************	0.0	***************************************	0.0
3.2	Preferred stocks:				
	3.21 Afficied		0.0	Processor (1980)	
	3.22 Unaffiliated.				0.0
3.3	Publicly traded equity securities (excluding preferred stocks):				
	3.31 Affiliated.		0.0		١ ،
	3.32 Unaffiliated	KIIIIIIIIIIIIIIIIIIIIIIIIIIIIIIIIIIIII	0.0	***************************************	
3,4		100000000000000000000000000000000000000		······································	
•	3.41 Affiliated	1-442-144-144-144-144-144-144-144-144-14	0.0		,
	3.42 Unaffiliated				1
35	Other equity interests includion taggible personal property under lease:	hatterfrom the share small to		***************************************	
0.0	3.51 Affiliated		0.0		0.
	3.52 Unaffiliated	1		***********************	
4. Mo	rigage loans;			***************************************	
+, ⋈∪ 4,1					١,
			1		
4.2	-		ł l		
4.3	• • • • • • • • • • • • • • • • • • • •	i	1		
4.4	Multifamily residential properties	}		,	
4.5		\		***************************************	
4.6			0.0	/-+2/1×2-+>/M2333+4-4/4/1/3+	0.
	al estate investments:				1
5.1		i			
5.2			1 1		
5.3		i			
s. Co	niract loans	***************************************	0.0	200010011111111111111111111111111111111	0.,,
7. Re	ceivables for securities	***************************************	0.0	2/24/14/2442/14/24/4442/14/49/2	0
3. Ca	sh, cash equivalents and short-term investments	9,736,359	97.0	9,736,359	97
9. Ott	per invested assets.	304,798	3.0	304,798	3
O. Tol	ial invested assets	10.041.157	100.0	10,041,157	100



Due April 1

For the year ended December 31, 2006 Of HomeWise Preferred Insurance Company Address (City, State, Zip Code): Tampa FL 33647

NAIC Group Code....4111

NAIC Company Code.....12582

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

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

Ter	largest exposures to a single issuer/borrower/investment.				
101	1	2	3	4	
				Percentage of Total	
	issuer	Description of Exposure	Amount	Admitted Assets	
2.0	1		\$	0.000 %	
2.0					
2.0	3		\$		
2.0			\$	0.000 %	
2.0			S	0,000 %	
2.0					
2.0					
2.0					
2.0					
2.1					

Am	ounts and percentages of the reporting entity's total admitted	assets held in bonds and preferred stocks by		2	
	Bonds		1	2	
3.0					
3.0					
3.0					
3.0					
3.0			•		
3.0			-		
	Preferred Stocks		3	4	
3.0					
3.0				0.000 %	
3.1					
3.1					
3.1					
As	sets held in foreign investments:				
4.0		the reporting entity's total admitted assets?			Yes[] No[X]
4.0	2 Total admitted assets held in foreign investments			\$	0.000
4.0	3 Foreign-currency-denominated investments			\$	0.000
4.0	4 Insurance liabilities denominated in that same foreign cur	тепсу		\$	0.000
lfn	esponse to 4.01 above is yes, responses are not required for	interrogatories 5-10.			
Ag	gregate foreign investment exposure categorized by NAIC so	wereign rating:			
	ggg	<u> </u>	1	2	
5.0	1 Countries reled NAIC-1		5	0.000 %	,
5.0					
5,0			_		
				,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,	
Tw	ro largest foreign investment exposures to a single country, or	ategorized by the country's NAIC sovereign rai	ting: 1	2	
	Countries rated NAIC-1:		1	2	
21	11 Country:		\$	0.000 %	
	2 Country:				
0.1					•
	Countries rated NAIC-2:				

Acrosal Statement for the year 2006 of the HomeWise Preferred Insurance Company

		Countries rated NAIC-3 or below:			
	6.05	Country:	\$	0.000 %	
	6.06	Country;	\$	0.000 %	
				_	
			1	2	
7.	Aggre	gate unhedged foreign currency exposure:	\$	0.000 %	
8.	Agam	egate unhedged foreign currency exposure categorized by NAIC sovereign rating:			
0.		Countries rated NAIC-1	t	. 000 n	
		Countries rated NAIC-2			
	8.03	Countries rated NAIC-3 or below.			
9.	Two k	argest unhedged foreign currency exposures to a single country, categorized by the country's NAIC soverei	ign rating:		
			1	2	
		Countries rated NAIC-1:			
	9.01	Country:	\$		
		Country:			
	9.02				
		Countries rated NAIC-2:		2 222 21	
		Country:			
	9.04	Country: ,	. \$	0.000 %	
		Countries rated NAIC-3 or below:			
		Country:			
	9.06	Country:	. \$	0.000 %	
40	T 1				
10.	i en ia	argest non-sovereign (i.e. non-governmental) foreign issues:			
		1 2		4	
		Issuer NAIC Rating	3	4	
	10.04	«прицентавления на принценти на п	. \$15-20-11111	0.000 %	
	10.05		. \$	0.000 %	
	10.06	140000000000000000000000000000000000000	. \$	0.000 %	
	10.07		\$	0.000 %	
	10.08	1 and a second control of the second control	. 5	0.000 %	
	10.09		\$	0.000 %	
	10.10	1/27/AU/3/5/27/20-(//5/3/1/Au/3/E/SMANATHANATHANATHANATHANATHANATHANATHANAT	. \$	0.000 %	
11,		ints and percentages of the reporting entity's total admitted assets held in Canadian investments and unhe	dged Canadian		
		ucy exposure:			
	11.01	Are assets held in Canadian investments less than 2.5% of the reporting entity's total admitted assets?			Yes[] No[X]
		If response to 11.01 is yes, detail is not required for the remainder of Interrogatory 11.			
	11.02	? Total admitted assets held in Canadian Investments		\$	0.000
	11.03	Canadian currency-denominated investments		\$	
	11.04	Canadian-denominated insurance liabilities		\$	0.000
	11.05	6 Unhedged Canadian currency exposure		\$	0.000
	_		The section of the se	P	
12.		rt aggregate amounts and percentages of the reporting entity's total admitted assets held in investments w		ions.	
	12.01	Are assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's to	otal		Vant 1 HafVI
		admitted assets?			Yes[] No[X]
		If response to 12.01 is yes, responses are not required for the remainder of Interrogatory 12.			
		1	2	3	
	12.02	2 Aggregate statement value of investments with contractual sales restrictions:	\$	0.000 %	
		Largest 3 investments with contractual sales restrictions:			
	12.03	В поможно	\$	0,000 %	
	12.04	Decuments (1995)	\$	0.000 %	
	12.05		\$	0.000 %	
	,	and the second s			
13.		unts and percentages of admitted assets held in the largest 10 equity interests:			
	13.01	Are assets held in equity interest less than 2.5% of the reporting entity's total admitted assets?			Yes[] No[X]
		If response to 13.01 above is yes, responses are not required for the remainder of Interrogatory 13.	_	-	
		1	2	3	
		Name of issuer		A AA2 *1	
		,			
	13.04		\$		

Acrosal Statement for the year 2008 of the HomeWise Preferred Insurance Company

	13.96	\$	0.000 %	
	13.07	\$	0.000 %	
	13.08	\$		
	13.09	\$	0.000 %	
	13.10			
	13.11	\$	0.000 %	
	Amounts and percentages of the reporting entity's total admitted assets held in nonaffiliated, privately	,		
	14.01 Are assets held in nonaffiliated, privately placed equities less than 2.5% of the reporting entity!			Yes[] No[X]
	if response to 14.01 above is yes, responses are not required for the remainder of Interrogator	y 14.		
	1	2	3	
	14.02 Aggregate statement value of investments held in nonaffiliated, privately placed equities:	\$,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,	0.000 %	
	Largest 3 investments held in nonaffiliated, privately placed equities:			
	14.03	\$		
	14.04	\$	0.000 %	
	14.05	\$	0.000 %	
	Amounts and percentages of the reporting entity's total admitted assets held in general partnership in	elerests:		
	15.01 Are assets held in general partnership interests less than 2.5% of the reporting entity's total ad	mitted assets?		Yes[] No[X]
	If response to 15.01 above is yes, responses are not required for the remainder of Interrogator	ry 15.		
	1	2	3	
	15.02 Aggregate statement value of investments held in general partnership interests:	\$	0.000 %	
	Largest 3 investments in general partnership interests:			
	15.03	\$	0.000 %	
	15.04	•		
	15.05			
	About untillarmorthiditatistatistatistatistatistatistatista	**************************************	, ,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,	
	Amounts and percentages of the reporting entity's total admitted assets held in mortgage loans;			
		lad assats?		Yasi i Noixi
	16.01 Are mortgage loans reported in Schedula B less than 2.5% of the reporting entity's total admitted			Yes[] No[X]
	16.01 Are mortgage loans reported in Schedule B less than 2.5% of the reporting entity's total admitt if response to 16.01 above is yes, responses are not required for the remainder of Interrogator	ry 16 and Interrogatory 17.	3	Yes[] No[X]
	16.01 Are mortgage loans reported in Schedule B less than 2.5% of the reporting entity's total admitt if response to 16.01 above is yes, responses are not required for the remainder of Interrogator		3	Yes[] No[X]
	16.01 Are mortgage loans reported in Schedule B less than 2.5% of the reporting entity's total admitt if response to 16.01 above is yes, responses are not required for the remainder of Interrogator 1 Type (Residential, Commercial, Agricultural)	ry 16 and Interrogatory 17.		Yes[] No[X]
٠	16.01 Are mortgage toans reported in Schedula B less than 2.5% of the reporting entity's total admitt if response to 16.01 above is yes, responses are not required for the remainder of Interrogator 1 Type (Residential, Commercial, Agricultural) 16.02	ry 16 and Interrogatory 17.		Yes[] No[X]
,	16.01 Are mortgage toans reported in Schedula B less than 2.5% of the reporting entity's total admitt If response to 16.01 above is yes, responses are not required for the remainder of Interrogator 1 Type (Residential, Commercial, Agricultural) 16.02 16.03	ry 16 and Interrogatory 17.		Yes[] No[X]
	16.01 Are mortgage toans reported in Schedule B less than 2.5% of the reporting entity's total admitt if response to 16.01 above is yes, responses are not required for the remainder of Interrogator 1 Type (Residential, Commercial, Agricultural) 16.02 16.03	ry 16 and Interrogatory 17.		Yes[] No[X]
	16.01 Are mortgage toans reported in Schedule B less than 2.5% of the reporting entity's total admitt If response to 16.01 above is yes, responses are not required for the remainder of Interrogator 1 Type (Residential, Commercial, Agricultural) 16.02 16.03 16.04	y 16 and Interrogatory 17. 2 S. S. S. S.		Yes[] No[X]
	16.01 Are mortgage toans reported in Schedule B less than 2.5% of the reporting entity's total admitt if response to 16.01 above is yes, responses are not required for the remainder of Interrogator 1 Type (Residential, Commercial, Agricultural) 16.02 16.03 16.04 16.05	\$		Yes[] No[X]
	16.01 Are mortgage loans reported in Schedule B less than 2.5% of the reporting entity's total admitt If response to 16.01 above is yes, responses are not required for the remainder of Interrogator 1 Type (Residential, Commercial, Agricultural) 16.02 16.03 16.04 16.05 16.06	\$		Yes[] No[X]
	16.01 Are mortgage loans reported in Schedule B less than 2.5% of the reporting entity's total admitt if response to 16.01 above is yes, responses are not required for the remainder of Interrogator 1 Type (Residential, Commercial, Agricultural) 16.02 16.03 16.04 16.05	\$		Yes[] No[X]
	16.01 Are mortgage loans reported in Schedule B less than 2.5% of the reporting entity's total admitt if response to 16.01 above is yes, responses are not required for the remainder of Interrogator 1 Type (Residential, Commercial, Agricultural) 16.02 16.03 16.04 16.05 16.06 16.07	\$		Yes[] No[X]
	16.01 Are mortgage loans reported in Schedule B less than 2.5% of the reporting entity's total admitt if response to 16.01 above is yes, responses are not required for the remainder of Interrogator 1 Type (Residential Commercial Acricultural) 16.02 16.03 16.04 16.05 16.06 16.07	\$		Yes[] No[X]
	16.01 Are mortgage loans reported in Schedule B less than 2.5% of the reporting entity's total admitt if response to 16.01 above is yes, responses are not required for the remainder of Interrogator 1 Type (Residential, Commercial, Agricultural) 16.02 16.03 16.04 16.05 16.06 16.07	\$		Yes[] No[X]
	16.01 Are mortgage loans reported in Schedule B less than 2.5% of the reporting entity's total admitt if response to 16.01 above is yes, responses are not required for the remainder of Interrogator 1 Type (Residential Commercial Acricultural) 16.02 16.03 16.04 16.05 16.06 16.07	s S.		Yes[] No[X]
	16.01 Are mortgage loans reported in Schedule B less than 2.5% of the reporting entity's total admitt if response to 16.01 above is yes, responses are not required for the remainder of Interrogator 1 Type (Residential, Commercial, Agricultural) 16.02 16.03 16.04 16.05 16.06 16.07 16.08	s		Yes[] No[X]
	16.01 Are mortgage loans reported in Schedule B less than 2.5% of the reporting entity's total admitt if response to 16.01 above is yes, responses are not required for the remainder of Interrogator 1 Type (Residential, Commercial, Agricultural) 16.02 16.03 16.04 16.05 16.06 16.07 16.08 16.10 Amount and percentage of the reporting entity's total admitted assets held in the following categories	y 16 and Interrogatory 17. 2 \$		Yes[] No[X]
	16.01 Are mortgage loans reported in Schedule B less than 2.5% of the reporting entity's total admitted fresponse to 16.01 above is yes, responses are not required for the remainder of Interrogator 1	y 16 and Interrogatory 17. 2 \$		Yes[] No[X]
	16.01 Are mortgage loans reported in Schedule B less than 2.5% of the reporting entity's total admitted fresponse to 16.01 above is yes, responses are not required for the remainder of Interrogator 1	y 16 and Interrogatory 17. 2 \$		Yes[] No[X]
	16.01 Are mortgage loans reported in Schedule B less than 2.5% of the reporting entity's total admitted fresponse to 16.01 above is yes, responses are not required for the remainder of Interrogator 1	y 16 and Interrogatory 17. 2 \$		Yes[] No[X]
	16.01 Are mortgage loans reported in Schedule B less than 2.5% of the reporting entity's total admitted fresponse to 16.01 above is yes, responses are not required for the remainder of Interrogator 1 Type (Residential, Commercial, Acricultural) 16.02 16.03 16.04 16.05 16.06 16.07 16.08 16.10 Amount and percentage of the reporting entity's total admitted assets held in the following categories 16.12 Construction loans 16.13 Mortgage loans over 90 days past due 16.14 Mortgage loans in the process of forectosure 16.15 Mortgage loans forectosed 16.16 Restructured mortgage loans	y 16 and Interrogatory 17. 2 \$		Yes[] No[X]
	16.01 Are mortgage loans reported in Schedule B less than 2.5% of the reporting entity's total admitted fresponse to 16.01 above is yes, responses are not required for the remainder of Interrogator 1	y 16 and Interrogatory 17. 2 \$		Yes[] No[X]
	16.01 Are mortgage loans reported in Schedule B less than 2.5% of the reporting entity's total admitted fresponse to 16.01 above is yes, responses are not required for the remainder of Interrogator 1 Type (Residential, Commercial, Acricultural) 16.02 16.03 16.04 16.05 16.06 16.07 16.08 16.10 Amount and percentage of the reporting entity's total admitted assets held in the following categories 16.12 Construction loans 16.13 Mortgage loans over 90 days past due 16.14 Mortgage loans in the process of forectosure 16.15 Mortgage loans forectosed 16.16 Restructured mortgage loans Aggregate mortgage loans having the following loan-to-value ratios as determined from the most currents	y 16 and Interrogatory 17. 2 \$		Yes[] No[X]
	16.01 Are mortgage loans reported in Schedule B less than 2.5% of the reporting entity's total admitted fresponse to 16.01 above is yes, responses are not required for the remainder of Interrogator 1 Type (Residential, Commercial, Agricultural) 16.02 16.03 16.04 16.05 16.06 16.07 16.08 16.10 Amount and percentage of the reporting entity's total admitted assets held in the following categories 16.12 Construction loans 16.13 Mortgage loans over 90 days past due 16.14 Mortgage loans in the process of foreclosure 16.15 Mortgage loans foreclosed 16.16 Restructured mortgage loans Aggregate mortgage loans having the following loan-to-value ratios as determined from the most curr statement date:	s s s s s s s s s s s s s s s s s s s		
	16.01 Are mortgage loans reported in Schedule B less than 2.5% of the reporting entity's total admitted fresponse to 16.01 above is yes, responses are not required for the remainder of Interrogator 1 Type (Residential, Commercial, Acricultural) 16.02 16.03 16.04 16.05 16.06 16.07 16.08 16.10 16.11 Amount and percentage of the reporting entity's total admitted assets held in the following categories 16.12 Construction loans 16.13 Mortgage loans over 90 days past due 16.14 Mortgage loans in the process of foreclosure 16.15 Mortgage loans foreclosed 16.16 Restructured mortgage loans Aggregate mortgage loans having the following loan-to-value ratios as determined from the most cure statement date: Loan-to-Value Residential	y 16 and Interrogatory 17. 2 5 5 5 5 5 5 5 5 5 6 7 7 8 8 8 8 8 8 8 8 8 8 8		uitural 6
	16.01 Are mortgage loans reported in Schedule B less than 2.5% of the reporting entity's total admitted if response to 16.01 above is yes, responses are not required for the remainder of Interrogator 1 Type (Residential, Commercial, Agricultural) 16.02	y 16 and Interrogatory 17. 2 5 5 5 5 5 5 5 5 5 5 5 5		<u>uitural</u> 6
	16.01 Are mortgage loans reported in Schedule B less than 2.5% of the reporting entity's total admitted if response to 16.01 above is yes, responses are not required for the remainder of Interrogator 1 Type (Residential, Commercial, Acricultural) 16.02 16.03 16.04 16.05 16.06 16.07 16.08 16.10 Amount and percentage of the reporting entity's total admitted assets held in the following categories 16.12 Construction loans 16.13 Mortgage loans over 90 days past due 16.14 Mortgage loans in the process of forectosure 16.15 Mortgage loans forectosed 16.16 Restructured mortgage loans Aggregate mortgage loans having the following loan-to-value ratios as determined from the most cure statement date: Loan-to-Value Residential 1 2 3 17.01 above 95%\$	\$		6
	16.01 Are mortgage loans reported in Schedule B less than 2.5% of the reporting entity's total admitted if response to 16.01 above is yes, responses are not required for the remainder of Interrogator 1 Type (Residential, Commercial, Acricultural) 16.02 16.03 16.04 16.05 16.06 16.07 16.08 16.10 Amount and percentage of the reporting entity's total admitted assets held in the following categories 16.12 Construction loans 16.13 Mortgage loans over 90 days past due 16.14 Mortgage loans in the process of forectosure 16.15 Mortgage loans forectosed 16.16 Restructured mortgage loans Aggregate mortgage loans having the following loan-to-value ratios as determined from the most cure statement date: Loan-to-Value Residential 1 2 3 17.01 above 95%\$	\$		6

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

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

Yes[] No[X]

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

Annual Statement for the year 2006 of the HomeWise Preferred Insurance Company

	Description			2	3	
	18.02					
	18.03	***************************************	\$.,,	}=====================================	0.000 %	
	18.04	***************************************	\$.		0.000 %	
	18.05	4**************************************	S		0.000 %	
	18.06	***************************************	\$	+4****	0.000 %	
19.	Report aggregate amounts and percentages of the n	eporting entity's total admitted as	sets held in mezzanine real esta	te loans.		
	19.01 Are assets held in investments held in mezzai					Yes[] No[X]
	is response to 19.01 is yes, responses are no	I required for the remainder of In	terrogatory 19.			
		1		2	3	
	19.02 Aggregate statement value of investments he	d in mezzanine real estate loans	5	*** ******************	0.000 %	
	Largest three investments held in mezzanine	real estate loans.				
	19.03	******************************	\$		0.000 %	
	19.04	***************************************	\$.		0.000 %	
	19.05	***************************************	\$	F-1-1	0.000 %	
20.	Amounts and percentages of the reporting entity's to	tal admitted assets subject to the	following types of agreements:			
		ALY	ear-End		At End of Each Quarter	
				1st Qtr	2nd Qtr	3rd Qtr
		1	2	3	4	5
	20.01 Securities lending (do not include assets					
	held as collateral for such transactions)					
	20.02 Repurchase agreements					,
	20.03 Reverse repurchase agreements					
	20.04 Dollar repurchase agreements					
	20.05 Dollar reverse repurchase agreements	\$	0.000 % \$		\$.	\$
21.	Amounts and percentages indicated below for warra	nts not attached to other financia	l instruments, options, caps and	floors:		
		<u>0</u>	wned		<u>Wń</u>	tten
		1	2		3	4
	21.01 Hedging				\$	0.000 9
	21.02 Income generation				\$	0.000 9
	21.03 Other	5	0.000 %		\$	0.000 %
22.	Amounts and percentages of the reporting entity's to	tal admitted assets of potential e	xposure for collars, swaps, and fi	orwards;		
		ALY	ear-End		At End of Each Quarter	
				1st Qtr	2nd Qtr	3rd Qtr
		\$	2	3	4	5
	22.01 Hedging	\$	0.000 % \$		\$	\$
	22.02 Income generation.	\$		*************************	 \$	\$
	22.03 Replications	\$	0.000 % \$		\$	\$
	22.04 Other	\$		***********************	···· \$	\$
23.	Amounts and percentages of the reporting entity's to	tal admitted assets of potential e	xposure for futures contracts:			
		ALY	ear-End		At End of Each Quarter	
				1st Qtr	2nd Qtr	3rd Qtr
		1	2	3	4	5
	23.01 Hedging	\$	0.000 % \$		\$	\$
	23.02 Income generation	\$	0.000 % \$	************	\$	\$
	23.03 Replications	\$			\$,,	\$
	23.04 Other	,,,, \$.,			, \$	\$

Selected General Interrogatories Relating to Reinsurance

December 31, 2006

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

Selected General Interrogatories Relating to Reinsurance (continued)

December 31, 2006

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



Statutory Basis Financial Statements and Other Financial Information

HomeWise Preferred Insurance Company

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

Thomas Howell Ferguson P.A.

