Homewise Insurance Company Insolvency Report June 30, 2015

Prepared by:







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Receivership information:

Name of Receivership	Homewise Insurance Company
Case number	2011-CA-003221
Date of Conservation	N/A
Date of Rehabilitation	N/A
Date of Liquidation	November 18, 2011

Scope:

As provided in the Provider Contract between the "Receiver of the Estate of **Homewise 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.

Business

Historical information related to the company is as follows:

Homewise Insurance Company (the Company) (TIC 20-5935917) was incorporated in the State of Florida on April 4, 2005, received its Certificate of Authority on December 5, 2005, and began operations on January 12, 2006.

The Company represented itself as a homeowner's insurer, providing wind-only coverage exclusively in the State of Florida.

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 Preferred Insurance Company (HPIC), 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	\$ 4,337,035	\$ 2,651,949	\$1,362,358
Net underwriting income (loss)	\$ (981,843)	\$ 433,910	\$(2,124,153)
Net income (loss)	\$ (384,201)	\$ 775,924	\$(1,043,316)
Ending capital/surplus	\$ 9,152,355	\$ 9,687,400	\$8,395,814

	Year 2009	Year 2010	YTD June 30, 2011
Premiums earned, net	\$ 4,555,001	\$ 15,363,099	\$3,300,326
Net underwriting income (loss)	\$ (1,946,732)	\$ (2,450,755)	\$(13,062,632)
Net income (loss)	\$ (2,102,955)	\$ (2,032,047)	\$(13,422,140)
Ending capital/surplus (deficit)	\$ 20,262,170	\$ 18,799,788	\$(2,084,080)

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- Jamiel Andrew Akhtar

John Baker Gentry Jr. Thomas Anthony Lee William Edward Rose

Background/Events of Impact

HMC provided nearly all operating and management services for the Company and HPIC, by contracting with outsourced vendors. HMC also paid the salaries and benefits for the executives and managers of the group of affiliated Homewise companies. The Company and HPIC 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 HPIC and the Company 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 HPIC to the Company 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 HPIC and the Company 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 were over \$6 million.

Loss Reserves

An analysis and investigation of the loss reserve methodologies of HPIC and the Company 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 entered into a note purchase agreement and security agreements with the lenders. As security for the 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 Homewise Holdings, Inc., 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 the Company and HPIC.

This arrangement resulted in improved financial position reported on the financial statements of the Company and HPIC, 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 the Company and HPIC.