Statutory Basis Financial Statements and Other Financial Information

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

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Report of Independent Auditors

The Board of Directors
HomeWise Preferred Insurance Company

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

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

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

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

Thomas Howell

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

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

Thomas Howeld Ferguson B.a.

May 12, 2008

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

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

HomeWise Preferred Insurance Company Statements of Operations - Statutory Basis

	Year Decem 20	For the period May 31, 2006 (inception) through December 31, 2006		
Underwriting income:				
Premiums earned, net of reinsurance ceded	\$ 6,	910,233	\$	92,359
Underwriting expenses:				
Losses and loss adjustment expenses incurred	2,	648,112		26,437
Underwriting, acquisition, and other expenses	6,	384,247		852,590
Total underwriting expenses	9,0	032,359		879,027
Net underwriting loss	(2,	122,126)		(786,668)
Net investment income	(531,314		282,834
Other income		104,537		207
Loss before federal income tax expense		386,275)		(503,627)
Federal income tax expense	4	191,223	· · · · · · · · · · · · · · · · · · ·	3,307
Net loss	\$ (1,8	377,498)	\$	(506,934)

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

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

	Common Stock			-					
	Shares		Par Value		Pnid-in Surplus		Umassigned Funds	_	Total
Bulance as of December 31, 2005	•	S	-	\$		S	-	5	-
Issuance of common stock	100,000		000,001		9,900,000				10,000,000
Change in deferred income taxes	-		-		~		174,541		174,541
Change in nonadmitted assets	-		-		•		(353)		(353)
Net loss				•			(506.934)		(506,934)
Balance as of December 31, 2006	100,000		000,000		9,900,000		(332,746)		9,667,254
Issuance of common stock	900,000		900,000		(900,000)		-		 *
Additional capital contributions	-		*		9,000,000		_		9,000,000
Change in deferred income taxes	-		-		-		974,767		974,767
Change in nonadmitted assets	-		-		_		(647,519)		(647,519)
Net loss	-			_	*	_	(1,877,498)		(1,877,498)
Balance as of December 31, 2007	1.000,000	s	1,000.000	s_	18,000,000	s	(1,882,996)	s_	17,117.004

See accompanying notes.

HomeWise Preferred Insurance Company Statements of Cash Flows - Statutory Basis

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

Notes to Statutory Basis Financial Statements

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

1. Summary of Significant Accounting Policies

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

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

Basis of Presentation

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

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

Notes to Statutory Basis Financial Statements

1. Summary of Significant Accounting Policies (continued)

Basis of Presentation (continued)

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

Notes to Statutory Basis Financial Statements

1. Summary of Significant Accounting Policies (continued)

Basis of Presentation (continued)

Other significant accounting practices are as follows:

Recognition of Premium Revenues

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

Cash and Cash Equivalents

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

Concentration of Credit Risk

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

Electronic Data Processing (EDP) Equipment

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

Reinsurance

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

Notes to Statutory Basis Financial Statements

1. Summary of Significant Accounting Policies (continued)

Loss and Loss Adjustment Expense (LAE) Reserves

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

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

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

Guaranty Fund and Residual Market Pool Assessments

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

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

Notes to Statutory Basis Financial Statements

1. Summary of Significant Accounting Policies (continued)

Guaranty Fund and Residual Market Pool Assessments (continued)

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

Income Taxes

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

Use of Estimates

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

2. Regulatory Requirements

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

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

Notes to Statutory Basis Financial Statements

3. Investments

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

	Periods ended December 3			
Cash and cash equivalents	<u>2007</u>	2006		
Investment expenses	\$ 744,429 (113,115)	\$ 285,354		
Net investment income	\$ <u>631,314</u>	(2,520) \$ <u>282,834</u>		

4. Premiums Receivable

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

Premiums receivable consist of the following:

	December 31,			
Premiums receivable, gross	<u>2007</u>	2006		
Nonadmitted premiums receivable	\$ 11,465,735 \$			
	•	(353)		
Premiums receivable, net	\$ <u>11,465,735</u> \$	1.445.571		

Notes to Statutory Basis Financial Statements

5. Loss and Loss Adjustment Expense (LAE) Reserves

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

	December 31, 				
_		(in the	usand	r)	
Loss and LAE reserves at beginning of year Losses and LAE incurred related to:	\$	26	\$	-	
Current year		2,664			26
Prior years		(16)		_	20
		2,648			26
Losses and LAE paid related to:					
Current year		720		_	
Prior years		1		-	
		<u>721</u>			
Loss and LAE reserves at end of year	\$	<u> 1,953</u>	\$		<u> 26</u>

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

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

6. Reinsurance

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

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

Notes to Statutory Basis Financial Statements

6. Reinsurance (continued)

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

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

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

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

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

Notes to Statutory Basis Financial Statements

6. Reinsurance (continued)

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

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

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

	20	007	20	006
Direct premiums Assumed premiums Ceded premiums Net premiums	Written \$ 53,509,123 47,707,142 (78.821,965) \$ 22.394,300	Earned \$ 22,822,434 9,240,850 (25,153,051) \$ 6,910,233	Written \$ 1,458,799	Earned \$ 93,365 - (1.006) \$ 92,359

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

Direct unearned premiums Assumed unearned premiums Ceded unearned premiums Unearned premiums, net	2007 2006 \$ 32,052,123 \$ 1,365,434 38,466,292 - (53.668,918) (5) \$ 16,849,497 \$ 1,365,429
Assumed commission equity Ceded commission equity Commission equity, net	\$ 6,154,607 \$ - (14,114,282) - \$ (7,959,675) \$ -

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

7. Policy Assumption Agreement

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

Notes to Statutory Basis Financial Statements

8. Income Taxes

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

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

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

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

B. Unrecognized DTLs

There are no unrecognized DTLs.

C. Current tax and change in deferred tax:

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

	December 31,			
		2007		2006
Current year income tax expense	8	490,566	\$	3,307
Prior year over accrual		<u>657</u>	A	-
Current income taxes incurred	\$_	491,223	\$	3,307

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

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

Notes to Statutory Basis Financial Statements

8. Income Taxes (continued)

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

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

DTAs Resulting from Book/Tax Differences Unpaid losses and LAE Unearned premiums Organizational costs Nonadmitted assets	Decen 2007 \$ 46,555 1,145,766 70,987 16,471	nber 31, 2006 \$ 630 92,849 81,062	Change \$ 45,925 1,052,917 (10,075) 16.471
Gross DTAs	\$ <u>1,279,779</u>	\$ <u>174.541</u>	\$ <u>1.105.238</u>
Nonadmitted DTAs	\$ <u>599,427</u>	\$	\$ <u>599.427</u>
DTLs Resulting from Book/Tax Differences Furniture and equipment Prepaid expenses Profit sharing expense Gross DTLs	Decem 2007 \$ (353) (11,818) (118,300) \$_(130,471)	s - - - - - - -	Change \$ (353) (11,818) (118,300) \$ (130,471)

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

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

Provision computed at		2007	Effective Tax Rate	2006	Effective <u>Tax Rate</u>
statutory rate Change in nonadmitted assets Prior period adjustment Total	\$ \$_	(471,334) (16,471) 4.261 (483,544)	(34.00)% (1.18) 	\$ (171,234) - - \$ <u>(171,234)</u>	(34.00)% - - - (34.00)%
Federal income tax Change in deferred taxes Statutory income taxes	\$ \$_	491,223 (974,767) (483,544)	35.44 % (70.32) (34.88)%	\$ 3,307 (174,541) \$ (171,234)	0.60 % (34.60) (34.00)%

Notes to Statutory Basis Financial Statements

8. Income Taxes (continued)

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

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

F. Consolidated federal income tax return:

The Company files a consolidated tax return with the following:

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

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

9. Capital and Surplus

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

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

Notes to Statutory Basis Financial Statements

9. Capital and Surplus (continued)

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

10. Related Party Transactions

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

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

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

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

Notes to Statutory Basis Financial Statements

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

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

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

12. Lease Commitments

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

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

2008	\$	64,951
2009		66,447
2010		67,943
2011		69,439
2012		41.015
	\$	309,795

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

Notes to Statutory Basis Financial Statements

13. Reconciliation of Annual Statement to Audited Financial Statements

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

39,072,028 17,117,004	Increase (Decrease) \$ 1,719,049 1,719,049
	Statement

14. Subsequent Events

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

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

Other Financial Information

SUMMARY INVESTMENT SCHEDULE

	Investm	Gross Investment Holdings		Admitted Assets as Reported in the Annual Statement		
Investment Categories	1 Amount	2 Percentage	3 Amount	4 Percent		
1. Boads;						
1.1 U.S. beatury securities.						
1.2 U.S. government agency obligations (excluding mortgage-backed securities);			*************			
1.21 Issued by U.S. government agencies		0.0	**			
1.22 Issued by U.S. gevernment sponsored agencies.	**************************************	0,0	ALCO I MISC OF CONTRACT OF THE	***		
1.3 Foreign government (including Conada, excluding mortgage-backed securities) 1.4 Securities issued by states, territories and possessons and political subdivisions in the U.S.:		0,0	*********************	•••		
1.42 States, territories and possossions general obligations	***************************************	0.0	### ##################################			
1.42 Political subdivisions of states, territories & possessions & political subdivisions general obligations	>> = = = = = = = = = = = = = = = = = =	0.0	les			
1.43 Revenue and assessment obligations			E7 ************************************			
1.44 Industrial development and similar obligations.		,	rednangered to librations			
2007 Seature Separate Separation Seature Seatu						
1.51 Pass-through securities:						
1.511 Issued or guaranteed by GNA/A.	**		9437			
1.512 Issued or guaranteed by FNMA and FHLLIC	***************************************	0.0	organical contractions and productions pro-			
1.413 AF OBJECT	***************************************			0		
1.52 CMOs and REMICs:	1					
1,521 Issued or guaranized by GNMA, FNMA, FHLMC or VA.	393 (00. r lond \$40. r u.		********************************			
1,522 Issued by non-U.S. Government issuers and collateralized by mortgage-backed		1 1				
securities issued or guaranteed by agencies shown in Line 1.521		0.0		0.		
1,523 All other		. 0.0	******************************	0.		
c. Other debt and other fixed income securilles (excluding short-larm):				1		
2.1 Unalitiated domestic securities (includes credit tenant loans rated by the SVO).	- M/			J		
C.Z. Dublished Joledy rechife?						
C.1 ASERIED SECURES.	Bett pert Liberale scar reason, 1 (v. v. co.		**************************************	0		
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3.22 Vinthbaled	by ride a name of a but a babbable of security and			n.r		
3.3 Publicity traded equity securities (excluding preferred stocks):		1.50	**************************************			
3.51 Afficialed		no l				
3.32 Unofficialed		on	***************************************	0.0		
3.4 Other equity securities;	,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,	-				
3.41 Afficied		B N				
3.42 Unafficied	***************************************	6 B	· · · · · · · · · · · · · · · · · · ·			
3.5 Other equity interests including tangible personal property under lease:	P(5+6+1		NELL LIPERPROPERTY (CERTIFICATION	0,0		
3.51 Affisied		.				
3.52 Unafficied		W	***************************************	0,0		
Mortgage bans:	**************************************]		O.Q		
4.1 Censtruction and land development.						
4.2 Agricultural	***************************************					
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4.6 Mezzanins real estate loans Real estate Investments	** ** José le de mara a a anaport y + 20-19 = 49		***************************************			
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5.2 Property held for production of income (including \$	and the same of th		1043117000000000000000000000000000000000	0.0		
5.3 Property held for sale (including \$ D property acquired in satisfaction of debt)	***************************************		-041040004-100-many-1-1-1-2	0,0		
CONTECT DANS.		00				
Receivables to: securities	A NADARE C BOOK CAMARA S MAIN COMPANY					
Cosh, cash equivalents and short-lette investments	43.033.032		43,033,032			
Other invested assets		0.0	į.			
Total invested assets.		100.0		0.0		

See report of independent auditors.

SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES

Due April 1

For the year ended December 31, 2007 Of HomeWise Preferred Insurance Company Address (City, State, Zip Code): Tampa FL 33647

NAIC Group Code....4111

NAIC Company Code.....12582

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

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

2. Te	en largest exposures to a single issuer/borrower/investmen	•			556,1
	4	2	3	4	
	_			Percentage of Total	ı
	<u>[55109]</u>	Description of Exposure	<u>Amount</u>	Arteritud Leente	
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Asse	els heid in foreign investments:				
4.01	Are assets held in fereign investments less than 2.5% of	the reporting entity's total admitted assets?			Muniform as a s
4.02	Total admitted assets held in foreign investments	,		5	Yes (X) No []
	Foreign-currency-denominated investments				
4.04	insurance liabilities denominated to that same foreign ou	trenev		5	
ii ras	ponse to 4.01 above is yes, responses are not required for	interrogatories 5-10,			0,I
Aggn	egate foreign investment exposure categorized by NAIC ac	vereign rabno:			
			1	2	
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5.02	Lounnes read MAIC-2	*** *** ***** **** *** *** *** *** ***	5.	0.000 €/	
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Twel	argest foreign investment exposures to a single country, co	alegesized by the country's NAIC severeign resid	ig:		
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6.D7	Country.	hair an anna a dhe an dan na ann an ann an ann an ann an an an	5.,		
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t ne	Countries rated NAIC-3 or below:				
J.U.)	Country:	off at any one and the property of the state	\$	0.000 %	
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			1	2	
lggre:	gate unhedged foreign contency exposure:		,		

Supplemental the year 2007 of the HomeWise Preferred Insurance Company

Đ.	неел	egate unhedged foreign currency exposure categorized by NAIC sovereign rating:			
	5.01	Countries rated NAIC-1	š	a nna	6 į
	8.02	Countries rated NAIC-2	5	6 000	# ?
	8.03	Countries rated NAIC-3 or below.	S	# AAA	ne se
				2000.5	n
ð"	LAUD 1	largest unhadged foreign currency exposures to a single country, categorized by the country's NAIC sov	ereign rabng:		
		Consider on 14110 A	1	2	
		Countries rated NAIC-1:			
	9,01	Country	» 3	000	%
	9.92	Country	<u> </u>		er F
		Countries ruled NAIC-2:			
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		Countries rated NAIC-3 or below:			
	9.05	Country	5	0.000	**
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10,	(EII IZ	ugast non-sovereign (i.e. non-governmental) toreign issues:			
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	10.09		5 .	0.000 6	
	10.10	The Late Control of State Control of Sta	S	n non s	
	11.02 7	ll response to 11.01 is yes, dotal is not required for the remainder of interrogatory 11. Fotal admitted assets held in Canadian Investments Canadian currency-denominated investments			
		Canadian-denominated insurance Babildies		\$	
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12.	Report	aggregate amounts and percontages of the reporting onlighs total admitted assets held in investments v	viih contractual esta c esste	hvinne	
	1201 A	are assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's	intal	endita.	
	a	idmitted assets?	10015		Manifest tour 1
	11	response to 12.01 is yes, responses are not required for the remainder of Interregatory 12.			Yes X No]
		1	2	2	
	12.02 A	aggregate statement value of investments with contractual sales restrictions:	=	3	
		argest 3 investments with contractual sales restrictions:	********************************	0.090 %	
	12.03		*		
	12.04		£	0,000 %	
	12.05	The second state of the se			
		## TO THE PROPERTY OF THE PROP			
13.	Amounts	s and percentages of admitted assets held in the largest 10 equity interests:			
	13.01 A	re assets held in equity interest less than 2.5% of the reporting entity's total admitted assets?			Vorlyt Mari
	計	response to 13.01 above is yes, responses are not required for the remainder of Interrogatory 13.			Yes [X] No[]
		1	ž	3	
		Name of issuer	_		
	13,02	Committee with the Committee wit	\$	à ann tr	
	13.03		5	% UUU.U	
	13.04	The state of the s		× 0.000	
		and the day and the state of th			
	13.05	and (4)) in 100 hyddydgogog y gan	5 Sommeron (1) (1) (1) (1) (1) (1) (1) (1) (1) (1)		
	13.05		. 5	ሰ ብዕባ ዓለ	
	13.05 13.06		. \$,4m4p1;pero,vv.ps,4,vvg4nnq;pnnq,pp;	¥ 060,0	
	13.05 13.06 13.07		5 5.0000 (10000 10000 100 100 100 100 100 1	# 000.00 %	
	13.05 13.06 13.07 13.08		\$	0.030 % 0.000 %	
	13.05 13.06 13.07 13.08 13.09		\$	0.000 %	
	13.05 13.06 13.07 13.08 13.09		. \$		

 Amounts and percentages of the reporting entiry's lotal admitted assets held in nonafficied, prive 	nely placed equities:		
14.01 Are assets held in nonatificated, privately placed equitios less than 2.5% of the reporting en	lity's lotal admitted assets?	Yes[X] No[]	
if response to 14,01 above is yes, responses are not required for the remainder of Interrog.	alory 14,		
,	2	3	
14.02 Aggregate statement value of investments held in nonalidiated, privately placed equibes:	5-148-44W->>21-14-14-12-1-1-1-1-1-1-1-1-1-1-1-1-1-1-	₩ 000,0	
Larges: 3 investments held in nanaffiliated, privately placed equities:			
14.05 The Comment of		0.000 %	
14.04			
14.05	of decimand manager . Superficients being an appropriate to the control of the co	0.000 %	
Amounts and percentages of the reporting entity's total admitted assets held in general partnership			
15.01 Are assets held in general partnership interests less than 2.5% of the reporting entity's total	n interests:		
If response to 16,81 above is yes, responses are not required for the remainder of Intercept	admided assets?	Yes [X] No []	
to to the manters yes, responses the six required for the remainder of Interroga			
15.02 Aggregate statement value of investments held in general partnership interests:	2	3	
	S-verses with the section of the sec		
Largest 3 investments in general partnership interests:			
15.03	**************************************		
15.0¢	\$ 11.7% Market M		
15.05			
 Amounts and percentages of the reporting entity's total admitted assets held in mortgage loans: 			
16.01 Are mortgage loans reported in Schedule B less than 2.5% of the reporting entity's total adm	articul assess.		
If response to 16.01 above is yes, responses are not required for the remainder of interrogat	REGULATERS (Yes [X] No []	
A 100 GONTON TO THE PARTY OF TH			
Type (Residential Communical Assignation)	2	3	
16.02			
16 03	PROPERTY NAME		
16.03 16.04	**************************************		
16.05		0.000 %	
16,05	Service description of the service o	0,000 %	
16.03	Orthodological analysis - \$20000 (Orthodological Special Companies - Clarge		
16,07	Marine Marine State Control of the C	0,660 %	
16.03	entroportumentum Sanatura and proprieta member de la servicio de la companya de l		
16.02	Same Same		
16.11	**************************************		
Amount and percentage of the reporting entity's total admitted assets held in the lollowing categories	s of mortgage loans:		
	Loans		
16. \$2 Construction toans.	breches man many \$100 secondappess the secondarium	0.000 %	
10.13 Mongage Idans over 90 days past due	5	6 668 e2	
16. 14 Mortigage leans in the process of forestosure		n nna er	
TB, 15 Mortopage Idans foreclosed		n non el	
16.16 Restrictured mortgage loans.	\$		
Aggregate montgage leans having the following loan-to-value ratios as determined from the most cur-			
stelement date:	icin ad himzet az ői bió Militzi		
Loan-to-Value Residential	Commercial	Annuituni	
1 2 3		<u>Asendural</u> 5 6	
17.01 above 05% 5	0.000 % \$	0.000.00	
13.DE 3134 to 3374	6.000 8/ 4		
17.03 81% to 90% 5	n and to the	B-brownaph process (100 %	
17.04 7 17x 10 60 %	ስ ሰላበ የ/ የ		
17.05 bolow 70%	noner +		
Amounts and percentages of the reporting entity's total admitted assets held in each of the five larges	d investments in real estate:		
18.01 Are assets held in roal estate reported less than 2.5% of the reporting entity's total admitted as	sets?	Variot to re	
If response to 18.01 above is yes, responses are not required for the remainder of interrogator	v 18.	Yes [X] No[]	
Largest five investments to any one parcel or group of configuous parcels of real estate.	•		
Description	ž	2	
18.02	*	J noros	
15.03	**************************************		
16.04			
18.05	**************************************		
18.06		0.0B0 %	
18.05			
Report aggregate amounts and percentages of the reporting untily's total admitted assets held in inver-	Siments in mazzanna maj arteta lanco		
19.01 Are assets held in investments held in mazzanine real estate loans less than 2.5% of the report	en e		
is response to 19,01 is yes, responses are not required for the remainder of Interrogatory 19.	may watty 5 duringer 3555257	Yes [X] No []	
1 And the American and the test	_		
19.02 Aggregate statement value of investments held in mezzenthe real estate loans	2	3	
Largest three invasiments held in mezzanne real estate loans.	Transcender dep by the comme measurement consequence	0.000 %	
TO DO			
19.03			
19.05	S	0.000 % 0.000 %	

Supplement for the year 2007 of the HomeWise Preferred Insurance Company

20.	Amounts and percentages of the reporting entity's total a	di di taejdua eleaza beltimb	e following types of agreements:			
			car-End		At End of Each Quader	
				Ist Ctr	2nd Otr	3rd Otr
	45.54.4	1	2	3	4	5
	20.01 Securies lending (do not include assets					-
	hold as collateral for such transactions)	\$			\$ 5	
	ZUJUZ INDPURZIKASE ZQIEEMSRIS	S.,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,	0.000 % 4			
	voing suckeibe tehnimiszt biliceweut:	» 5	0.000 % \$		ε .	
	EN.OF DOES RESUCISES SQUEENERS	5	a Managa			
	20,05 Dollar reverse repurchase agreements	. 5			\$	** Market Community of the State Community of
21.	Amounts and percentages indicated below for warrants re					
			ened	arouss.	Write	n
		1	2		3	4
	21.01 Hedging	. \$			5	
	21.02 Income generation	- S	0.000 %		5	
	21.03 Other	. S			And the state of t	
22.	Amounts and percentages of the repeding entity's total ad-	imitted assets of potential coposure for collars, swaps, and forwards: At Year-End		rwards:	At End of Each Quanter	
				isi Cir	2nd Oir	3rd Otr
		1	2	3	4	
	22.01 Hedging	S.,,	0,000 % 5		\$ 5	•
	CTOC LEGISLE DESCRIBATION OF THE PROPERTY OF T	5.				
	EC. NO SECULATION OF THE PROPERTY OF THE PROPE	5	8 AAA 44 4			
	22.94 Other	5	0,000 % 5	***	5	
23.	Amounts and percentages of the reporting entity's total admi				4	>+4-6-6-8-7-8-8-8-4-4-4-4-4-4-4-4-4-4-4-4-4-4-4
	The state of the s					
		At Year-End			At End of Each Quarter	
		_		isi Cir	žná Olir	3rd Otr
	23.01 Herlains	,	2	3	4	5
	23.01 Hedging	-	0,000 % S	dear the professional a remique	S 5 5	
	23.62 Income generation	\$	0,000 % \$	**************************************	\$ \$ <u>\$</u>	
	ENGLES CONTRACTOR OF THE PROPERTY OF THE PROPE	S	A BOA &: E			
	25.04 Other	\$	0.000 % 5	****************	S	

Selected General Interrogatories Relating to Reinsurance

December 31, 2007

7	Has the reporting entity reinsured any risk with any other entity under a quota share reinsurance contract that includes a provision that would limit the reinsurer's losses below the stated quota share percentage (e.g., a deductible, a loss ratio corridor, a loss cap, an aggregate limit or any similar provisions)?	…Yes ☑	No□
7.2			
7.3	If yes, does the amount of reinsurance credit taken reflect the reduction in quota share coverage caused by any applicable limiting provision(s)?	Yes ☑	No□
9.1			
9.2	Has the reporting entity during the period covered by the statement ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates), excluding cessions to approved pooling agreements or to captive insurance companies that are directly or indirectly controlling, controlled by, or under common control with (i) one or more unaffiliated policyholders of the reporting entity, or (ii) an association of which one or more unaffiliated policyholders of the reporting entity is a member, where: (a) The written premium ceded to the reinsurer by the reporting entity or its affiliates represents fifty percent (50%) or more of the entire direct and assumed premium written by the reinsurer based on its most recently available financial statement; or (b) Twenty-five percent (25%) or more of the written premium ceded to the reinsurer has been retroceded back to the reporting entity or its affiliates.		10 ☑

Selected General Interrogatories Relating to Reinsurance (continued)

December 31, 2007

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

Statutory Basis Financial Statements and Other Financial Information

HomeWise Preferred Insurance Company

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

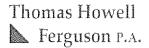
Thomas Howell Ferguson P.A.

Statutory Basis Financial Statements and Other Financial Information

Years ended December 31, 2008 and 2007

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Reinsurance	27



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Phone: (850) 648-8100 Fax: (850) 668-8199 email: thf@thf-cpa.com

Report of Independent Auditors

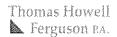
The Board of Directors
HomeWise Preferred Insurance Company

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

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

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

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



Page Two

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

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

Thomas Howell Feynm &. a.

May 11, 2009

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

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

Statements of Operations - Statutory Basis

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

HomeWise Preferred Insurance Company

Statements of Changes in Capital and Surplus - Statutory Basis

Years ended December 31, 2008 and 2007

•	Commo	Common Stock	1	Paid-in	Unassigned		
	Shares	Par Value	ı	Surplus	Funds	1	Total
Balance as of December 31, 2006	100,000	\$ 100,000	69	0,900,000	\$ (332,746) \$	\$ (9	9,667,254
Issuance of common stock	900,000	000'006		(000,000)	ı		ŧ
Additional capital contributions	1	ŧ		9,000,000	1		9,000,000
Change in deferred income taxes	ŧ	ı		i	974,767	7	974,767
Change in nonadmitted assets	1	i		í	(647,519)	6	(647,519)
Net loss	1	1	ł	1	(1.877.498)	J	(1,877,498)
Balance as of December 31, 2007	1,000,000	1,000,000		18,000,000	(1,882,996)	6	17,117,004
Issuance of common stock	500,000	500,000		7,500,000	•		8,000,000
Change in deferred income taxes	ı	·		1	651,035	w	651,035
Change in nonadmitted assets	•	ı		i	178,717	7	178,717
Net loss	1	1	ı	1	(3,021,861)	ı	(3,021,861)
Balance as of December 31, 2008	1,500,000	s 1.500,000	∞	s 25,500,000	\$ (4,075,105) \$ 22,924,895	୍ଥା ଜା	22,924,895

See accompanying notes.

Statements of Cash Flows - Statutory Basis

	Years ended December 31	
	2008	2007
Operating activities		
Premiums collected, net of reinsurance	\$ 23,315,225 \$	26,607,866
Net investment income received	441,319	627,242
Losses and loss adjustment expenses paid	(20,545,803)	(2,331,962)
Underwriting, acquisition, and other expenses paid	(14,097,428)	(5,110,961)
Other income received	752,815	-
Federal income taxes paid		(40,377)
Net cash (used in) provided by operating activities	(10,133,872)	19,751,808
Financing and miscellaneous activities		
Proceeds from issuance of common stock	8,000,000	16.
Proceeds from additional capital contributions	-	9,000,000
Other miscellaneous (uses) sources	(3,295,385)	4,240,067
Net cash provided by financing and miscellaneous activities	4,704,615	13,240,067
Net (decrease) increase in cash	(5,429,257)	32,991,875
Cash at beginning of year	43,033,032	10,041,157
Cash at end of year	\$ 37,603,775 \$	43,033,032

Notes to Statutory Basis Financial Statements

Years ended December 31, 2008 and 2007

1. Summary of Significant Accounting Policies

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

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

Basis of Presentation

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

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

Notes to Statutory Basis Financial Statements

1. Summary of Significant Accounting Policies (continued)

Basis of Presentation (continued)

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

Other significant accounting practices are as follows:

Notes to Statutory Basis Financial Statements

1. Summary of Significant Accounting Policies (continued)

Recognition of Premium Revenues

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

Cash and Cash Equivalents

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

Concentration of Credit Risk

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

Electronic Data Processing (EDP) Equipment

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

Reinsurance

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

Notes to Statutory Basis Financial Statements

1. Summary of Significant Accounting Policies (continued)

Loss and Loss Adjustment Expense (LAE) Reserves

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

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

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

Guaranty Fund and Residual Market Pool Assessments

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

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

Notes to Statutory Basis Financial Statements

1. Summary of Significant Accounting Policies (continued)

Guaranty Fund and Residual Market Pool Assessments (continued)

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

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

Income Taxes

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

Use of Estimates

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

2. Regulatory Requirements

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

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

Notes to Statutory Basis Financial Statements

3. Investments

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

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

4. Premiums Receivable

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

5. Loss and Loss Adjustment Expense (LAE) Reserves

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

		Decem	ıber 31,	
		2008	2(007
		(in tho	usands)	·
Loss and LAE reserves at beginning of year	\$	1,953	\$	26
Losses and LAE incurred related to:				
Current year		23,951		2,664
Prior years	£	636		(16)
		24,587		2,648
Losses and LAE paid related to:				
Current year		6,838		720
Prior years		<u>(165</u>)		1
		6,673		721
Loss and LAE reserves at end of year	\$ <u></u>	<u> 19,867</u>	\$	1,953

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

Notes to Statutory Basis Financial Statements

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

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

6. Reinsurance

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

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

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

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

Notes to Statutory Basis Financial Statements

6. Reinsurance (continued)

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

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

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

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

Notes to Statutory Basis Financial Statements

6. Reinsurance (continued)

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

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

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

	20	008	20	2007		
	<u>Written</u>	<u>Earned</u>	<u>Written</u>	Earned		
Direct premiums	\$ 193,293,182	\$ 127,674,203	\$ 53,509,123	\$ 22,822,434		
Assumed premiums	17,402,442	54,434,161	47,707,142	9,240,850		
Ceded premiums	(173,073,918)	(146,217,112)	<u>(78,821,965</u>)	<u>(25,153,051</u>)		
Net premiums	\$ <u>37,621,706</u>	\$ <u>35,891,252</u>	\$ <u>22,394,300</u>	\$ <u>6,910,233</u>		

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

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

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

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

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

Notes to Statutory Basis Financial Statements

7. Policy Assumption Agreement

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

8. Income Taxes

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

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

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

		Decem	be	r 31,
	_	2008		2007
Gross DTAs	\$	1,870,389	\$	1,279,779
Gross DTLs	_	(70,046)	_	(130,471)
Net DTAs		1,800,343		1,149,308
Nonadmitted DTAs	_	(275,051)	_	(599,427)
Net admitted DTAs	\$	1,525,292	\$_	549,881
	-		_	
(Decrease) increase in nonadmitted DTAs	\$	(324,376)	\$	599.427

B. Unrecognized DTLs

There are no unrecognized DTLs.

C. Current tax and change in deferred tax:

The provision for income taxes incurred is:

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

Notes to Statutory Basis Financial Statements

8. Income Taxes (continued)

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

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

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

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

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

Notes to Statutory Basis Financial Statements

8. Income Taxes (continued)

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

	2008	Effective Tax Rate	2007	Effective Tax Rate
Provision computed at				
statutory rate	\$ (1,215,008)	34.00 %	\$ (471,334)	(34.00)%
Nondeductible item	9,917	(0.28)	-	-
Change in nonadmitted assets	(49,524)	1.39	(16,471)	(1.18)
Prior period tax adjustment	51,885	(1.45)	4,261	0.30
Total	\$ <u>(1,202,730</u>)	33.66 %	\$(483,544)	(34.88)%
Federal income tax	\$ (551,695)	15.44 %	\$ 491,223	35.44 %
Change in deferred taxes	<u>(651,035</u>)	18.22	(974.767)	(70.32)
Statutory income taxes	\$ <u>(1,202,730</u>)	33.66 %	\$ (483,544)	(34.88)%

E. Operating loss and tax credit carryforwards:

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

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

F. Consolidated federal income tax return:

The Company files a consolidated tax return with the following:

HomeWise Holdings, Inc.

HomeWise Insurance Company

HomeWise Management Company, Inc.

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

Notes to Statutory Basis Financial Statements

9. Capital and Surplus

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

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

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

10. Related Party Transactions

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

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

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

Notes to Statutory Basis Financial Statements

10. Related Party Transactions (continued)

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

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

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

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

12. Lease Commitments

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

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

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

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

Notes to Statutory Basis Financial Statements

12. Lease Commitments (continued)

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

13. Reconciliation of Annual Statement to Audited Financial Statements

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

D 1 21 2000	_	Audited Financial Statement Amount	Annual Statement Amount		 Increase Decrease)
December 31, 2008: Total admitted assets Total liabilities Total capital and surplus Net loss	\$	82,910,671 59,985,776 22,924,895 3,021,861	\$	82,349,283 59,424,388 22,924,895 3,021,862	\$ 561,388 561,388 - (1)
December 31, 2007: Total admitted assets Total liabilities Total capital and surplus Net loss	\$	57,908,081 40,791,077 17,117,004 1,877,498	\$	56,189,032 39,072,028 17,117,004 1,877,495	\$ 1,719,049 1,719,049 -



Annual Statement for the year 2008 of the HomeWise Preferred Insurance Company SUMMARY INVESTMENT SCHEDULE

		SUMMARY INVESTMENT SCHE	Gros Investment		Admitted Assets		
	Investment Catenaries			2	in the Annual Statement 3 4		
		Investment Categories	Amount	Percentage	Amount	Percentage	
1.	Bono	ds [.]					
	1.1	U.S. treasury securities.		0.0			
	1.2	U.S. government agency obligations (excluding mortgage-backed securities):					
		† 21 Issued by U.S. government agencies		00		. 00	
		1 22 Issued by U.S. government sponsored agencies					
	1.3	Foreign government (including Canada, excluding mortgage-backed securities)					
	1.4	Securities issued by states, territories and possessions and political subdivisions in the U.S.					
		1.41 States, territories and possessions general obligations		0.0		0.0	
		1 42 Political subdivisions of states, territories & possessions & political subdivisions general obligations					
		143 Revenue and assessment obligations.					
		1.44 Industrial development and similar obligations.		i	l		
	1.5	Mortgage-backed securities (includes residential and commercial MBS):	************				
	1.0						
		1.51 Pass-through securities:					
		1511 Issued or guaranteed by GNMA.					
		1.512 Issued or guaranteed by FNMA and FHLMC.			***************	00	
		1513 All other		0.0			
		1.52 CMOs and REMICs.					
		1.521 Issued or guaranteed by GNMA, FNMA, FHLMC or VA		0.0		0.0	
		1.522 Issued by non-U.S. Government issuers and collateralized by mortgage-backed					
		securities issued or guaranteed by agencies shown in Line 1.521			tari artian en en el se se een		
^	O#-	1.523 All other.		0.0			
2.		er debt and other fixed income securities (excluding short-term)					
	2.1	Unaffliated domestic securities (includes credit tenant loans rated by the SVO)					
	2.2	Unaffiliated foreign securities			*******************		
	2.3	Affiliated securities		0.0			
3.	Equit	ty interests:					
	3 1	Investments in mutual funds		0.0		00	
	3.2	Preferred stocks:					
		3.21 Affiliated		00		00	
		3.22 Unaffiliated					
	3.3	Publicly traded equity securities (excluding preferred stocks)					
		3 31 Affiliated		0.0			
		3.32 Unaffiliated			caree and and a second	0.0	
	3.4	Other equity securities:					
		3.41 Affiliated		0.0		0.0	
		3 42 Unaffiliated	*** * **** * * * * * * * * * * * * * * *	0.0		0.0	
	3.5	Other equity interests including tangible personal property under lease:					
		3.51 Affiliated		00			
		3.52 Unaffillated		0.0		0.0	
4.	Mort	gage loans:					
	4.1	Construction and land development				00	
	42	Agncultural.		0.0			
	4.3	Single family residential properties		0.0		0.0	
	4.4	Multifamily residential properties		00		0.0	
	4.5	Commercial loans.					
	4.6					0.0	
5.		estate investments:					
٠	5.1	Property occupied by company.		0.0		00	
	5.2	Property held for production of income (including \$ 0 of property acquired in satisfaction of debt)		ļ			
	53	Property held for sale (including \$		i			
6.		tract loans				į	
7.		aractioans.				00	
		avables for securities. h, cash equivalents and short-term investments.			37,603,773	1	
8				0.0			
9.			Δ	 	27 002 772		
10	rota	l invested assets	0		37,603,773	100.0	



SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES

For the year ended December 31, 2008

(To be filed by April 1)

Of HomeWise Preferred Insurance Company Address (City, State, Zip Code): Tampa FL 33647

NAIC Group Code.....4111

NAIC Company Code.....12582

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

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

Rep	porting entity's total admitted assets as reported on Page 2 of t	his annual statement.			\$82,349,28
Ten	a largest exposures to a single issuer/borrower/investment.				
	1	2	3	4	
				Percentage of Total	
	Issuer	Description of Exposure	<u>Amount</u>	Admitted Assets	
2.01					
2.02					
2 03	3		. S		
2 04	4		\$		
2.05	5		\$		
2.06	6		\$		
2.07	I		\$	0.000 %	
2 08	8		\$		
2.09	9		\$		
2.10	0		\$		
Am	ounts and percentages of the reporting entity's total admitted a	issets held in bonds and preferred stocks by N	AIC rating.		
	Bonds	, ,	1	2	
3.01	1 NAIC-1	· · · · · · · · · · · · · · · · · · ·	\$	0.000 %	
3.02	2 NAIC-2	,,	\$	0.000 %	
3 03	3 NAIC-3	w. v. sav	\$		
3.04	4 NAIC-4		. \$		
3.05	5 NAIC-5		. \$	0 000 %	
3.08	6 NAIC-6		\$	0 000 %	
	Preferred Stocks		3	4	
3 07			\$	0.000 %	
3 08			\$		
3.09					
3.10					
3.11					
3.12					
Δεο	ets held in foreign investments:				
	 Are assets held in foreign investments less than 2.5% of the 	a rangeting artists's total admitted assats?			Yes[X] No[]
	esponse to 4.01 above is yes, responses are not required for in				icatvi not i
		ienogalones orso.		\$	0.00
	2 Total admitted assets held in foreign investments			\$	
4.00	* ,				
4.04	4 Insurance liabilities denominated in that same foreign curre	ncy		\$	
Agg	gregate foreign investment exposure categorized by NAIC sove	ereign rating:			
			*	2	
5 0					
5.02					
	3 Countries rated NAIC-3 or below		\$		1
Lar	gest foreign investment exposures by country, categorized by	the country's NAIC sovereign rating:	1	2	
	Countries rated NAIC-1:		•	-	
6.0	1 Country 1: , , ,		\$	0.000 %	>
6 03	2 Country 2:	and the second s	\$,
	Countries rated NAIC-2:				
6.03	3 Country 1		. \$		
	4 Country 2:				
	Countries rated NAIC-3 or below:				
6 N	5 Country 1:		\$,

Supplement for the year 2008 of the HomeWise Preferred Insurance Company

		1	2	
7.	Aggregate unhedged foreign currency exposure.	\$	0.000 %	
8.	Aggregate unhedged foreign currency exposure categorized by NAIC sovereign rating:	1	2	
	8.01 Countries rated NAIC-1			
	8.02 Countries rated NAIC-2			
	8.03 Countries rated NAIC-3 or below	S		
9.	Largest unhedged foreign currency exposures by country, categorized by the country's NAIC	sovereion ratino:		
٠.	Largest bialouges to organisations, expensions, sategorized by the sound, and	1	2	
	Countries rated NAIC-1:	•	-	
	9.01 Country 1:	\$	በ ብሰብ %	
	9 02 Country 2:			
	Countries rated NAIC-2:		, , , , , , , , , , , , , , , , , , , ,	
	9 03 Country 1:	. \$	0.000 %	
	9.04 Country 2:			
	Countries rated NAIC-3 or below:		70	
	9.05 Country 1:		0 000 %	
	9 06 Country 2:			
	5 00 Ovoltay & American Commission Commissio			
10.	Ten largest non-sovereign (i.e. non-governmental) foreign issues:			
	1 2			
	<u>Issuer</u> NAIC Rating	3	4	
	10.01			
	10.02	\$	0.000 %	
	10.03	\$	0.000 %	
	10 04	 \$		
	10.05	\$		
	10 06		0.000 %	
	10.07	\$		
	10 08	\$		
	10.09		0.000 %	
	10.10			
	Amounts and percentages of the reporting entity's total admitted assets held in Canadian inv	estments and unkeddad Canadian		
11.	CUITERCY EXPOSURE.	estinents and difficuges censular		
	11.01 Are assets held in Canadian investments less than 2.5% of the reporting entity's total is	admitted assets?		Yes[X] No[]
	If response to 11 01 is yes, detail is not required for the remainder of Interrogatory 11			140[11] 110[1]
	11 02 Total admitted assets held in Canadian Investments		\$	0.000
	11.03 Canadian currency-denominated investments		\$	
	11 04 Canadian-denominated insurance liabilities		\$	
	11.05 Unhedged Canadian currency exposure		S	
	17.00 Officeges canadian wifeling exposure		W	
12.	Report aggregate amounts and percentages of the reporting entity's total admitted assets he	ld in investments with contractual sales restric	tions	
	12.01 Are assets held in investments with contractual sales restrictions less than 2.5% of the	reporting entity's total		
	admitted assets?			Yes[X] No[]
	If response to 12.01 is yes, responses are not required for the remainder of Interrogation	ory 12.		
	1	2	3	
	12.02 Aggregate statement value of investments with contractual sales restrictions:	\$		
	Largest three investments with contractual sales restrictions:	_		
	12 03			
	12.04			
	12.05	5	%	
13.	Amounts and percentages of admitted assets held in the ten largest equity interests:			
	13.01 Are assets held in equity interest less than 2.5% of the reporting entity's total admitted	t assets?		Yes[X] No[]
	If response to 13.01 above is yes, responses are not required for the remainder of Inti-			
	1	2	3	
	Name of Issuer			
	13 02	<u></u>	0 000 %	
	13.03		0.000 %	
	13.04	\$		
	13.05	\$		
	13.06	,, \$, ,, ,		
	13.07	\$		
	13.08		0000 %	
	13.09	\$ \$		
		e	a aca e	
	13.10			

Supplement for the year 2008 of the HomeWise Preferred Insurance Company

14.	Amounts and percentages of the reporting entity's total admitted assets held in nonaffiliated, privately placed ed	quities;			
	14.01 Are assets held in nonaffiliated, privately placed equities less than 2.5% of the reporting entity's total address.	mitted assets?		Yes [X]	No I 1
	If response to 14.01 above is yes, responses are not required for the remainder of interrogatory 14.			- 1	
	1	2	3		
	14 02 Aggregate statement value of investments held in nonaffiliated, privately placed equities:	S			
	Largest three investments held in nonaffiliated, privately placed equities:	9 . 4 · · · · · · · · · · · · · · · · · ·			
	* **				
	14.03				
	14.04				
	14.05	S			
15.	Amounts and percentages of the reporting entity's total admitted assets held in general partnership interests:				
1↓.	· · · · · · · · · · · · · · · · · · ·				
	15:01 Are assets held in general partnership interests less than 2.5% of the reporting entity's total admitted ass	sets?		Yes [X]	No[]
	If response to 15.01 above is yes, responses are not required for the remainder of Interrogatory 15				
	1	2	3		
	15 02 Aggregate statement value of investments held in general partnership interests:	\$			
	Largest three investments in general partnership interests:				
	15.03	S	0.000 %		
	15.04	S	0.000 %		
	15 05				
	10 10 10 10 10 10 10 10 10 10 10 10 10 1	•			
16.	Amounts and percentages of the reporting entity's total admitted assets held in mortgage loans				
	16.01 Are mortgage foans reported in Schedule 8 less than 2.5% of the reporting entity's total admitted assets'	?		Yes [X]	No I 1
	If response to 16.01 above is yes, responses are not required for the remainder of Interrogatory 16 and I			.00(1/1)	
	1	2	3		
	Type (Residential, Commercial, Agricultural)	٤	3		
		•	2.000.00		
	16.03				
	16 04				
	15.05	\$			
	16.06	\$	0.000 %		
	16.07	\$	0.000 %		
	16.08	\$			
	16.09		· ·		
	16.10				
	16 11				
	1 Programme and the control of the c	J			
	Amount and percentage of the reporting entity's total admitted assets held in the following categories of mortgage	ge loans:			
		Lo	ans		
	16.12 Construction loans.	\$	0 000 %		
	16.13 Mortgage loans over 90 days past due	S	0 000 %		
	16.14 Mortgage loans in the process of foreclosure	\$,			
	16.15 Mortgage loans foreclosed	S	0.000 %		
	16.16 Restructured mortgage loans				
	The transfer that gaga to the transfer to the	•			
17.	Aggregate mortgage loans having the following loan-to-value ratios as determined from the most current appraisa	sal as of the annual			
	statement date:				
	Loan-to-Value Residential Comm	nercial	Agnet	itural	
	1 2 3	4	5		6
	17.01 above 95%		\$		0.000
	17.02 91% to 95% \$		S		. 0.000
	17.03 81% to 90%				0.000
	17 04 71% to 80%				
	17 05 below 70% \$		8.,		0 000
18	Amounts and percentages of the reporting entity's total admitted assets held in each of the five largest investme	ents in real estate			
-	18.01 Are assets held in real estate reported less than 2.5% of the reporting entity's total admitted assets?	- To at Total Socials.		V== FV 5	NI- E 3
				Yes [X]	Mal 1
	If response to 18.01 above is yes, responses are not required for the remainder of Interrogatory 18				
	Largest five investments in any one parcel or group of contiguous parcels of real estate.				
	Description	2	3		
	18 02	\$	0.000 %		
	18.03	\$			
	18.04	S	0.000 %		
	18 05				
	18 06				
		we are a second residue to the second second			
9.	Report aggregate amounts and percentages of the reporting entity's total admitted assets held in investments h	ield in mezzanine real esti	ate loans		
	19 01 Are assets held in investments held in mezzanine real estate loans less than 2.5% of the reporting entity			Yes [X]	No f 1
	If response to 19 01 is yes, responses are not required for the remainder of Interrogatory 19			- (***)	
	it response to 19 or is yes, responses are not required for the remainder of interrogatory 19	2	2		
			3		
		J	0 000 %		
	19 02 Aggregate statement value of investments held in mezzanine real estate foans:				
	Largest three investments held in mezzanine real estate loans.				
	Largest three investments held in mezzanine real estate loans.	\$			

Supplement for the year 2008 of the HomeWise Preferred Insurance Company

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

At End of Each Quarter At Year-End 1st Qtr 2nd Qtr 3rd Qtr 3 4 5 20 01 Securities lending agreements (do not include assets 21. Amounts and percentages of the reporting entity's total admitted assets for warrants not attached to other financial instruments, options, caps and floors. Written 21.01 Hedging..... \$...... 0.000 % \$..... 0.000 % \$.....0.000 % 22 Amounts and percentages of the reporting entity's total admitted assets of potential exposure for collars, swaps, and forwards:

	At Yes	r-End		At End of Each Quarte	1
			1st Qtr	2nd Qtr	3rd Qtr
	1	2	3	4	5
22.01 Hedging	. \$. ,	\$	\$. \$,,
22.02 Income generation	\$		\$. \$. \$
22 03 Replications	\$		\$	\$	\$
22.04 Other	S		\$. \$. \$

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

	At Year-End			At End of Each Quarte		
			1st Qtr	2nd Qtr	3rd Qtr	
	1	2	3	4	5	
23.01 Hedging	\$	0 000 %	\$	\$	\$	
23.02 Income generation	\$		\$	\$	\$	
23 03 Replications	\$.,		i \$. \$	\$	
23 04 Other	\$,,,,		\$ \$	\$. \$.,,,,,,,	

Selected General Interrogatories Relating to Reinsurance

December 31, 2008

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

Selected General Interrogatories Relating to Reinsurance

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

Statutory Basis Financial Statements and Other Financial Information

HomeWise Preferred Insurance Company

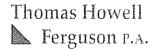
Years ended December 31, 2009 and 2008 with Report of Independent Auditors

Thomas Howell Ferguson P.A.

Statutory Basis Financial Statements and Other Financial Information

Years ended December 31, 2009 and 2008

Contents



Certified Public Accountants
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Report of Independent Auditors

The Board of Directors
HomeWise Preferred Insurance Company

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

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

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

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

Thomas Howell

Ferguson r.A.

Page Two

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

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

Thomas Hawell Fagure B. a.

March 24, 2010

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

	December 31,			
		2009		2008
Admitted assets				
Cash and invested assets:				
Short-term investments	\$	26,512,091	\$	-
Cash and cash equivalents		28,499,823		37,603.775
Total cash and invested assets		55,011,914	_	37,603,775
Accrued investment income		4,693		15.258
Premiums receivable, net		21,152,661		24,656,109
Reinsurance balances recoverable		3,057,603		15,482,737
Federal income taxes recoverable		2,724,399		79,007
Net deferred tax asset		-		1,525,292
Electronic data processing equipment, net		2,489		14,018
Receivables from parent and affiliates		6,594,042		3,098,297
Other assets		2,186,985		436,178
Total admitted assets	\$_	90,734,786	\$_	82,910,671
Liabilities and capital and surplus				
Liabilities:				
Loss and loss adjustment expense reserves	\$	36,314,180	\$	19,867,003
Unearned premiums, net		8,826,461		18,579,953
Reinsurance premiums payable		26,964,766		12,555,880
Provision for reinsurance		170,000		=
Other accrued expenses		1,036,548		1,575,077
Taxes, licenses, and fees payable		134,330		2,874,325
Payable to affiliates				3,972,151
Payable to Citizens Property Insurance Corporation		340		561,387
Total liabilities		73,446,285		59,985,776
Capital and surplus		17,288,501		22,924.895
Total liabilities and capital and surplus	\$_	90,734,786	\$_	82.910,671

Statements of Operations - Statutory Basis

		Years ended 2009	De	cember 31, 2008
Underwriting income:				
Premiums earned, net of reinsurance ceded	\$	22,810,636	\$	35,891,252
Underwriting expenses:				
Loss and loss adjustment expenses incurred		26,395,360		24,587,482
Underwriting, acquisition, and other expenses	_	<u>5,935,709</u>	_	16.050.110
Total underwriting expenses	-	32,331,069	-	40.637.592
Net underwriting loss		(9,520,433)		(4,746,340)
Net investment income		153,172		444,464
Other income	_	750,913		728.320
Loss before federal income tax benefit		(8,616,348)		(3,573,556)
Federal income tax benefit	-	(2,749,549)	_	(551.695)
Net loss	S _	(5,866,799)	\$_	(3,021,861)

HomeWise Preferred Insurance Company

Statements of Changes in Capital and Surplus - Statutory Basis

Years ended December 31, 2009 and 2008

i	Сотт	Common Stock	- Pai	Paid-in	Unassigned	
	Shares	Par Value	Sur	Surplus	Funds	Total
Balance as of December 31, 2007	1.000,000	\$ 1,000,000	\$ 18,	\$ 18,000,000	\$ (1,882,996) \$	\$ 17,117.004
Issuance of common stock	500,000	500,000	7,5	7,500,000	,	8,000,000
Change in deferred income taxes	ı	•		1	651,035	651,035
Change in nonadmitted assets	•	ı		ŧ	178,717	178,717
Net loss	-	L		£	(3,021,861)	(3,021,861)
Balance as of December 31, 2008	1.500,000	1,500,000	25,5	25,500,000	(4,075,105)	22,924,895
Capital contributions	ı	1	2,(2,000,000	1	2,000,000
Change in deferred income taxes	•	1		t	251,583	251,583
Change in nonadmitted assets	ı				(1,851,178)	(1,851,178)
Change in provision for reinsurance	ı	,		,	(170,000)	(170,000)
Net loss	3	1			(5.866,799)	(5,866,799)
Balance as of December 31, 2009	1,500,000	\$ 1,500,000	\$ 27.5	\$ 27,500,000	\$ (11,711,499) \$ 17,288,501	\$ 17,288,501

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Statements of Cash Flows - Statutory Basis

	Years ended 2009	December 31, 2008
Operating activities		
Premiums collected, net of reinsurance	\$ 30,394,636	\$ 23.315,225
Net investment income received	163,737	441,319
Other income received	777,234	752,815
Losses and loss adjustment expenses recovered (paid)	2,476,951	(20,545,803)
Underwriting, acquisition, and other expenses	2,470,551	(20,545,605)
paid	(9,007,847)	(14,097,428)
Federal income taxes recovered	104,157	-
Net cash provided by (used in) operating activities	24,908,868	(10,133,872)
Financing activities		
Proceeds from issuance of common stock	NV	8,000,000
Proceeds from capital contributions	2,000,000	-
Other miscellaneous uses	<u>(9,500,729</u>)	<u>(3,295,385</u>)
Net cash (used in) provided by financing activities	<u>(7,500,729)</u>	4.704.615
Net increase (decrease) in cash and cash equivalents	17,408,139	(5,429,257)
Cash at beginning of year	37,603,775	43.033.032
Cash at end of year	\$ <u>55,011,914</u>	\$ <u>37,603,775</u>
Cash consists of the following:		
Cash and cash equivalents	\$ 28,499,823	\$ 37,603,775
Short-term investments	<u>26,512,091</u>	_
	\$ <u>55,011,914</u>	\$ <u>37,603,775</u>

Notes to Statutory Basis Financial Statements

Years ended December 31, 2009 and 2008

1. Summary of Significant Accounting Policies

Organization and Description of Company

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

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

Basis of Presentation

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

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

Notes to Statutory Basis Financial Statements

1. Summary of Significant Accounting Policies (continued)

Basis of Presentation (continued)

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

Notes to Statutory Basis Financial Statements

1. Summary of Significant Accounting Policies (continued)

Basis of Presentation (continued)

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

Other significant accounting practices are as follows:

Recognition of Premium Revenues

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

Cash and Cash Equivalents

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

Concentration of Credit Risk

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

Notes to Statutory Basis Financial Statements

1. Summary of Significant Accounting Policies (continued)

Electronic Data Processing (EDP) Equipment

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

Reinsurance

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

Loss and Loss Adjustment Expense (LAE) Reserves

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

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

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

Notes to Statutory Basis Financial Statements

1. Summary of Significant Accounting Policies (continued)

Guaranty Fund and Residual Market Pool Assessments

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

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

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

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

Income Taxes

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

Subsequent Events

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

Notes to Statutory Basis Financial Statements

1. Summary of Significant Accounting Policies (continued)

Use of Estimates

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

2. Regulatory Requirements and Restrictions

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

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

3. Investments

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

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

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

Notes to Statutory Basis Financial Statements

4. Premiums Receivable

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

Premiums receivable consists of the following:

	December 31,			
	2009	2008		
Premiums receivable, gross	\$ 21,166,116	\$ 24,656,109		
Nonadmitted premiums receivable	<u>13,455</u>			
Premiums receivable, net	\$ <u>21,152,661</u>	\$ <u>24.656.109</u>		

5. Loss and Loss Adjustment Expense (LAE) Reserves

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

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

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

Notes to Statutory Basis Financial Statements

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

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

6. Reinsurance

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

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

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

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

Notes to Statutory Basis Financial Statements

6. Reinsurance (continued)

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

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

The catastrophe excess of loss coverage is provided by agreements with commercial reinsurers and by the FHCF. Coverage under the FHCF is limited to qualifying storms occurring in the state of Florida. For the year ended December 31, 2009, the commercial excess of loss treaties generally provide coverage on ultimate net losses of approximately \$129,500,000 in excess of \$6,870,000, not to exceed approximately \$244,800,000 for all occurrences. The FHCF provided coverage for 90% of the losses from qualifying catastrophic events in excess of approximately \$101,300,000 up to a maximum of approximately \$498,300,000, plus 100% of qualifying losses in excess of approximately \$6,900,000 (drop down layer) up to a maximum of approximately \$16,900,000. The drop down layer provides for one automatic reinstatement at 100% of its original limit. For the year ended December 31, 2008, the commercial excess of loss agreements generally provide coverage for 25% of ultimate net losses of approximately \$140.052,000 in excess of \$30,000,000 per occurrence, not to exceed 25% of approximately \$280,105,000 for all occurrences. The FHCF provided coverage for 90% of losses from qualifying catastrophic events in excess of approximately \$91,023,000 up to a maximum of approximately \$542,312,000, plus 100% of qualifying losses in excess of \$5,135,000 (drop down layer) up to a maximum of \$15,135,000. The drop down layer provides for one automatic reinstatement at 100% of its original limit.

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

Notes to Statutory Basis Financial Statements

6. Reinsurance (continued)

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

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

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

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

	2009				20	08		
	_	Written	_	Earned	_	Written		<u>Earned</u>
Direct premiums	\$	160,368,923	\$	178,187,470	\$	193,293,182	\$	127,674,203
Assumed premiums		(358,142)		1,076,433		17,402,442		54,434,161
Ceded premiums	_	(146,953,637)	_	(156,453,267)	_	(173.073,918)	_	(146,217,112)
Net premiums	\$_	<u>13,057,144</u>	\$_	22,810,636	\$_	37,621,706	\$_	<u>35.891.252</u>

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

	2009	2008
Direct unearned premiums	\$ 79,852,556	\$ 97,671,103
Assumed unearned premiums	-	1,434,575
Ceded unearned premiums	<u>(71,026,095</u>)	<u>(80.525.725</u>)
Unearned premiums, net	\$ <u>8,826,461</u>	\$ <u>18.579.953</u>
Assumed commission equity	\$ -	\$ 129,112
Ceded commission equity	<u>(19,901,089</u>)	(22,708,531)
Commission equity, net	\$ <u>(19,901,089</u>)	\$ <u>(22,579,419</u>)

Notes to Statutory Basis Financial Statements

6. Reinsurance (continued)

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

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

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

7. Policy Assumption Agreement

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

8. Income Taxes

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

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

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

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

Notes to Statutory Basis Financial Statements

8. Income Taxes (continued)

		2008	
	Ordinary	Capital	Total
Total gross DTAs	\$ 1,870,389	\$ -	\$ 1,870,389
Total gross DTLs	70,046	* -	70,046
Net DTA			1,800,343
Nonadmitted DTAs			(275.051)
Net admitted DTAs			\$ <u>1.525,292</u>
Decrease in nonadmitted DTAs			\$ <u>(324,376</u>)

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

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

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

Notes to Statutory Basis Financial Statements

8. Income Taxes (continued)

			2008		
<u>O</u>	<u>rdinary</u>	(Capital		Total
			-		
\$	-	\$	-	\$	**
1	,525,292		-		1,525,292
	-		-		_
	70,046		-		70,046
				2	2,924,895
					9,316,123
	\$	1,525,292	\$ - \$ 1,525,292 -	Ordinary Capital \$ - - 1,525,292 - - -	Ordinary Capital \$ - \$ 1,525,292 - - - 70,046 -

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

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

B. Unrecognized DTLs:

Not applicable.

C. Current tax and change in deferred tax:

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

	Years ended December 31,				
	2009	2008			
Current year income tax expense	\$ (2,724,398) \$	(615,214)			
Prior year (over) under accrual	(25,151)	63.519			
Current income taxes incurred	\$ <u>(2,749,549</u>) \$	<u>(551.695</u>)			

Notes to Statutory Basis Financial Statements

8. Income Taxes (continued)

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

	December 31,		
	2009	2008	
Deferred Tax Assets:			
Discount on unpaid losses and LAE	\$ 878,652	\$ 475,593	
20% of unearned premiums	600,199	1,263,437	
Nonadmitted assets	91,258	65,995	
Organizational costs	64,193	65,364	
Charitable contribution	170	-	
Other	444,132		
Total DTAs	2,078,604	1,870,389	
Nonadmitted DTAs	(2,051,925)	<u>(275,051</u>)	
Admitted DTAs	26,679	1.595.338	
Deferred Tax Liabilities:			
Depreciation of fixed assets	4,954	9,296	
Other	21,725	60,750	
Total DTLs	<u>26,679</u>	70.046	
Net admitted DTAs	\$ <u> </u>	\$ <u>1,525.292</u>	

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

	December 31,					
	_	2009		2008	_	Change
Total gross DTAs	\$	2,078,604	\$	1,870,388	\$	208,216
Total gross DTLs	_	26,679	_	70.046	_	(43,367)
Net DTA	\$	2,051,925	\$_	1.800.342		251,583
Deferred tax on change in net		_	_			
unrealized capital gains					_	
Change in net deferred income tax					\$_	251.583

Notes to Statutory Basis Financial Statements

8. Income Taxes (continued)

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

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

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

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

<u>Year</u>	 Amount_
2009	\$ -
2008	_

- 3. The Company did not have any protective tax deposits under Section 6603 of the Internal Revenue Code.
- F. Consolidated federal income tax return:

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

HomeWise Holdings, Inc.

HomeWise Insurance Company

HomeWise Management Company

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

Notes to Statutory Basis Financial Statements

9. Capital and Surplus

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

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

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

10. Related Party Transactions

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

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

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

Notes to Statutory Basis Financial Statements

10. Related Party Transactions (continued)

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

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

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

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

12. Leases

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

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

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

2010	\$ 68,317
2011	69,813
2012	 23,437
	\$ 161,567

Notes to Statutory Basis Financial Statements

12. Leases (continued)

Total rent expense for leases was \$340.103 and \$265,683 for the years ended December 31, 2009 and 2008, respectively. The current year rent expense includes \$274,845 in reimbursements made to HIC for the Company's share of the rent expense for the Tampa, Florida office space operating lease.

13. Reconciliation of Annual Statement to Audited Financial Statements

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

	Audited Financial Statement <u>Amount</u>	Annual Statement Amount	Increase (Decrease)
December 31, 2009			
Total admitted assets	\$ 90,734,786	\$ 90,734,786	\$ -
Total liabilities	73,446,285	73,446,285	-
Total capital and surplus	17,288,501	17,288,501	-
Net loss	5,866,799	5,867,172	(373)
	Audited Financial	Annual	
		Annual Statement	Increase
	Financial		Increase (Decrease)
December 31, 2008	Financial Statement	Statement	
December 31, 2008 Total admitted assets	Financial Statement	Statement	
	Financial Statement <u>Amount</u>	Statement Amount	(Decrease)
Total admitted assets	Financial Statement Amount \$ 82,910,671	Statement Amount \$ 82,349,283	(Decrease) \$ 561.388

Notes to Statutory Basis Financial Statements

14. Subsequent Events

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

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

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



Annual Statement for the year 2009 of the HomeWise Preferred Insurance Company SUMMARY INVESTMENT SCHEDULE

			Gros Investment		Admitted Assets in the Annual	
		Investment Categories	1 Amount	2 Percentage	3 Amount	4 Percentage
		avesament Categories	Allouit	rescentage	Amount	Percentage
1,	Bono	fs:				
	1.1	U.S. treasury secunties.		0.0		0.
	1.2	U.S. government agency obligations (excluding mortgage-backed securities):				
		1.21 Issued by U.S. government agencies	***************************************	0.0		0.
		1.22 Issued by U.S. government sponsored agencies	** ** *** ****	0.0		0.
	1.3	Non-U.S. government (including Canada, excluding mortgage-backed securities)	*** 1.0.10.10.10.10.10.10.10.10.10.10.10.10.	0.0	1	0
	1.4	Securities issued by states, territories and possessions and political subdivisions in the U.S.:				
		1.41 States, territories and possessions general obligations	1000 1 1000 V 10 IV 1 10 10 10 10 10 10 10 10 10 10 10 10 1	0.0		
		1.42 Political subdivisions of states, terntories & possessions & political subdivisions general obligations		0.0		0.
		1.43 Revenue and assessment obligations		0.0		0.
		1 44 Industrial development and similar obligations.		0.0		0.
	1.5	Mortgage-backed securities (includes residential and commercial MBS):				
		1.51 Pass-through securities:				
		1.511 Issued or guaranteed by GNMA		0.0		
		1.512 Issued or guaranteed by FNMA and FHLMC		00		1
		1.513 All other		1	I	
		1.52 CMOs and REMICs:				
		1.521 Issued or guaranteed by GNMA, FNMA, FHLMC or VA.		nn		η.
		1.522 Issued by non-U.S. Government issuers and collateralized by mortgage-backed				
		securities issued or guaranteed by agencies shown in Line 1.521		00	***************************************	0.
		1.523 All other.		0.0		
2.	Othe	r debt and other fixed income securities (excluding short-term):				
	2.1	Unaffiliated domestic securities (includes credit tenant loans and hybrid securities).		0.0		l
	2.2	Unaffiliated non-U.S. securities (including Canada)	l .		1	
	2.3	Affiliated secunities				
3.		y interests:	*** **** ******** ******** ***		** ***** *****************************	
	3.1	Investments in mutual funds		0.0		
	3.2	Preferred stocks				
	J.2	3.21 Affiliated				
				i		
		3.22 Unaffiliated.	***************************************	0.0	and a constant of the second	0.
	3.3	Publicly traded equity securities (excluding preferred stocks):				
		3.31 Affiliated				
		3.32 Unaffiliated	er - 1411-486 (5 11 184 186 1 4 1 1 1 4 8		*******************************	0.
	3.4	Other equity securities:				
		3.41 Affiliated				
		3.42 Unaffiliated				0.
	3.5	Other equity interests including tangible personal property under lease:				
		3.51 Affiliated	····	0.0		
		3.52 Unaffiliated		0.0	***************************************	0
4.	Mortg	page loans:				
	4.1	Construction and land development.		0.0		0.0
	4.2	Agricultural		00	*******	0.
	4.3	Single family residential properties.		0.0		0.0
	4.4	Multifamily residential properties.		0.0		
	4 5	Commercial loans	***************************************	0.0		
	4.6	Mezzanine real estate loans		0.0		0.
5.	Real	estate investments:				
	5.1	Property occupied by company.	***************************************	0.0		n
	5.2	Property held for production of income (including \$0 of property acquired in satisfaction of debt).				
	5.3	Property held for sale (including S		1		
3.		act loans				
,. 7.		vables for securities				
				l i		
3.		, cash equivalents and short-term investments.			55,011,915	
Э,	Other	r invested assets	***************************************	0.0	A 40-1-1-1-1-1-1-1-1-1-1-1-1-1-1-1-1-1-1-1	0.



For the year ended December 31, 2009

(To be filed by April 1)

Of HomeWise Preferred Insurance Company Address (City, State, Zip Code): Tampa FL 33647

NAIC Group Code....4111

NAIC Company Code.....12582

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

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

1	Repo	orting entity's total admitted assets as reported on Page	e 2 of this annual statement.			\$ 90,734,786
2.	Teni	argest exposures to a single issuer/borrower/investme				
		1	2	3	4	
		lseuer	Describe of Fourth	A	Percentage of Total	
	2.01	 -	Description of Exposure	Amount	Admitted Assets	
		Federated Investors				
	2.02		Certificates of Deposit			
	2.03		Treasury Cash Fund Deposit			
	2.04	Wachovia Bank			0.028 %	
	2.05		The major conservation and a second a second and a second a second and			
	2.06					
	2.07		Programme and the second secon			
	2.08					
	2.09					
	2.10	***************************************		\$		
3.	Amou	unts and percentages of the reporting entity's total adm	nitted assets held in bonds and preferred stocks by Na	AIC rating.		
		Bonds		1	2	
	3.01	NAIC-1	en e	S	63.730 %	
	3.02	NAIC-2	ete ete en el el e te em eradan al energanismo cada en la elegación de la companya que especial que en el el especial de la companya del companya de la companya de la companya del companya de la companya del la companya del la companya de la comp	\$	0.000 %	
	3.03	NAIC-3	· · · · · · · · · · · · · · · · · · ·	\$		
	3.04	NAIC-4		S		
	3.05	NAIC-5		S		
	3.06	NAIC-6	* ************************************	\$		
		Preferred Stocks		3	4	
	3.07	P/RP-1	The control of the service of the service conservation in the control of the cont	\$	0.000 %	
	3.08	P/RP-2				
	3.09	P/RP-3	eren er en	\$		
	3.10	P/RP-4				
	3.11	P/RP-5				
	3.12	P/RP-6				
4	Accet	a hald in fareign investments.				
٠.		s held in foreign investments:	for the reporting antities total admitted access?			
		Are assets held in foreign investments less than 2.5% conse to 4.01 above is yes, responses are not required				Yes[X] No[]
	4.02	Total admitted assets held in foreign investments	a for interrogatories 5-10,		٨	
	4.03	· ·				
		Foreign-currency-denominated investments			5	
	4.04	Insurance liabilities denominated in that same foreign	1 currency		5	
).	Aggre	gate foreign investment exposure categorized by NAI	C sovereign rating:			
	E 04	Countries retail MAIC 1		1	2	
	5.01	Countries rated NAIC-1		**** * *** * * * * * * * * * * * * * *		
	5.02	Countries rated NAIC-2				
	5.03	Countries rated NAIC-3 or below	Martine with the element distribution and account to a second	\$	0.000 %	
j.	Large	st foreign investment exposures by country, categorize	ed by the country's NAIC sovereign rating:			
		Countries rated NAIC-1:		*	2	
	6 N1	Country 1:		\$	A 505 °	
		Country 2.				
	U.UZ	Countries rated NAIC-2:	Control of the Contro	J,		
	6.03	Country 1:		c	0.606.01	
	6.04	Country 2:				
	0.07	Countries rated NAIC-3 or below:	The state of the s	W		
	6.05	Country 1:		c.	9 000 %	

6.06 Country 2:

Supplement for the year 2009 of the HomeWise Preferred Insurance Company

			1	2	
7.	Aggregate unhedged foreign currency exposure:		S		6
8.	Aggregate unhedged foreign currency exposure categorized b	y NAIC sovereign rating:	1	2	
	8.01 Countries rated NAIC-1		S		
	8.02 Countries rated NAIC-2	**************************************	\$		
	8.03 Countries rated NAIC-3 or below				
9.	Largest unhedged foreign currency exposures by country, cate	egonzed by the country's NAIC sovereign rat	ing:		
			1	2	
	Countries rated NAIC-1:				
	9.01 Country 1:	and a distance of the control of the	s)
	9 02 Country 2	and the contract of the contract property and the contract property and the contract of the co	\$		3
	Countries rated NAIC-2:				
	9.03 Country 1:		S		3
	9.04 Country 2:		\$		<u>.</u>
	Countries rated NAIC-3 or below:				
	9.05 Country 1:		S		
	9.06 Country 2:				
	and a second sec	***************************************	······································		1
10.	Ten largest non-sovereign (i.e. non-governmental) foreign issu	ies:			
	1	2			
	<u>Issuer</u>	NAIC Rating	3	4	
	10.91		\$,
	10 02		S	0.000 %	
	10.03				
	10.04				
	10.05				
	10.06				
	10.07				
	10.08				
	10.09				
	10.10)
11.	Amounts and percentages of the reporting entity's total admitte	ed assets held in Canadian investments and	unhedged Canadian		
	currency exposure:				
	11 01 Are assets held in Canadian investments less than 2.59	% of the reporting entity's total admitted asse	is?		VoctV1 Not1
	11.01 Are assets held in Canadian investments less than 2.59		ts?		Yes[X] No[]
	If response to 11.01 is yes, detail is not required for the		ds?	c	
	If response to 11.01 is yes, detail is not required for the 11.02. Total admitted assets held in Canadian Investments		ds?		
	If response to 11.01 is yes, detail is not required for the 11.02. Total admitted assets held in Canadian Investments 11.03. Canadian currency-denominated investments.		is?	\$	
	If response to 11.01 is yes, detail is not required for the 11.02. Total admitted assets held in Canadian Investments 11.03. Canadian currency-denominated investments 11.04. Canadian-denominated insurance liabilities.		ts?	\$ \$	
	If response to 11.01 is yes, detail is not required for the 11.02. Total admitted assets held in Canadian Investments 11.03. Canadian currency-denominated investments.		15?	\$ \$	
12.	If response to 11.01 is yes, detail is not required for the 11.02 Total admitted assets held in Canadian Investments 11.03 Canadian currency-denominated investments 11.04 Canadian-denominated insurance liabilities 11.05 Unhedged Canadian currency exposure	remainder of Interrogatory 11.		\$ \$	
12.	If response to 11.01 is yes, detail is not required for the 11.02. Total admitted assets held in Canadian Investments 11.03. Canadian currency-denominated investments 11.04. Canadian-denominated insurance liabilities 11.05. Unhedged Canadian currency exposure. Report aggregate amounts and percentages of the reporting e	remainder of Interrogatory 11.	nts with contractual sale	\$ \$	
12.	If response to 11.01 is yes, detail is not required for the 11.02 Total admitted assets held in Canadian Investments 11.03 Canadian currency-denominated investments 11.04 Canadian-denominated insurance liabilities 11.05 Unhedged Canadian currency exposure	remainder of Interrogatory 11.	nts with contractual sale	\$ \$	
12.	If response to 11.01 is yes, detail is not required for the 11.02. Total admitted assets held in Canadian Investments 11.03. Canadian currency-denominated investments 11.04. Canadian-denominated insurance liabilities 11.05. Unhedged Canadian currency exposure. Report aggregate amounts and percentages of the reporting e 12.01. Are assets held in investments with contractual sales readmitted assets?	remainder of Interrogatory 11. entity's total admitted assets held in investmentations less than 2.5% of the reporting entity.	nts with contractual sale	\$ \$	
12.	If response to 11.01 is yes, detail is not required for the 11.02. Total admitted assets held in Canadian Investments 11.03. Canadian currency-denominated investments 11.04. Canadian-denominated insurance liabilities 11.05. Unhedged Canadian currency exposure. Report aggregate amounts and percentages of the reporting e 12.01. Are assets held in investments with confractual sales re-	remainder of Interrogatory 11. entity's total admitted assets held in investmentations less than 2.5% of the reporting entity.	nts with contractual sale ity's total	SSSss restrictions.	
12.	If response to 11.01 is yes, detail is not required for the 11.02. Total admitted assets held in Canadian Investments 11.03. Canadian currency-denominated investments 11.04. Canadian-denominated insurance liabilities 11.05. Unhedged Canadian currency exposure. Report aggregate amounts and percentages of the reporting e 12.01. Are assets held in investments with confractual sales readmitted assets? If response to 12.01 is yes, responses are not required 1	remainder of Interrogatory 11. Intity's total admitted assets held in investmentations less than 2.5% of the reporting entition of the remainder of Interrogatory 12.	nts with contractual sale	\$\$\$\$	
12.	If response to 11.01 is yes, detail is not required for the 11.02. Total admitted assets held in Canadian Investments 11.03. Canadian currency-denominated investments 11.04. Canadian-denominated insurance liabilities 11.05. Unhedged Canadian currency exposure. Report aggregate amounts and percentages of the reporting e 12.01. Are assets held in investments with contractual sales readmitted assets? If response to 12.01 is yes, responses are not required 1. 1. 12.02. Aggregate statement value of investments with contract.	remainder of Interrogatory 11. Intity's total admitted assets held in investmentations less than 2.5% of the reporting entured for the remainder of Interrogatory 12. Intuitions also restrictions:	nts with contractual sale ity's total	SSSss restrictions.	
12.	If response to 11.01 is yes, detail is not required for the 11.02. Total admitted assets held in Canadian Investments 11.03. Canadian currency-denominated investments 11.04. Canadian-denominated insurance liabilities 11.05. Unhedged Canadian currency exposure. Report aggregate amounts and percentages of the reporting e 12.01. Are assets held in investments with contractual sales readmitted assets? If response to 12.01 is yes, responses are not required 1. 12.02. Aggregate statement value of investments with contractual sales restrict.	remainder of Interrogatory 11. Intity's total admitted assets held in investments intitions less than 2.5% of the reporting entitle for the remainder of Interrogatory 12. Itual sales restrictions:	nts with contractual sale ity's total 2 S	\$	
12.	If response to 11.01 is yes, detail is not required for the 11.02 Total admitted assets held in Canadian Investments 11.03 Canadian currency-denominated investments 11.04 Canadian-denominated insurance liabilities 11.05 Unhedged Canadian currency exposure Report aggregate amounts and percentages of the reporting e 12.01 Are assets held in investments with confractual sales re admitted assets? If response to 12.01 is yes, responses are not required 1 12.02 Aggregate statement value of investments with contract Largest three investments with contractual sales restrict	remainder of Interrogatory 11. Initiy's total admitted assets held in investment in the reporting enterprise of the reporting enterprise of the remainder of Interrogatory 12. Itual sales restrictions:	nts with contractual sale tiys total 2 S	\$	
12.	If response to 11.01 is yes, detail is not required for the 11.02 Total admitted assets held in Canadian Investments 11.03 Canadian currency-denominated investments 11.04 Canadian-denominated insurance liabilities 11.05 Unhedged Canadian currency exposure Report aggregate amounts and percentages of the reporting e 12.01 Are assets held in investments with confractual sales re admitted assets? If response to 12.01 is yes, responses are not required 1 12.02 Aggregate statement value of investments with contract Largest three investments with contractual sales restrict 12.03	remainder of Interrogatory 11. Intity's total admitted assets held in investment in the reporting entity of the reporting entity of the remainder of Interrogatory 12. Itual sales restrictions:	nts with contractual sale ty's total 2 S	\$	
12.	If response to 11.01 is yes, detail is not required for the 11.02 Total admitted assets held in Canadian Investments 11.03 Canadian currency-denominated investments 11.04 Canadian-denominated insurance liabilities 11.05 Unhedged Canadian currency exposure Report aggregate amounts and percentages of the reporting e 12.01 Are assets held in investments with confractual sales re admitted assets? If response to 12.01 is yes, responses are not required 1 12.02 Aggregate statement value of investments with contract Largest three investments with contractual sales restrict	remainder of Interrogatory 11. Intity's total admitted assets held in investment in the reporting entity of the reporting entity of the remainder of Interrogatory 12. Itual sales restrictions:	nts with contractual sale ty's total 2 S	\$	
12.	If response to 11.01 is yes, detail is not required for the 11.02 Total admitted assets held in Canadian Investments 11.03 Canadian currency-denominated investments 11.04 Canadian-denominated insurance liabilities 11.05 Unhedged Canadian currency exposure Report aggregate amounts and percentages of the reporting e 12.01 Are assets held in investments with contractual sales re admitted assets? If response to 12.01 is yes, responses are not required 1. 12.02 Aggregate statement value of investments with contractual sales restrict 12.03.	remainder of Interrogatory 11. entity's total admitted assets held in investme estrictions less than 2.5% of the reporting entitor the remainder of Interrogatory 12. tual sales restrictions:	nts with contractual sale ty's total 2 S	\$	
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	If response to 11.01 is yes, detail is not required for the 11.02. Total admitted assets held in Canadian Investments 11.03. Canadian currency-denominated investments 11.04. Canadian-denominated insurance liabilities 11.05. Unhedged Canadian currency exposure. Report aggregate amounts and percentages of the reporting e 12.01. Are assets held in investments with contractual sales readmitted assets? If response to 12.01 is yes, responses are not required 1. 12.02. Aggregate statement value of investments with contract Largest three investments with contractual sales restrict 12.03. Amounts and percentages of admitted assets held in the ten late 13.01. Are assets held in equity interest less than 2.5% of the If response to 13.01 above is yes, responses are not reconstructions.	remainder of Interrogatory 11. entity's total admitted assets held in investme estrictions less than 2.5% of the reporting entitor the remainder of Interrogatory 12. tual sales restrictions: lions: argest equity interests: reporting entity's total admitted assets?	nts with contractual sale ty's total 2 S	\$	
	If response to 11.01 is yes, detail is not required for the 11.02 Total admitted assets held in Canadian Investments 11.03 Canadian currency-denominated investments 11.04 Canadian-denominated insurance liabilities 11.05 Unhedged Canadian currency exposure Report aggregate amounts and percentages of the reporting e 12.01 Are assets held in investments with confractual sales readmitted assets? If response to 12.01 is yes, responses are not required 1 12.02 Aggregate statement value of investments with contractual sales restrict Largest three investments with contractual sales restrict 12.03	remainder of Interrogatory 11. entity's total admitted assets held in investmer instrictions less than 2.5% of the reporting entity for the remainder of Interrogatory 12. tual sales restrictions: lions: argest equity interests: reporting entity's total admitted assets? quired for the remainder of Interrogatory 13.	nts with contractual sale ty's total 2 S	\$	Yes[X] No[]
	If response to 11.01 is yes, detail is not required for the 11.02 Total admitted assets held in Canadian Investments 11.03 Canadian currency-denominated investments 11.04 Canadian-denominated insurance liabilities 11.05 Unhedged Canadian currency exposure Report aggregate amounts and percentages of the reporting e 12.01 Are assets held in investments with confractual sales re admitted assets? If response to 12.01 is yes, responses are not required 1 12.02 Aggregate statement value of investments with contract Largest three investments with contractual sales restrict 12.03	remainder of Interrogatory 11. entity's total admitted assets held in investmer instrictions less than 2.5% of the reporting entity for the remainder of Interrogatory 12. tual sales restrictions: quired for the remainder of Interrogatory 13.	nts with contractual sale tiys total 2 S	\$	Yes [X] No []
	If response to 11.01 is yes, detail is not required for the 11.02 Total admitted assets held in Canadian Investments 11.03 Canadian currency-denominated investments 11.04 Canadian-denominated insurance liabilities 11.05 Unhedged Canadian currency exposure Report aggregate amounts and percentages of the reporting e 12.01 Are assets held in investments with confractual sales readmitted assets? If response to 12.01 is yes, responses are not required 1 12.02 Aggregate statement value of investments with contract Largest three investments with contractual sales restrict 12.03	remainder of Interrogatory 11. entity's total admitted assets held in investmer interrogatory 12. for the remainder of Interrogatory 12. tual sales restrictions; tual sales restrictions; tual sales restrictions; ture to the remainder of Interrogatory 13.	nts with contractual sale tiys total 2 S	\$	Yes [X] No []
	If response to 11.01 is yes, detail is not required for the 11.02 Total admitted assets held in Canadian Investments 11.03 Canadian currency-denominated investments 11.04 Canadian-denominated insurance liabilities 11.05 Unhedged Canadian currency exposure Report aggregate amounts and percentages of the reporting e 12.01 Are assets held in investments with confractual sales readmitted assets? If response to 12.01 is yes, responses are not required 1 12.02 Aggregate statement value of investments with contractual sales restrict Largest three investments with contractual sales restrict 12.03	remainder of Interrogatory 11. entity's total admitted assets held in investmer interrogatory 12. for the remainder of Interrogatory 12. tual sales restrictions; lions: argest equity interests; reporting entity's total admitted assets? quired for the remainder of Interrogatory 13.	nts with contractual sale ly's total 2 S. S. 2 2 S. 2	\$	Yes [X] No []
	If response to 11.01 is yes, detail is not required for the 11.02 Total admitted assets held in Canadian Investments 11.03 Canadian currency-denominated investments 11.04 Canadian-denominated insurance liabilities 11.05 Unhedged Canadian currency exposure Report aggregate amounts and percentages of the reporting e 12.01 Are assets held in investments with contractual sales re admitted assets? If response to 12.01 is yes, responses are not required 1 12.02 Aggregate statement value of investments with contract Largest three investments with contractual sales restrict 12.03 12.04 12.05 Amounts and percentages of admitted assets held in the ten la 13.01 Are assets held in equity interest less than 2.5% of the If response to 13.01 above is yes, responses are not re 1 Name of Issuer 13.02 13.03 13.04 13.05	remainder of Interrogatory 11. entity's total admitted assets held in investme estrictions less than 2.5% of the reporting entition for the remainder of Interrogatory 12. tual sales restrictions: lions: argest equity interests: reporting entity's total admitted assets? quired for the remainder of Interrogatory 13.	nts with contractual sale itys total 2 S. S. 2 2 S. S. S. S. 2	\$	Yes [X] No []
	If response to 11.01 is yes, detail is not required for the 11.02 Total admitted assets held in Canadian Investments 11.03 Canadian currency-denominated investments 11.04 Canadian-denominated insurance liabilities 11.05 Unhedged Canadian currency exposure Report aggregate amounts and percentages of the reporting e 12.01 Are assets held in investments with contractual sales re admitted assets? If response to 12.01 is yes, responses are not required 1 12.02 Aggregate statement value of investments with contract Largest three investments with contractual sales restrict 12.03 12.04 12.05 Amounts and percentages of admitted assets held in the ten la 13.01 Are assets held in equity interest less than 2.5% of the 1 If response to 13.01 above is yes, responses are not re 1 Name of Issuer 13.02 13.03 13.04 13.05	remainder of Interrogatory 11. entity's total admitted assets held in investme estrictions less than 2.5% of the reporting entition the remainder of Interrogatory 12. tual sales restrictions: lions: argest equity interests: reporting entity's total admitted assets? quired for the remainder of Interrogatory 13.	nts with contractual sale tys total 2 S	\$	Yes [X] No []
	If response to 11.01 is yes, detail is not required for the 11.02 Total admitted assets held in Canadian Investments 11.03 Canadian currency-denominated investments 11.04 Canadian-denominated insurance liabilities 11.05 Unhedged Canadian currency exposure Report aggregate amounts and percentages of the reporting e 12.01 Are assets held in investments with contractual sales re admitted assets? If response to 12.01 is yes, responses are not required 1 12.02 Aggregate statement value of investments with contract Largest three investments with contractual sales restrict 12.03 12.04 12.05 Amounts and percentages of admitted assets held in the ten la 13.01 Are assets held in equity interest less than 2.5% of the 1 If response to 13.01 above is yes, responses are not re 1 Name of Issuer 13.02 13.03 13.04 13.05 13.06	remainder of Interrogatory 11. entity's total admitted assets held in investme estrictions less than 2.5% of the reporting entitor the remainder of Interrogatory 12. tual sales restrictions: lions: argest equity interests: reporting entity's total admitted assets? quired for the remainder of Interrogatory 13.	nts with contractual sale tys total 2 S	\$	Yes [X] No []
	If response to 11.01 is yes, detail is not required for the 11.02 Total admitted assets held in Canadian Investments 11.03 Canadian currency-denominated investments 11.04 Canadian-denominated insurance liabilities 11.05 Unhedged Canadian currency exposure Report aggregate amounts and percentages of the reporting e 12.01 Are assets held in investments with contractual sales re admitted assets? If response to 12.01 is yes, responses are not required 1 12.02 Aggregate statement value of investments with contract 12.03	remainder of Interrogatory 11. entity's total admitted assets held in investme estrictions less than 2.5% of the reporting entition the remainder of Interrogatory 12. tual sales restrictions: lions: argest equity interests: reporting entity's total admitted assets? quired for the remainder of Interrogatory 13.	nts with contractual sale tys total 2 S	\$	Yes [X] No []
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	If response to 11.01 is yes, detail is not required for the 11.02 Total admitted assets held in Canadian Investments 11.03 Canadian currency-denominated investments 11.04 Canadian-denominated insurance liabilities 11.05 Unhedged Canadian currency exposure Report aggregate amounts and percentages of the reporting e 12.01 Are assets held in investments with contractual sales re admitted assets? If response to 12.01 is yes, responses are not required 1 12.02 Aggregate statement value of investments with contract 12.03	remainder of Interrogatory 11. entity's total admitted assets held in investme estrictions less than 2.5% of the reporting entitle for the remainder of Interrogatory 12. tual sales restrictions: tions: argest equity interests; reporting entity's total admitted assets? quired for the remainder of Interrogatory 13.	nts with contractual sale trys total 2 S	\$	Yes [X] No []

Supplement for the year 2009 of the HomeWise Preferred Insurance Company

14.	Amounts and percentages of the reporting entity's total admitted assets held in nonaffiliated, privately placed equ	uities:			
	14.01 Are assets held in nonaffiliated, privately placed equities less than 2.5% of the reporting entity's total admi	nitted assets?		Yes [X]	No[]
	If response to 14.01 above is yes, responses are not required for the remainder of Interrogatory 14.				
	1	2	2		
			3		
	14.02 Aggregate statement value of investments held in nonaffiliated, privately placed equities:	\$			
	Largest three investments held in nonaffiliated, privately placed equilies:				
	14.03	\$			
	14 04	2	ሰ ሰያብ ዲ		
	14.05	S			
15.	Amounts and percentages of the reporting entity's total admitted assets held in general partnership interests:				
10.					
	15.01 Are assets held in general partnership interests less than 2.5% of the reporting entity's total admitted asset	ets?		Yes [X]	NO []
	If response to 15.01 above is yes, responses are not required for the remainder of Interrogatory 15.				
	1	2	3		
	15.02 Aggregate statement value of investments held in general partnership interests:	\$			
	Largest three investments in general partnership interests:				
	15.03	\$	0.000 %		
	15.04				
	15.05	S			
16.	Amounts and percentages of the reporting entity's total admitted assets held in mortgage loans:				
10.	* * * * * * * * * * * * * * * * * * * *				
	16.01 Are mortgage loans reported in Schedule B less than 2.5% of the reporting entity's total admitted assets?			Yes [X]	No[]
	If response to 16.01 above is yes, responses are not required for the remainder of Interrogatory 16 and In	iterrogatory 17.			
	1	2	3		
	Type (Residential, Commercial, Agricultural)				
	16.02	S			
	16.03				
	18.04				
	16.05				
	16.06	\$			
	16.07	\$	0.000 %		
	16.08	\$			
	16.09	s.	0.000.04		
	16.10				
	16.11	\$			
	Amount and percentage of the reporting entity's total admitted assets held in the following categories of mortgag-	e loans:			
		Lo	ลกร		
	16.12 Construction loans	S			
	16.12 Construction loans				
	16.13 Mortgage loans over 90 days past due	\$	0.000 %		
	16.13 Mortgage loans over 90 days past due	\$s	0.000 %		
	16.13 Mortgage loans over 90 days past due	S			
	16.13 Mortgage loans over 90 days past due	S			
	16.13 Mortgage loans over 90 days past due. 16.14 Mortgage loans in the process of foreclosure. 16.15 Mortgage loans foreclosed. 16.16 Restructured mortgage loans.	S			
17.	16.13 Mortgage loans over 90 days past due. 16.14 Mortgage loans in the process of foreclosure. 16.15 Mortgage loans foreclosed. 16.16 Restructured mortgage loans. Aggregate mortgage loans having the following loan-to-value ratios as determined from the most current apprais	S			
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17.	16.13 Mortgage loans over 90 days past due. 16.14 Mortgage loans in the process of foreclosure. 16.15 Mortgage loans foreclosed. 16.16 Restructured mortgage loans. Aggregate mortgage loans having the following loan-to-value ratios as determined from the most current apprais statement date: Loan-to-Value Residential Commit of the committee of the comm	\$			0.00.0
	16.13 Mortgage loans over 90 days past due. 16.14 Mortgage loans in the process of foreclosure. 16.15 Mortgage loans foreclosed. 16.16 Restructured mortgage loans. Aggregate mortgage loans having the following loan-to-value ratios as determined from the most current apprais statement date: Loan-to-Value	\$			0.00.0
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18.	16.13 Mortgage loans over 90 days past due. 16.14 Mortgage loans in the process of foreclosure. 16.15 Mortgage loans foreclosed. 16.16 Restructured mortgage loans. Aggregate mortgage loans having the following loan-to-value ratios as determined from the most current apprais statement date: Loan-to-Value Residential Commit of the following loan-to-value ratios as determined from the most current apprais statement date: Loan-to-Value Residential Commit of the following loan-to-value ratios as determined from the most current apprais statement date: Loan-to-Value Residential Commit of the five largest statement of the five largest statement of the five largest investment la.01 Are assets held in real estate reported less than 2.5% of the reporting entity's total admitted assets? If response to 18.01 above is yes, responses are not required for the remainder of Interrogatory 18. Largest five investments in any one parcel or group of contiguous parcels of real estate. Description Desc	\$	3	***************************************	000.0 0.00.0 0.00.0 0.000.0
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18.	16.13 Mortgage loans over 90 days past due. 16.14 Mortgage loans in the process of foreclosure. 16.15 Mortgage loans foreclosed. 16.16 Restructured mortgage loans. Aggregate mortgage loans having the following loan-to-value ratios as determined from the most current apprais statement date: Loan-to-Value Residential Commit 1 2 3 17.01 above 95%. S	\$	3	Yes [X]	0.000 0.000 0.000
18.	16.13 Mortgage loans over 90 days past due. 16.14 Mortgage loans in the process of foreclosure. 16.15 Mortgage loans foreclosed. 16.16 Restructured mortgage loans. Aggregate mortgage loans having the following loan-to-value ratios as determined from the most current apprais statement date: Loan-to-Value Residential Commit 1 2 3 17.01 above 95%. 5	\$	3	Yes [X]	0.000 0.000 0.000
18.	16.13 Mortgage loans over 90 days past due. 16.14 Mortgage loans in the process of foreclosure. 16.15 Mortgage loans foreclosed. 16.16 Restructured mortgage loans. Aggregate mortgage loans having the following loan-to-value ratios as determined from the most current apprais statement date: Loan-to-Value Residential Commit 1 2 3 17.01 above 95%. S	\$	3	Yes [X]	0.000 0.000 0.000
18.	16.13 Mortgage loans over 90 days past due. 16.14 Mortgage loans in the process of foreclosure. 16.15 Mortgage loans foreclosed. 16.16 Restructured mortgage loans. Aggregate mortgage loans having the following loan-to-value ratios as determined from the most current apprais statement date: Loan-to-Value Residential Commit of the following loan-to-value ratios as determined from the most current apprais statement date: Loan-to-Value Residential Commit of the five largest loans	\$	3	Yes [X]	0.000 0.000 0.000
18.	16.13 Mortgage loans over 90 days past due 16.14 Mortgage loans in the process of foreclosure 16.15 Mortgage loans foreclosed 16.16 Restructured mortgage loans Aggregate mortgage loans having the following loan-to-value ratios as determined from the most current apprais statement date: Loan-to-Value Residential Commit 1 2 3 17.01 above 95% 5	\$	3	Yes [X]	0.000 0.000 0.000
18.	16.13 Mortgage loans over 90 days past due. 16.14 Mortgage loans in the process of foreclosure. 16.15 Mortgage loans foreclosed. 16.16 Restructured mortgage loans. Aggregate mortgage loans having the following loan-to-value ratios as determined from the most current apprais statement date: Loan-to-Value Residential Commit of the following loan-to-value ratios as determined from the most current apprais statement date: Loan-to-Value Residential Commit of the five largest loans	\$	3	Yes [X]	0.000 0.000 0.000

Supplement for the year 2009 of the HomeWise Preferred Insurance Company

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

			At Year-End		At End of Each Quarter	
		1	2	1st Qtr 3	2nd Qtr	3rd Qtr
	20.01 Securities lending agreements (do not include asset	·	2	3	4	5
	held as collateral for such transactions)		0.000 %	¢	c	¢
	20.02 Repurchase agreements					
	20.03 Reverse repurchase agreements				·	
	20.04 Dollar repurchase agreements.					****
	20.05 Dollar reverse repurchase agreements					
	Exist Solo (Craft) Apartman agreements	Water en		V		•
21.	Amounts and percentages of the reporting entity's total adm	nitted assets for warr	ants not attached to other financia	al instruments, options	s, caps and floors:	
			<u>Owned</u>		<u> Wri</u>	<u>tlen</u>
		1	2		3	4
	21.01 Hedging				\$	0.000 %
	21.02 Income generation.				\$	0.000 %
	21.03 Other	\$	0.000 %		\$	
22.	Amounts and percentages of the reporting entity's total adn	notice of a stage of anotar	atral avengenira for college invene in	and forwards:		
	A thousand the percentages of the reporting official action	11200 0000ta 01 poto:	At Year-End	ing junyaras.	At End of Each Quarter	
			ACTOR-CIN	1st Ofr	2nd Otr	3rd Otr
		1	2	3	4	5
	22.01 Hedging	\$		\$	S	5
	22.02 Income generation					
	22.03 Replications					
	22.04 Other					
					,	
23.	Amounts and percentages of the reporting entity's total adn	nited assets of poter	itial exposure for futures contracts	i.		
			At Year-End		At End of Each Quarter	
				1st Qtr	2nd Qtr	3rd Qtr
		1	2	3	4	5
	23.01 Hedging					
	23.02 Income generation.					
	23.03 Replications					
	23.04 Other	\$	0.000 %	\$	S	\$

See report of independent auditors.

Selected General Interrogatories Relating to Reinsurance

December 31, 2009

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

Selected General Interrogatories Relating to Reinsurance

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

Statutory Basis Financial Statements and Other Financial Information

HomeWise Preferred Insurance Company

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

Thomas Howell Ferguson P.A.

Statutory Basis Financial Statements and Other Financial Information

Years ended December 31, 2010 and 2009

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Report of Independent Auditors

The Board of Directors HomeWise Preferred Insurance Company

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

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

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

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

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

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

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

Thomas Hawell Feynman G.a.

April 5, 2011

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

	December 31,	
	2010	2009
Admitted assets		
Cash and invested assets:		
Short-term investments	\$ 4,228,797	\$ 26,512,091
Cash and cash equivalents	<u>2,982,117</u>	<u>28,499,823</u>
Total cash and invested assets	7,210,914	55,011,914
Accrued investment income	2,571	4,693
Premiums receivable, net	146,350	21,152,661
Reinsurance balances recoverable	2,855,422	3,057,603
Federal income taxes recoverable	2,688,811	2,724,399
Electronic data processing equipment, net	-	2,489
Receivables from parent and affiliates	7,742,679	6,594,042
Other assets	423,303	2,186.985
Total admitted assets	\$ <u>21,070,050</u>	\$ <u>90,734,786</u>
Liabilities and capital and surplus		
Liabilities:		
Loss and loss adjustment expense reserves	\$ 16,600,468	\$ 36,314,180
Unearned premiums, net	95,054	8,826,461
Reinsurance premiums payable	-	26,964,766
Provision for reinsurance	-	170,000
Other accrued expenses	58,087	1,036,548
Taxes, licenses, and fees payable	-	134,330
Total liabilities	16,753,609	73,446,285
Capital and surplus	4,316,441	17.288.501
Total liabilities and capital and surplus	\$ <u>21,070,050</u>	\$ <u>90,734,786</u>

HomeWise Preferred Insurance Company Statements of Operations - Statutory Basis

	Years ended 2010	December 31, 2009
Underwriting income:		
Premiums earned, net of reinsurance ceded	\$ 4,889,290	\$ 22,810,636
Underwriting expenses:		
Loss and loss adjustment expenses incurred	26,149,630	26,395,360
Underwriting, acquisition, and other expenses	(5,587,377)	, ,
Total underwriting expenses	20,562,253	32.331.069
Net underwriting loss	(15,672,963)	(9,520,433)
Net investment income	40,319	153,172
Realized capital losses	(8,741)	<u>-</u> ´
Other income	273,113	<u>750.913</u>
Loss before federal income tax expense (benefit)	(15,368,272)	(8,616,348)
Federal income tax expense (benefit)	35,588	(2,749.549)
Net loss	\$ <u>(15,403,860)</u>	\$ <u>(5,866,799)</u>

HomeWise Preferred Insurance Company

Statements of Changes in Capital and Surplus - Statutory Basis

Years ended December 31, 2010 and 2009

•	Commo	Common Stock	. Paid-in	Unassigned	
	Shores	Par Value	Gurnline	Funde	Total
	1,711 Kill C.3	1 41 7 43110	2110 1110	SD = 11 = 11	10:41
Balance as of December 31, 2008	1,500,000	\$ 1,500,000	\$ 25,500,000	\$ (4,075,105)	\$ 22,924,895
Capital contributions		ŧ	2,000,000	ı	2,000,000
Change in deferred income taxes		•	ŧ	251,583	251,583
Change in nonadmitted assets		i	ŧ	(1,851,178)	(1,851,178)
Change in provision for reinsurance	ı	,	,	(170,000)	(170,000)
Net loss	•	#	E	(5,866,799)	(5,866,799)
Balance as of December 31, 2009	1,500,000	1,500,000	27,500,000	(11,711,499)	17,288,501
Capital contributions	•	•	2,000,000	ı	2,000,000
Change in deferred income taxes	,	ŧ	ı	5,346,302	5,346,302
Change in nonadmitted assets	1	•	1	(5,084,502)	(5,084,502)
Change in provision for reinsurance	ı	ı	1	170,000	170,000
Net loss	e e e e e e e e e e e e e e e e e e e	;	The state of the s	(15,403,860)	(15,403,860)
Balance as of December 31, 2010	1,500,000	\$ 1,500,000	S 29.500.000	S (26,683,559) S 4,316,441	5 4,316,441

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Statements of Cash Flows - Statutory Basis

	Years ended 2010	Years ended December 31, 2010 2009	
Operating activities			
Premiums (paid) collected, net of reinsurance	\$ (9,793,723)	\$ 30,394,636	
Net investment income received	42,441	163,737	
Other income received	323,711	777,234	
Losses and loss adjustment expenses (paid)			
recovered	(45,661,161)	2,476,951	
Underwriting, acquisition, and other expenses		40 00 00 00	
recovered (paid)	5,447,662	(9,007,847)	
Federal income taxes recovered		104,157	
Net cash (used in) provided by operating activities	<u>(49,641,070</u>)	<u>24.908.868</u>	
Financing activities			
Proceeds from capital contributions	2,000,000	2,000,000	
Other miscellaneous proceeds (uses)	<u>(159,930)</u>	(9.500,729)	
Net cash provided by (used in) financing activities	<u>1,840,070</u>	(7.500.729)	
Net (decrease) increase in cash and cash equivalents	(47,801,000)	17,408,139	
Cash at beginning of year	55.011.914	<u>37.603.775</u>	
Cash at end of year	\$ <u>7,210,914</u>	\$ <u>55.011.914</u>	
Cash consists of the following:			
Cash and cash equivalents	\$ 2,982,117	\$ 28,499,823	
Short-term investments	4,228,797	<u>26.512.091</u>	
	\$ <u>7,210,914</u>	\$ <u>55.011.914</u>	

Notes to Statutory Basis Financial Statements

Years ended December 31, 2010 and 2009

1. Summary of Significant Accounting Policies

Organization and Description of Company

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

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

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

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

Notes to Statutory Basis Financial Statements

1. Summary of Significant Accounting Policies (continued)

Basis of Presentation

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

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

Notes to Statutory Basis Financial Statements

1. Summary of Significant Accounting Policies (continued)

Basis of Presentation (continued)

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

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

Other significant accounting practices are as follows:

Recognition of Premium Revenues

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

Notes to Statutory Basis Financial Statements

1. Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

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

Concentration of Credit Risk

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

Electronic Data Processing (EDP) Equipment

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

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

Reinsurance

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

Notes to Statutory Basis Financial Statements

1. Summary of Significant Accounting Policies (continued)

Loss and Loss Adjustment Expense (LAE) Reserves

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

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

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

Guaranty Fund and Residual Market Pool Assessments

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

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

Notes to Statutory Basis Financial Statements

1. Summary of Significant Accounting Policies (continued)

Guaranty Fund and Residual Market Pool Assessments (continued)

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

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

Income Taxes

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

Subsequent Events

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

Use of Estimates

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

2. Regulatory Requirements and Restrictions

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

Notes to Statutory Basis Financial Statements

2. Regulatory Requirements and Restrictions (continued)

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

3. Investments

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

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

	Years ended Decem				
		2010		2009	
Cash and cash equivalents	\$	51,447	\$	239,207	
Investment expenses		(11,128)	P1	(86.035)	
Net investment income	\$	40,319	\$	153,172	

4. Premiums Receivable

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

Premiums receivable consists of the following:

	December 31,				
		2010		2009	
Premiums receivable, gross	\$	152,956	\$	21,166,116	
Nonadmitted premiums receivable		<u>(6,606</u>)	_	(13,455)	
Premiums receivable, net	S	146,350	\$_	21.152,661	

Notes to Statutory Basis Financial Statements

5. Loss and Loss Adjustment Expense (LAE) Reserves

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

	December 31,			
	<u>,</u>	2010		2009
		(in tho	usana	ls)
Loss and LAE reserves at beginning of year	\$	36,314	\$	19,867
Losses and LAE incurred related to:				
Current year		16,465		33,009
Prior years		9,685		(6.614)
		26,150		26,395
Losses and LAE paid related to:				•
Current year		9,522		3,279
Prior years		36,342		6,669
-		45,864		9.948
Loss and LAE reserves at end of year	S	16,600	\$	36,314

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

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

6. Reinsurance

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

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

Notes to Statutory Basis Financial Statements

6. Reinsurance (continued)

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

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

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

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

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

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

Notes to Statutory Basis Financial Statements

6. Reinsurance (continued)

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

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

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

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

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

Notes to Statutory Basis Financial Statements

6. Reinsurance (continued)

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

Years e	ended	December	31.
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	2010	2009
	<u>Written</u> Earned	Written Earned
Direct premiums	\$ 6,119,533 \$ 82,240,650	\$ 160,368,923 \$ 178,187,470
Assumed premiums		(358,142) 1,076,433
Ceded premiums	<u>(9,961,650)</u> <u>(77,351,360)</u>	(146.953.637) (156.453.267)
Net premiums	\$ <u>(3,842,117)</u> \$ <u>4,889,290</u>	\$ <u>13.057.144</u> \$ <u>22.810.636</u>

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

	2010 2009
Direct unearned premiums	\$ 3,731,439 \$ 79,852,556
Ceded unearned premiums	<u>(3,636,385)</u> (71,026,095)
Unearned premiums, net	\$95,054 \$_8.826.461
Commission equity, net	\$(903,000) \$ <u>(19.901.000</u>)

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

	Years ended December 31,		
	2010	2009	
Direct losses and loss adjustment expenses incurred	\$ 44,228,185	\$ 109,477,975	
Assumed losses and loss adjustment expenses incurred	75,264	(8,567,013)	
Ceded losses and loss adjustment expenses incurred	(18,153,819)	<u>(74.515,602</u>)	
Losses and loss adjustment expenses incurred, net	\$ <u>26,149,630</u>	\$ <u>26,395,360</u>	

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

	 2010	2009
Signet Star (Berkley Insurance Company)	\$ 1,495,000	\$ 12,183,000
Florida Hurricane Catastrophe Fund	892,000	10.753.000

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

Notes to Statutory Basis Financial Statements

7. Policy Assumption Agreement

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

8. Income Taxes

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

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

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

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

	2009				
	<u>Ordinary</u>	Capital	Total		
Total gross DTAs	\$ 2,078,604	\$ -	\$ 2,078,604		
Total gross DTLs	26,679		26.679		
Net DTA			2,051,925		
Nonadmitted DTAs			(2.051.925)		
Net admitted DTAs			\$		
Increase in nonadmitted DTAs			\$ <u>1.776,874</u>		

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

Notes to Statutory Basis Financial Statements

8. Income Taxes (continued)

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

				2010		
	0	rdinary		Capital		Total
Can be recovered through loss carrybacks	_		_			
(10.a.) Lesser of:	S	•••	\$	-	S	••
Expected to be recognized within one						
year (10.b.i.)		-		-		-
Ten percent of adjusted capital and surplus (10.b.ii.)		503 100				E02 100
Adjusted gross DTAs offset against		503,100		-		503,100
existing DTLs (10.c.)				_		<u></u>
Risk-based capital level used in paragraph						
10.d.:						
Total adjusted capital						4,316,441
Authorized control level						1,291,153
				2009		
		rdinary		2009 Capital		Total
Can be recovered through loss carrybacks	_0	rdinary		***************************************		Total
(10.a.)	<u>-o</u> \$	rdinary -	- - \$	***************************************	\$	Total
(10.a.) Lesser of:		rdinary -	\$	***************************************	\$	Total -
(10.a.) Lesser of: Expected to be recognized within one year (10.b.i.)		rdinary - -	\$	***************************************	\$	Total - -
(10.a.) Lesser of: Expected to be recognized within one year (10.b.i.) Ten percent of adjusted capital and		rdinary - -	\$	***************************************	\$	Total - -
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(10.a.) Lesser of: Expected to be recognized within one year (10.b.i.) Ten percent of adjusted capital and surplus (10.b.ii.) Adjusted gross DTAs offset against existing DTLs (10.c.) Risk-based capital level used in paragraph		-	\$	***************************************		- -

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

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

Notes to Statutory Basis Financial Statements

8. Income Taxes (continued)

B. Unrecognized DTLs:

Not applicable.

C. Current tax and change in deferred tax:

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

	<u> 2010 </u>		<u> </u>
Current year income tax expense	S	-	\$ (2,724,398)
Prior year under (over) accrual		35,588	(25.151)
Current income taxes incurred	S	35,588	\$ <u>(2.749.549</u>)

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

	December 31,					
	2010	2009	Change			
Deferred Tax Assets:						
Discount on unpaid losses and LAE	\$ 436,997	\$ 878,652	\$ (441,655)			
20% of unearned premiums	6,464	600,199	(593,735)			
Nonadmitted assets	2,246	91,258	(89,012)			
Organizational costs	58,570	64,193	(5,623)			
Charitable contribution	170	170	-			
Net operating loss	<u>6,893,780</u>	<u>444,132</u>	<u>6.449.648</u>			
Total DTAs	7,398,227	2,078,604	5,319,623			
Nonadmitted DTAs	<u>(7.398,227)</u>	(2.051.925)	(5,346,302)			
Admitted DTAs		26.679	(26,279)			
Deferred Tax Liabilities:						
Depreciation of fixed assets	_	4,954	(4,954)			
Other		21.725	(21.725)			
Total DTLs		26.679	(26,679)			
Net admitted DTAs	S	\$	\$			

Notes to Statutory Basis Financial Statements

8. Income Taxes (continued)

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

	December 31,			
	_	2010	2009	<u>Change</u>
Total gross DTAs	\$	7,398,227	\$ 2,078,604	\$ 5,319,623
Total gross DTLs	_	_	26,679	(26.679)
Net DTA	S _	7,398,227	\$ <u>2,051,925</u>	5,346,302
Deferred tax on change in net				
unrealized capital gains				-
Change in net deferred income tax				\$ <u>5,346.302</u>

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

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

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

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

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

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

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

Notes to Statutory Basis Financial Statements

8. Income Taxes (continued)

F. Consolidated federal income tax return:

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

HomeWise Holdings, Inc. HomeWise Insurance Company HomeWise Management Company

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

9. Capital and Surplus

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

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

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

10. Related Party Transactions

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

Notes to Statutory Basis Financial Statements

10. Related Party Transactions (continued)

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

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

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

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

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

Notes to Statutory Basis Financial Statements

10. Related Party Transactions (continued)

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

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

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

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

12. Leases

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

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

Notes to Statutory Basis Financial Statements

12. Leases (continued)

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

13. Reconciliation of Annual Statement to Audited Financial Statements

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

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



Arousd Statement for the year 2010 of the HomeWise Preferred Insurance Company SUMMARY INVESTMENT SCHEDULE

Schedule 1

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4.1 Construction and land development .0.0 .6.0 4.2 Agricultural .0.0 .0.0 4.3 Single family residential properties .0.0 .0.0 4.4 Multifamily residential properties .0.0 .0.0 4.5 Commercial loans .0.0 .0.0 4.6 Mezzanine real estate loans .0.0 .0.0 5. Real estate investments: .0.0 .0.0 5.1 Property occupied by company .0.0 .0.0 5.2 Property held for production of income (including \$0 of property acquired in satisfaction of debt) .0.0 .0.0 5.3 Property held for sale (including \$0 property acquired in satisfaction of debt) .0.0 .0.0 6. Contract loans .0.0 .0.0 7. Receivables for securities .0.0 .0.0 8. Cash, cash equivalents and short-term investments .0.0 .0.0 9. Other invested assets .0.0 .0.0	* 15.				->U.UU.U			
4.2 Agricultural .0.0 .0.0 4.3 Single family residential properties .0.0 .0.0 4.4 Multifamily residential properties .0.0 .0.0 4.5 Commercial loans .0.0 .0.0 4.6 Mezzanine real estate loans .0.0 .0.0 5. Real estate investments: .0.0 .0.0 5.1 Property occupied by company .0.0 .0.0 5.2 Property held for production of income (including \$0 of property acquired in satisfaction of debt) .0.0 .0.0 5.3 Property held for sale (including \$0 property acquired in satisfaction of debt) .0.0 .0.0 6. Contract loans .0.0 .0.0 7. Receivables for securities .0.0 .0.0 8. Cash, cash equivalents and short-term investments .0.0 .7.210,914 9. Other invested assets .0.0 .0.0		-						
4.3 Single family residential properties			·	1	ĺ	millordennasvai.sea.///seq;		
4.4 Multifamily residential properties .0.0 .0.0 4.5 Commercial loans .0.0 .0.0 4.6 Mezzanine real estate loans .0.0 .0.0 5. Real estate investments: .0.0 .0.0 5.1 Property occupied by company .0.0 .0.0 5.2 Property held for production of income (including \$ 0 of property acquired in satisfaction of debt) .0.0 .0.0 5.3 Property held for sale (including \$ 0 property acquired in satisfaction of debt) .0.0 .0.0 6. Contract loans .0.0 .0.0 7. Receivables for securities .0.0 .0.0 8. Cash, cash equivalents and short-term investments .0.0 .7.210,914 .100.0 9. Other invested assets .0.0 .0.0 .0.0			•		ŀ	0		
4.5 Commercial loans						#>>>==================================	0.0	
4.6 Mezzanine real estate loans					0.0	<<0.000040	0,0	
5. Real estate investments: 5.1 Property occupied by company. 5.2 Property held for production of income (including \$0 of property acquired in satisfaction of debt). 5.3 Property held for sale (including \$0 property acquired in satisfaction of debt). 6. Contract loans. 7. Receivables for securities. 8. Cash, cash equivalents and short-term investments. 9. Other invested assets. 9. Other invested assets. 9. On					l	<>	0.0	
5.1 Property occupied by company. 5.2 Property held for production of income (including \$0 of property acquired in satisfaction of debt). 5.3 Property held for sale (including \$0 property acquired in satisfaction of debt). 6. Contract loans. 7. Receivables for securities. 8. Cash, cash equivalents and short-term investments. 9. Other invested assets. 9. Other invested assets. 9. On00 9. Other invested assets. 9. On00 9. On000 9. O				. Side a communication and a second of	0.0	*************************************	0.0	
5.2 Property held for production of income (including \$0 of property acquired in satisfaction of debt). 0.0 0.0 5.3 Property held for sale (including \$0 property acquired in satisfaction of debt). 0.0 0.0 6. Contract loans. 0.0 0.0 7. Receivables for securities. 0.0 0.0 8. Cash, cash equivalents and short-term investments. 0.0 7.210,914 100.0 9. Other invested assets. 0.0 0.0 0.0	5. Re	esi e	estate investments:					
5.3 Property held for sale (including \$0 property acquired in satisfaction of debt). 0.0 0.0 6. Contract loans. 0.0 0.0 7. Receivables for securities. 0.0 0.0 8. Cash, cash equivalents and short-term investments. 0.0 7.210,914 100.0 9. Other invested assets. 0.0 0.0 0.0	5.1	ļ	Property occupied by company	430-4056+339340*>\color\col\color\color\color\color\color\color\color\color\color\color\col\color\color\col\color\color\col\color\color\col\col\color\col\color\col\col\color\col\col\col\color\col\col\color\col\col\col\col\col\col\col\col\col\col	0.0	wildirelikebylykeu.blessiassa.	0.0	
6. Contract loans	5.2	2	Property held for production of income (including \$0 of property acquired in satisfaction of debt)		0.0	433-7>>>#04.00.0-0.002.22#4222240	0,0	
7. Receivables for securities .0.0 .0.0 8. Cash, cash equivalents and short-term investments .0.0 .7.210,914 .100.0 9. Other invested assets .0.0 .0.0 .0.0	5.3	3	Property held for sale (including \$0 property acquired in satisfaction of debt)		0.0	4504+5+3+-+500++-04+80054+60	0.0	
8. Cash, cash equivalents and short-term investments	6. Co	ontr	ad ioans	**************************************	0.0	b/	0.0	
9. Other invested assets.	7. Re	909	vables for securities.	ing a chick to was account to the county	0.0	****************	0.0	
9. Other invested assets.	8. Ca	ash,	, cash equivalents and short-term investments	-0->(-()	0.0	7,210,914		
	9. Ot	her	Fivested assets.		0.0	**************************************	0.0	
						7,210,914	100.0	



SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES

For the year ended December 31, 2010

(To be filed by April 1)

Of HomeWise Preferred Insurance Company Address (City, State, Zip Code): Tampa FL 33647

NAIC Group Code.....4111

7. Aggregate unhedged foreign currency exposure:

NAIC Company Code.....12582

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

The investment Risks Interrogalaries are to be filed by April 1. They are also to be included with the Audited Statutory Financial Statements. Answer the following interrogatories by reporting the applicable U.S. dollar amounts and percentages of the reporting entity's total admitted

. Te	n largest exposures to a single issuer/bo	utniverinvestment			
. 10	1	2	3	4	
	•	•	3	Percentage of Total	¥
	issuer	Description of Exposure	Amount	Admitted Assets	
2.0		Money Market Preim Cash Obligations Fund			
2.0	s tracement biscompa	Certificates of Deposit			
2.0	Duiseiuse Lane	Treasury Cash Fund Deposit			
2.0	a solder both of 12% out thousands				
2.0	-	Certificate of Deposit			
2.0	***************************************	Certificate of Deposit			
2.0	~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~	erriteit kait – erriteit artikutust filolooka kaisimaa kiimaa kataa (kima ola majayta ja ja jamaiga jiliga, ja jamaiga ja jamaiga ja			
2.0		Andrea for the state and a state of a point project of modes of property of modes and the state of the state			
2.0	- the of the trade of trade of the trade of the trade of the trade of trade of the trade of trade of the trade of trade	**************************************			
2.1	bland reference (1966a) and array result was been received a				
£.1	cente nove to observe and extra and extra	(Creent) \$4(C+)\text{\text{\$\cute{1}			
Am		entity's total admitted assets held in bonds and preferred stocks by	b .		
	Bonds .		1	2	
		Colored and the field of the field of the common profession of the common profession of the colored and the co			
3.0					
3.0		***************************************			
3.0		\$\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\			
3.0					
3.0	6 NAIC-6	West-Attacker. Teady-about at-about-1-644 at	\$	0.000 %	
	Preferred Stocks		3	4	
3.0	7 P/RP-1	d)	S	0.000 %	
3.0	8 P/RP-2	*) (5-(5			
3.0	9 P/RP-3	PV1PV2)//4830//441-44-444-4441-4441-4441-4441-4441-4	······ \$	0.000 %	
3.1		1000 of the state of the continuous being a company of the control			
3.1	1 P/RP-5	**************************************	\$	0.000 %	
3.1	2 P/RP-6	1		0.000 %	
	ets held in foreign investments:				
		ts less than 2.5% of the reporting entity's total admitted assets?			Yes [X] No []
		are not required for interrogatories 5-10.			
	? Total admitted assets held in foreign			\$	0.000 9
4.0	3 Foreign-currency-denominated inves	itments		\$	0.000 9
4.0	Insurance liabilities denominated in t	hat same foreign currency		\$	0.000 \$
Agg	regate foreign investment exposure cati	egorized by NAIC sovereign rating:	1	2	
5.0	Countries rated NAIC-1			-	
5.03		200 Language			
5.03			· ·		
Lan	gest foreign investment exposures by co	ountry, categorized by the country's NAIC sovereign rating:			
	Countries rated NAIC-1;	· · · · · · · · · · · · · · · · · · ·	1	2	
6.0	Country 1:	r deward and the think and the countries are an end and another the temperature of the countries of the coun	**************************************		
6.03	Country 2:		······ \$	0.000 %	
	Countries rated NAIC-2:				
6.03			K+1++=4+++=4+1++++++++++++++++++++++++++	0.000 %	
	Countries rated NAIC-3 or below:		¥,		
		44.6.1	2	0.000 %	
6.05		.,			
			, , , , , , , , , , , c	0.000 ₩	
		(v=0)/v=0/v=0/v=0/v=0/v=0/v=0/v=0/v=0/v=0/v=0	**************************************	0.000 %	
			etypeternä märennä työsetärä muusikeriä seine. Suusaaanaksi seinuunaanaa muusuu.	2	

Supplement for the year 2016 of the HomeWise Preferred Insurance Company

8.	Aggre	gate unhedged foreign currency exposure categorized by NAIC sovereign rating:	1	2	
	8.01	Countries rated NAIC-1	. S	0.000 %	
	8.02	Countries rated NAIC-2	\$	0.000 %	
	8.03	Countries rated NAIC-3 or below			
	4.50	COM I MADE 1 M. M. C. M.			
9.	Lærge	ist unhedged foreign currency exposures by country, categorized by the country's NAIC sovereign rating:			
		Countries rated NAIC-1:	1	2	
	10.0	Country 1:		-	
		Country 2:			
	9.02	•	- 4	0.000 %	
		Countries rated NAIC-2:			
		Country 1:			
	9.04	Country 2:	. \$	0.000 %	
		Countries rated NAIC-3 or below:			
	9.05	Country 1:	. \$	0.000 %	
	9.06	Country 2 ⁴	\$	0.000 %	
10.	Ten la	argest non-sovereign (i.e. non-governmental) foreign issues;			
		1 2			
		Issuer NAIC Rating	3	4	
	16.61	Chattantal at Antonia			
		And the third infrastruments at feater to the thirty of process of party of property of party			
		ates ((expression) projeties requested to (1) (1) (exp. (print)) projeties (print) print) projeties (print) print) projeties (print) proje			
	10.05		. \$	0.000 %	
	10.06		. s	0.000 %	
	10.07	SERVINGENERALISEN STEERINGER ST. SERVINGEN (ST. ST. ST. ST. ST. ST. ST. ST. ST. ST.	. \$	0.000 %	

	10.10		· D		
44	Amora	nts and percentages of the reporting entity's total admitted assets held in Canadian investments and unhedged Canadian			
11_		· · · · · · · · · · · · · · · · · · ·			
		vcy exposure:			
	11.01	Are assets held in Canadian investments less than 2.5% of the reporting entity's total admitted assets?			Yes [X] No []
		If response to 11.01 is yes, detail is not required for the remainder of interrogatory 11.			
	11.02	Total admitted assets held in Canadian investments		\$	0.000 %
	11.03	Canadian currency-denominated investments		S	0.000 %
		Canadian-denominated insurance liabilities			0.000 %

	11 05	Unhedned Canadian difference exposure		\$	ሳ ሰለስ የ
12.	Repor	Unhedged Canadian currency exposure 1 aggregate amounts and percentages of the reporting entity's total admitted assets held in investments with contractual sale Are assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total	s restrictions.	Same to observe the true processor	0.000 %
12.	Repor	1 aggregate amounts and percentages of the reporting entity's total admitted assets held in investments with contractual sales assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets? If response to 12.01 is yes, responses are not required for the remainder of Interrogatory 12.			
12.	Repor 12.01	1 aggregate amounts and percentages of the reporting entity's total admitted assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets? If response to 12.01 is yes, responses are not required for the remainder of Interrogatory 12.	2	3	
12.	Repor 12.01	It aggregate amounts and percentages of the reporting entity's total admitted assets held in investments with contractual sales. Are assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets? If response to 12.01 is yes, responses are not required for the remainder of interrogatory 12. 1 Aggregate statement value of investments with contractual sales restrictions:	2		
12.	Repor 12.01 12.02	1 aggregate amounts and percentages of the reporting entity's total admitted assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets? If response to 12.01 is yes, responses are not required for the remainder of interrogatory 12. 1 Aggregate statement value of investments with contractual sales restrictions: Largest three investments with contractual sales restrictions:	2	30.000 %	
12.	Repor 12.01 12.02	It aggregate amounts and percentages of the reporting entity's total admitted assets held in investments with contractual sales. Are assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets? If response to 12.01 is yes, responses are not required for the remainder of interrogatory 12. 1 Aggregate statement value of investments with contractual sales restrictions:	2	30.000 %	
12.	Report 12.01 12.02 12.03	1 aggregate amounts and percentages of the reporting entity's total admitted assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets? If response to 12.01 is yes, responses are not required for the remainder of interrogatory 12. 1 Aggregate statement value of investments with contractual sales restrictions: Largest three investments with contractual sales restrictions:	2 \$	3 6.000 %	
12.	Repor 12.01 12.02 12.03 12.04	aggregate amounts and percentages of the reporting entity's total admitted assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets? If response to 12.01 is yes, responses are not required for the remainder of interrogatory 12. 1 Aggregate statement value of investments with contractual sales restrictions: Largest three investments with contractual sales restrictions:	2 \$	3 0.000 % 0000 %	
12.	Repor 12.01 12.02 12.03 12.04	1 aggregate amounts and percentages of the reporting entity's total admitted assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets? If response to 12.01 is yes, responses are not required for the remainder of Interrogatory 12. 1 Aggregate statement value of investments with contractual sales restrictions: Largest three investments with contractual sales restrictions:	2 \$	3 0.000 % 0000 %	
	12.02 12.03 12.04 12.05	1 aggregate amounts and percentages of the reporting entity's total admitted assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets? If response to 12.01 is yes, responses are not required for the remainder of Interrogatory 12. 1 Aggregate statement value of investments with contractual sales restrictions: Largest three investments with contractual sales restrictions:	2 \$	3 0.000 % 0000 %	
	12.02 12.03 12.04 12.05 Amous	aggregate amounts and percentages of the reporting entity's total admitted assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets? If response to 12.01 is yes, responses are not required for the remainder of Interrogatory 12. 1 Aggregate statement value of investments with contractual sales restrictions: Largest three investments with contractual sales restrictions:	2 \$	3 0.000 % 0000 %	
	12.02 12.03 12.04 12.05 Amous	It aggregate amounts and percentages of the reporting entity's total admitted assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets? If response to 12.01 is yes, responses are not required for the remainder of Interrogatory 12. 1 Aggregate statement value of investments with contractual sales restrictions: Largest three investments with contractual sales restrictions: Largest three investments with contractual sales restrictions: Are assets held in equity interest less than 2.5% of the reporting entity's total admitted assets?	2 \$	3 0.000 % 0000 %	Yes[X] No[]
	12.02 12.03 12.04 12.05 Amous	It aggregate amounts and percentages of the reporting entity's total admitted assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets? If response to 12.01 is yes, responses are not required for the remainder of Interrogatory 12. 1 Aggregate statement value of investments with contractual sales restrictions: Largest three investments with contractual sales restrictions: Interrogatory 12. Aggregate statement value of investments with contractual sales restrictions: Largest three investments with contractual sales restrictions: Interrogatory 13.	\$	3 0.000 % 0.000 % 0.000 %	Yes[X] No[]
	12.02 12.03 12.04 12.05 Amous	aggregate amounts and percentages of the reporting entity's total admitted assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets? If response to 12.01 is yes, responses are not required for the remainder of interrogatory 12. 1 Aggregate statement value of investments with contractual sales restrictions: Largest three investments with contractual sales restrictions: Interpolation of admitted assets held in the ten largest equity interests: Are assets held in equity interest less than 2.5% of the reporting entity's total admitted assets? If response to 13.01 above is yes, responses are not required for the remainder of Interrogatory 13.	2 \$	3 0.000 % 0000 %	Yes[X] No[]
	12.01 12.02 12.03 12.04 12.05 Amous 13.01	aggregate amounts and percentages of the reporting entity's total admitted assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets? If response to 12.01 is yes, responses are not required for the remainder of interrogatory 12. 1 Aggregate statement value of investments with contractual sales restrictions: Largest three investments with contractual sales restrictions: Interpolation of admitted assets held in the ten largest equity interests: Are assets held in equity interest less than 2.5% of the reporting entity's total admitted assets? If response to 13.01 above is yes, responses are not required for the remainder of interrogatory 13. Name of issuer	2 \$	3 0.000 % 0.000 % 0.000 %	Yes[X] No[]
	Report 12.01 12.02 12.03 12.04 12.05 Amout 13.01	aggregate amounts and percentages of the reporting entity's total admitted assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets? If response to 12.01 is yes, responses are not required for the remainder of interrogatory 12. 1 Aggregate statement value of investments with contractual sales restrictions: Largest three investments with contractual sales restrictions: Interpolation of admitted assets held in the ten largest equity interests: Are assets held in equity interest less than 2.5% of the reporting entity's total admitted assets? If response to 13.01 above is yes, responses are not required for the remainder of interrogatory 13. Name of Issuer	2 \$	3 0.000 % 0.000 % 0.000 %	Yes[X] No[]
	Report 12.01 12.02 12.03 12.04 12.05 Amout 13.01	aggregate amounts and percentages of the reporting entity's total admitted assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets? If response to 12.01 is yes, responses are not required for the remainder of interrogatory 12. 1 Aggregate statement value of investments with contractual sales restrictions: Largest three investments with contractual sales restrictions: Interpolation of admitted assets held in the ten largest equity interests: Are assets held in equity interest less than 2.5% of the reporting entity's total admitted assets? If response to 13.01 above is yes, responses are not required for the remainder of interrogatory 13. Name of issuer	2 \$	3 0.000 % 0.000 % 0.000 %	Yes[X] No[]
	Report 12.01 12.02 12.03 12.04 12.05 Amout 13.01 13.02 13.03	aggregate amounts and percentages of the reporting entity's total admitted assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets? If response to 12.01 is yes, responses are not required for the remainder of interrogatory 12. 1 Aggregate statement value of investments with contractual sales restrictions: Largest three investments with contractual sales restrictions: Interrogatory 12 and percentages of admitted assets held in the ten largest equity interests: Are assets held in equity interest less than 2.5% of the reporting entity's total admitted assets? If response to 13.01 above is yes, responses are not required for the remainder of interrogatory 13. 1 Name of Issuer	2 \$	3 0.000 % 0.000 % 0.000 %	Yes[X] No[]
	Report 12.01 12.02 12.03 12.04 12.05 Amout 13.01 13.02 13.03 13.04	1 aggregate amounts and percentages of the reporting entity's total admitted assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets? If response to 12.01 is yes, responses are not required for the remainder of interrogatory 12. 1 Aggregate statement value of investments with contractual sales restrictions: Largest three investments with contractual sales restrictions: Interpolation of admitted assets held in the ten largest equity interests: Are assets held in equity interest less than 2.5% of the reporting entity's total admitted assets? If response to 13.01 above is yes, responses are not required for the remainder of interrogatory 13. Name of Issuer	2 \$	3 	Yes[X] No[]
	Report 12.01 12.02 12.03 12.04 12.05 Amout 13.01 13.02 13.03 13.04 13.05	1 aggregate amounts and percentages of the reporting entity's total admitted assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets? If response to 12.01 is yes, responses are not required for the remainder of interrogatory 12. 1 Aggregate statement value of investments with contractual sales restrictions: Largest three investments with contractual sales restrictions: Interpolation of admitted assets held in the ten largest equity interests: Are assets held in equity interest less than 2.5% of the reporting entity's total admitted assets? If response to 13.01 above is yes, responses are not required for the remainder of interrogatory 13. Name of Issuer	2 \$	3 	Yes[X] No[]
	12.01 12.02 12.03 12.04 12.05 Amous 13.01 13.02 13.03 13.04 13.05 13.06	t aggregate amounts and percentages of the reporting entity's total admitted assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets? If response to 12.01 is yes, responses are not required for the remainder of interrogatory 12. 1 Aggregate statement value of investments with contractual sales restrictions: Largest three investments with contractual sales restrictions: Interest three investments with contractual sales restrictions: Are assets held in equity interest less than 2.5% of the reporting entity's total admitted assets? If response to 13.01 above is yes, responses are not required for the remainder of interrogatory 13. 1 Name of Issuer	2 \$	3 	Yes[X] No[]
	12.01 12.02 12.03 12.04 12.05 Amous 13.01 13.02 13.03 13.04 13.05 13.06	1 aggregate amounts and percentages of the reporting entity's total admitted assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets? If response to 12.01 is yes, responses are not required for the remainder of interrogatory 12. 1 Aggregate statement value of investments with contractual sales restrictions: Largest three investments with contractual sales restrictions: Interpolation of admitted assets held in the ten largest equity interests: Are assets held in equity interest less than 2.5% of the reporting entity's total admitted assets? If response to 13.01 above is yes, responses are not required for the remainder of interrogatory 13. Name of Issuer	2 \$	3 	Yes[X] No[]
	Report 12.01 12.02 12.03 12.04 12.05 Amous 13.01 13.02 13.03 13.04 13.05 13.06 13.07	t aggregate amounts and percentages of the reporting entity's total admitted assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets? If response to 12.01 is yes, responses are not required for the remainder of interrogatory 12. 1 Aggregate statement value of investments with contractual sales restrictions: Largest three investments with contractual sales restrictions: Interest three investments with contractual sales restrictions: Are assets held in equity interest less than 2.5% of the reporting entity's total admitted assets? If response to 13.01 above is yes, responses are not required for the remainder of interrogatory 13. 1 Name of Issuer	2 \$	3 	Yes[X] No[]
	12.01 12.02 12.03 12.04 12.05 Amous 13.01 13.02 13.03 13.04 13.05 13.06 13.07 13.08	t aggregate amounts and percentages of the reporting entity's total admitted assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets? If response to 12.01 is yes, responses are not required for the remainder of interrogatory 12. 1 Aggregate statement value of investments with contractual sales restrictions: Largest three investments with contractual sales restrictions: Interest three investments with contractual sales restrictions: Are assets held in equity interest less than 2.5% of the reporting entity's total admitted assets? If response to 13.01 above is yes, responses are not required for the remainder of interrogatory 13. 1 Name of Issuer	2 \$\$\$ \$\$\$	3 	Yes[X] No[]
	12.01 12.02 12.03 12.04 12.05 Amous 13.01 13.02 13.03 13.04 13.05 13.06 13.07 13.08 13.08 13.09	thaggregate amounts and percentages of the reporting entity's total admitted assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets? If response to 12.01 is yes, responses are not required for the remainder of Interrogatory 12. 1 Aggregate statement value of investments with contractual sales restrictions: Largest three investments with contractual sales restrictions: Interest three investments with contractual sales restrictions: Are assets held in equity interest less than 2.5% of the reporting entity's total admitted assets? If response to 13.01 above is yes, responses are not required for the remainder of interrogatory 13. 1 Name of Issuer	2 \$	3 	Yes[X] No[]
	Report 12.01 12.02 12.03 12.04 12.05 Amoun 13.02 13.03 13.04 13.05 13.06 13.07 13.08 13.09 13.10	aggregate amounts and percentages of the reporting entity's total admitted assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets? If response to 12.01 is yes, responses are not required for the remainder of Interrogatory 12. 1 Aggregate statement value of investments with contractual sales restrictions: Largest three investments with contractual sales restrictions: Interest three investments with contractua	2 \$	3 	Yes[X] No[]
	Report 12.01 12.02 12.03 12.04 12.05 Amoun 13.02 13.03 13.04 13.05 13.06 13.07 13.08 13.09 13.10	thaggregate amounts and percentages of the reporting entity's total admitted assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets? If response to 12.01 is yes, responses are not required for the remainder of Interrogatory 12. 1 Aggregate statement value of investments with contractual sales restrictions: Largest three investments with contractual sales restrictions: Interest three investments with contractual sales restrictions: Are assets held in equity interest less than 2.5% of the reporting entity's total admitted assets? If response to 13.01 above is yes, responses are not required for the remainder of interrogatory 13. 1 Name of Issuer	2 \$	3 	Yes[X] No[]
13.	12.02 12.03 12.04 12.05 Amout 13.01 13.02 13.03 13.04 13.05 13.07 13.08 13.07 13.08 13.07 13.08 13.01 13.11	aggregate amounts and percentages of the reporting entity's total admitted assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets? If response to 12.01 is yes, responses are not required for the remainder of Interrogatory 12. 1 Aggregate statement value of investments with contractual sales restrictions: Largest three investments with contractual sales restrictions: Interrogatory 12 and percentages of admitted assets held in the ten largest equity interests: Are assets held in equity interest less than 2.5% of the reporting entity's total admitted assets? If response to 13.01 above is yes, responses are not required for the remainder of Interrogatory 13. 1 Name of Issuer	2 \$	3 	Yes[X] No[]
13.	Report 12.01 12.02 12.03 12.04 12.05 Amout 13.01 13.02 13.03 13.04 13.05 13.06 13.07 13.08 13.09 13.10 13.11 Amout	aggregate amounts and percentages of the reporting entity's total admitted assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets? If response to 12.01 is yes, responses are not required for the remainder of interrogatory 12. 1 Aggregate statement value of investments with contractual sales restrictions: Largest three investments with contractual sales restrictions: Interpolate investments with contractual sales restrictions: Are assets held in equity interest less than 2.5% of the reporting entity's total admitted assets? If response to 13.01 above is yes, responses are not required for the remainder of Interrogatory 13. 1 Name of Issuer Interpolation of the reporting entity's total admitted assets held in nonaffiliated, privately placed equities:	2 \$	3 	Yes[X] No[] Yes[X] No[]
13.	Report 12.01 12.02 12.03 12.04 12.05 Amout 13.01 13.02 13.03 13.04 13.05 13.06 13.07 13.08 13.09 13.10 13.11 Amout	aggregate amounts and percentages of the reporting entity's total admitted assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets? If response to 12.01 is yes, responses are not required for the remainder of interrogatory 12. 1 Aggregate statement value of investments with contractual sales restrictions: Largest three investments with contractual sales restrictions: Largest three investments with contractual sales restrictions: Are assets held in equity interest less than 2.5% of the reporting entity's total admitted assets? If response to 13.01 above is yes, responses are not required for the remainder of Interrogatory 13. 1 Name of Issuer Alta and percentages of the reporting entity's total admitted assets held in nonaffiliated, privately placed equities: Are assets held in nonaffiliated, privately placed equities less than 2.5% of the reporting entity's total admitted assets?	2 \$	3 	Yes[X] No[]
13.	12.02 12.03 12.04 12.05 Amout 13.01 13.02 13.03 13.04 13.05 13.06 13.07 13.08 13.09 13.01 13.01 13.01 13.01	aggregate amounts and percentages of the reporting entity's total admitted assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets? If response to 12.01 is yes, responses are not required for the remainder of interrogatory 12. 1 Aggregate statement value of investments with contractual sales restrictions: Largest three investments with contractual sales restrictions: Interpolate investments with contractual sales restrictions: Are assets held in equity interest less than 2.5% of the reporting entity's total admitted assets? If response to 13.01 above is yes, responses are not required for the remainder of Interrogatory 13. 1 Name of Issuer Interpolation of the reporting entity's total admitted assets held in nonaffiliated, privately placed equities:	2 \$	3 	Yes[X] No[] Yes[X] No[]
13.	12.02 12.03 12.04 12.05 Amout 13.01 13.02 13.03 13.04 13.05 13.06 13.07 13.08 13.09 13.01 13.01 13.01 13.01	aggregate amounts and percentages of the reporting entity's total admitted assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets? If response to 12.01 is yes, responses are not required for the remainder of interrogatory 12. 1 Aggregate statement value of investments with contractual sales restrictions: Largest three investments with contractual sales restrictions: Largest three investments with contractual sales restrictions: Are assets held in equity interest less than 2.5% of the reporting entity's total admitted assets? If response to 13.01 above is yes, responses are not required for the remainder of Interrogatory 13. 1 Name of Issuer Alta and percentages of the reporting entity's total admitted assets held in nonaffiliated, privately placed equities: Are assets held in nonaffiliated, privately placed equities less than 2.5% of the reporting entity's total admitted assets?	2 \$	3 	Yes[X] No[] Yes[X] No[]
13.	12.02 12.03 12.04 12.05 13.01 13.01 13.02 13.03 13.04 13.05 13.06 13.07 13.08 13.09 13.10 13.11 14.01	the aggregate amounts and percentages of the reporting entity's total admitted assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets? If response to 12.01 is yes, responses are not required for the remainder of Interrogatory 12. 1 Aggregate statement value of investments with contractual sales restrictions: Largest three investments with contractual sales restrictions: Largest three investments with contractual sales restrictions: Are assets held in equity interest less than 2.5% of the reporting entity's total admitted assets? If response to 13.01 above is yes, responses are not required for the remainder of Interrogatory 13. 1 Name of Issuer Interval the reporting entity's total admitted assets held in nonaffiliated, privately placed equities: Are assets held in nonaffiliated, privately placed equities less than 2.5% of the reporting entity's total admitted assets? If response to 14.01 above is yes, responses are not required for the remainder of Interrogatory 14.	2 \$ \$ 2 \$	3 	Yes[X] No[] Yes[X] No[]
13.	12.02 12.03 12.04 12.05 Amous 13.01 13.02 13.03 13.04 13.05 13.06 13.07 13.08 13.09 13.10 13.11 Amous 14.01	th aggregate amounts and percentages of the reporting entity's total admitted assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets? If response to 12.01 is yes, responses are not required for the remainder of interrogatory 12. 1 Aggregate statement value of investments with contractual sales restrictions: Largest three investments with contractual sales restrictions: Largest three investments with contractual sales restrictions: Are assets held in equity interest less than 2.5% of the reporting entity's total admitted assets? If response to 13.01 above is yes, responses are not required for the remainder of Interrogatory 13. 1 Name of Issuer Interest in reporting entity's total admitted assets held in nonaffiliated, privately placed equities: Are assets held in nonaffiliated, privately placed equities less than 2.5% of the reporting entity's total admitted assets? If response to 14.01 above is yes, responses are not required for the remainder of Interrogatory 14. 1 Aggregate statement value of investments held in nonaffiliated, privately placed equities:	2 \$ \$ 2 \$	3 	Yes[X] No[] Yes[X] No[]
13.	12.02 12.03 12.04 12.05 Amous 13.01 13.02 13.03 13.06 13.07 13.08 13.09 13.10 14.01	t aggregate amounts and percentages of the reporting entity's total admitted assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets? If response to 12.01 is yes, responses are not required for the remainder of interrogatory 12. Aggregate statement value of investments with contractual sales restrictions: Largest three investments with contractual sales restrictions: Largest three investments with contractual sales restrictions: Interest and percentages of admitted assets held in the ten largest equity interests: Are assets held in equity interest less than 2.5% of the reporting entity's total admitted assets? If response to 13.01 above is yes, responses are not required for the remainder of Interrogatory 13. 1 Name of Issuer Are assets held in nonaffiliated, privately placed equities less than 2.5% of the reporting entity's total admitted assets? If response to 14.01 above is yes, responses are not required for the remainder of Interrogatory 14. 1 Aggregate statement value of investments held in nonaffiliated, privately placed equities: Largest three investments held in nonaffiliated, privately placed equities: Largest three investments held in nonaffiliated, privately placed equities: Largest three investments held in nonaffiliated, privately placed equities:	2 \$ \$ 2 \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$	3 	Yes[X] No[] Yes[X] No[]
13.	12.02 12.03 12.04 12.05 13.01 13.02 13.03 13.04 13.05 13.06 13.07 13.08 13.09 13.10 14.01 14.02 14.02	t aggregate amounts and percentages of the reporting entity's total admitted assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets? If response to 12.01 is yes, responses are not required for the remainder of Interrogatory 12. Aggregate statement value of investments with contractual sales restrictions: Largest three investments with contractual sales restrictions: Largest three investments with contractual sales restrictions: Are assets held in equity interest less than 2.5% of the reporting entity's total admitted assets? If response to 13.01 above is yes, responses are not required for the remainder of Interrogatory 13. 1 Name of Issuer Are assets held in nonaffiliated, privately placed equities less than 2.5% of the reporting entity's total admitted assets held in nonaffiliated, privately placed equities: Are assets held in nonaffiliated, privately placed equities less than 2.5% of the reporting entity's total admitted assets? If response to 14.01 above is yes, responses are not required for the remainder of Interrogatory 14. 1 Aggregate statement value of investments held in nonaffiliated, privately placed equities: Largest three investments held in nonaffiliated, privately placed equities: Largest three investments held in nonaffiliated, privately placed equities:	2 \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$	3 	Yes[X] No[]
13.	12.02 12.03 12.04 12.05 13.01 13.02 13.03 13.04 13.05 13.06 13.07 13.08 13.09 13.10 14.01 14.02 14.02	t aggregate amounts and percentages of the reporting entity's total admitted assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets? If response to 12.01 is yes, responses are not required for the remainder of interrogatory 12. Aggregate statement value of investments with contractual sales restrictions: Largest three investments with contractual sales restrictions: Largest three investments with contractual sales restrictions: Interest and percentages of admitted assets held in the ten largest equity interests: Are assets held in equity interest less than 2.5% of the reporting entity's total admitted assets? If response to 13.01 above is yes, responses are not required for the remainder of Interrogatory 13. 1 Name of Issuer Are assets held in nonaffiliated, privately placed equities less than 2.5% of the reporting entity's total admitted assets? If response to 14.01 above is yes, responses are not required for the remainder of Interrogatory 14. 1 Aggregate statement value of investments held in nonaffiliated, privately placed equities: Largest three investments held in nonaffiliated, privately placed equities: Largest three investments held in nonaffiliated, privately placed equities: Largest three investments held in nonaffiliated, privately placed equities:	2 \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$	3 	Yes[X] No[] Yes[X] No[]

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	If Are assets held in general partnership interests less than 2.5% of the If response to 15.01 above is yes, responses are not required for the	, - ,					Yes [X] No []
	1				2	3	
15.0	2 Aggregate statement value of investments held in general partners!	nip interests:			\$	0.000 %	
	Largest three investments in general partnership interests:						
	\$						
	#						
15.5	5	******************************			\$		
Amo	ounts and percentages of the reporting entity's total admitted assets he	eld in mortgage loan:	S :				
16.0	1 Are mortgage loans reported in Schedule B less than 2.5% of the re	eporting entity's total	admitted assets?				Yes[X] No[]
	If response to 16.01 above is yes, responses are not required for the	e remainder of Inter	rogatory 16 and Ir	lerrogatory 17.			
	1				2	3	
	Type (Residential, Commercial, Agri						
	2						
	4						
	demonstration of the establishment and the establishment of the establis						
	5						
	6						
	6						
	0						
	1						
					V	0.000 &	
Amo	unit and percentage of the reporting entity's total admitted assets held	in the resowing cate	gones of mongag	e loans:			
16.1	2 Construction loans					ens A AAA A	
	3 Mortgage loans over 90 days past due						
	Mortgage loans in the process of foreclosure						
	5 Mortgage loans foreclosed						
	6 Restructured mortgage loans						
	3 3 1 2 1 2 1 2 1 2 1 2 1 2 1 2 1 2 1 2		***************************************		4		
Aggı	egate mortgage loans having the following loan-to-value ratios as deli-	ermined from the mo	ost current apprais	al as of the ennual			
state	ment date:						
	Loan-to-Value	Posid					. sterrore.
			ientiel	Comm		Agric	
47.0	t share DES	1	2	3	4	5	6
17.0	1 above 95%	1 \$	2 0.000 %	3	40.000 %	5	6 0.000
17.0	2 91% to 95%	\$	2 0.000 %	\$	4 0.000 % 0.000 %	5 \$	6 0.000 %
17.0 17.0	2 91% to 95%	1 \$	2 0.000 % 0.000 %	3	4 0.000 % 0.000 %	\$	6 0.000 % 0.000 %
17.0 17.0 17.0	2 91% to 95%	\$	2 0.000 % 0.000 % 0.000 %	3 \$	4 0.000 % 0.000 % 0.000 %	\$	0.000 9
17.0 17.0 17.0	2 91% to 95%	\$	2 0.000 % 0.000 % 0.000 %	3 \$	4 0.000 % 0.000 % 0.000 %	\$	0.000 %
17.0 17.0 17.0 17.0 Amo	2 91% to 95%	\$	20.000 %0.000 %0.000 %0.000 %0.000 %0.000 %0.000 %0.000 %	\$	4 0.000 % 0.000 % 0.000 %	\$	0.000 %
17.0 17.0 17.0 17.0 Amo	2 91% to 95%	\$	2	\$	4 0.000 % 0.000 % 0.000 %	\$	0.000 %
17.0 17.0 17.0 17.0 Amo 18.0	2 91% to 95%	\$	2	\$	4 0.000 % 0.000 % 0.000 %	\$	6
17.0 17.0 17.0 17.0 Amo 18.0	2 91% to 95%	\$	2	\$	4 0.000 % 0.000 % 0.000 %	\$ \$	6
17.0 17.0 17.0 17.0 Amo 18.0	2 91% to 95%	\$	2	\$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$	4 	5 \$	6
17.0 17.0 17.0 17.0 Amo 18.0 Larg	2 91% to 95%	\$	2	3 \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$	4	\$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$	6
17.0 17.0 17.0 17.0 Amo 18.0 Larg	2 91% to 95%	\$	2	3 S S S S S S S S S S S S S S S S S S S	4	\$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$	6
17.0 17.0 17.0 17.0 Amo 18.0 Larg 18.0 18.0	2 91% to 95%	\$	2	3 \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$	4	\$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$	6
17.0 17.0 17.0 17.0 Amo 18.0 18.0 18.0 18.0	2 91% to 95%	\$	2	3 S S S S S S S S S S S S S S S S S S S	4	\$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$	6
17.0 17.0 17.0 17.0 Amo 18.0 18.0 18.0 18.0	2 91% to 95%	\$	2	3 S S S S S S S S S S S S S S S S S S S	4	\$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$	6
17.0 17.0 17.0 17.0 18.0 18.0 18.0 18.0 18.0 18.0	2 91% to 95%	\$	2	3 S S S S S S S S S S S S S S S S S S S	4	\$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$	6
17.0 17.0 17.0 17.0 Amo 18.0 18.0 18.0 18.0 18.0 18.0 18.0 18.0	2 91% to 95%	\$	2	3 \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$	4	\$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$	6
17.0 17.0 17.0 17.0 Amo 18.0 18.0 18.0 18.0 18.0 18.0 18.0 18.0	2 91% to 95%	\$	2	3 \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$	4	\$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$	6
17.0 17.0 17.0 17.0 18.0 18.0 18.0 18.0 18.0 18.0 18.0 18	2 91% to 95%	\$	2	3 \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$	4	\$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$	6
17.0 17.0 17.0 17.0 18.0 18.0 18.0 18.0 18.0 18.0 18.0 18	2 91% to 95% 3 61% to 90% 4 71% to 80% below 70% unts and percentages of the reporting entity's total admitted assets he 1 Are assets held in real estate reported less than 2.5% of the reportin if response to 18.01 above is yes, responses are not required for the est five investments in any one parcel or group of contiguous parcels in Description 2 3 4 5 5 unt aggregate amounts and percentages of the reporting entity's total at 1 Are assets held in investments held in mezzanine real estate loans in the state of the reporting real estate loans.	\$	2	3 \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$	4	\$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$	6
17.0 17.0 17.0 17.0 18.0 18.0 18.0 18.0 18.0 18.0 18.0 18	2 91% to 95%	\$	2	3 \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$	4	\$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$	6
17.0 17.0 17.0 17.0 18.0 18.0 18.0 18.0 18.0 19.0 19.0	2 91% to 95%	\$	2	3 \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$	4	\$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$	6
17.0 17.0 17.0 17.0 18.0 18.0 18.0 18.0 18.0 19.0 19.0 19.0 19.0	2 91% to 95%	\$	2	3 \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$	4	\$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$	6
17.0 17.0 17.0 17.0 18.0 18.0 18.0 18.0 18.0 19.0 19.0 19.0 19.0	2 91% to 95%	\$	2	3 \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$	4	\$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$	6
17.0 17.0 17.0 17.0 18.0 18.0 18.0 18.0 18.0 19.0 19.0 19.0 19.0	2 91% to 95%	\$	2	3 \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$	4	\$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$	6
17.0 17.0 17.0 17.0 18.0 18.0 18.0 18.0 18.0 19.0 19.0 19.0 19.0	2 91% to 95%	\$	2	3 \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$	4	\$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$	6
17.0 17.0 17.0 17.0 18.0 18.0 18.0 18.0 18.0 19.0 19.0 19.0 19.0	2 91% to 95%	\$	2	3 \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$	4	\$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$	6
17.0 17.0 17.0 17.0 18.0 18.0 18.0 18.0 18.0 19.0 19.0 19.0 19.0	2 91% to 95%	\$	2	3 \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$	4	\$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$	6
17.0 17.0 17.0 18.0 18.0 18.0 18.0 18.0 18.0 19.0 19.0 19.0 19.0 19.0 19.0 19.0	2 91% to 95%	\$	2	3 \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$	4	\$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$	6
17.0 17.0 17.0 18.0 18.0 18.0 18.0 18.0 18.0 19.0 19.0 19.0 19.0 19.0 19.0 19.0	2 91% to 95%	\$	2	3 \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$	4	\$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$	6
17.0 17.0 17.0 18.0 18.0 18.0 18.0 19.0 19.0 19.0 19.0 19.0 20.0	2 91% to 95%	\$	2	3 \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$	4	\$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$	6
17.0 17.0 17.0 18.0 18.0 18.0 18.0 18.0 19.0 19.0 19.0 19.0 20.0	2 91% to 95%	s	2	3 \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$	4	\$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$	6
17.0 17.0 17.0 17.0 18.0 18.0 18.0 18.0 19.0 19.0 19.0 19.0 19.0 20.0 20.0 20.0	2 91% to 95%	s	2	3 \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$	4	\$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$	6
17.0 17.0 17.0 18.0 18.0 18.0 18.0 18.0 19.0 19.0 19.0 19.0 20.0 20.0 20.0 20.0	2 91% to 95%	\$	2	3 \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$	4	\$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$	6

Supplement for the year 2010 of the HomeWise Preferred Insurance Company

Amounts and percentages of the reporting entity's total admitted assets for warrants not attack	hed to other financi	iai instruments, optio	ns, caps and floo	25 :		
	Owned			Written		
	1	2		3	4	
21.01 Hedging	\$	0.000 %		\$	0.000	
21.02 Income generation	\$	0.000 %		\$	0.000 1	
21.03 Other	\$,			\$	0.000 9	
Amounts and percentages of the reporting entity's total admitted assets of potential exposure	for collars, swaps,	and forwards:				
	At Ye	sar-End		At End of Each Quan	<u>ter</u>	
			1st Otr	2nd Qtr	3rd Qtr	
	1	2	3	4	5	
22.01 Hedging	\$	0.000 %	\$	\$	\$	
22.02 Income generation	\$	0.000 %	\$	\$	\$	
22.03 Repăcations	\$	0.000 %	\$	\$	\$	
22.04 Other	\$,0.000 %	\$	\$	\$	
Amounts and percentages of the reporting energy's total admitted assets of potential exposure	for futures contract	ts:				
, , , , , , , , , , , , , , , , , , , ,				At End of Each Quar	<u>ter</u>	
			1st Otr	2nd Qtr	3rd Otr	
	1	2	3	4	5	
23.01 Hedging	\$	0.000 %	\$	\$	\$	
23.02 Income generation.	\$	0.000 %	\$	S	\$	
23.04 Other	\$	0.000 %	\$	\$	\$	
	21.01 Hedging	21.01 Hedging \$ 21.02 Income generation \$ 21.03 Other \$ 21.03 Other \$ 21.03 Other \$ 21.04 Hedging \$ 21.05 Income generation \$ 21.05 Other \$ 21.06 Income generation \$ 21.07 Hedging \$ 22.07 Hedging \$ 22.08 Replication \$ 22.09 Replication \$ 22.09 Replication \$ 22.09 Other \$ 23.01 Hedging \$ 23.01 Hedging \$ 23.01 Hedging \$ 23.01 Hedging \$ 23.02 Income generation \$ 23.01 Hedging \$ 23.02 Income generation \$ 23.03 Replications \$ 23.00 Income generation \$ 23.00 Inc	1 2 21.01 Hedging \$ 0.000 % 21.02 Income generation \$ 0.000 % 21.03 Other \$ 0.000 % 21.03 Othe	1 2 21.01 Hedging	1 2 3 3 21.01 Hedging S 0.000 % S	

See report of independent auditors.

Selected General Interrogatories Relating to Reinsurance

December 31, 2010

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

Selected General Interrogatories Relating to Reinsurance

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

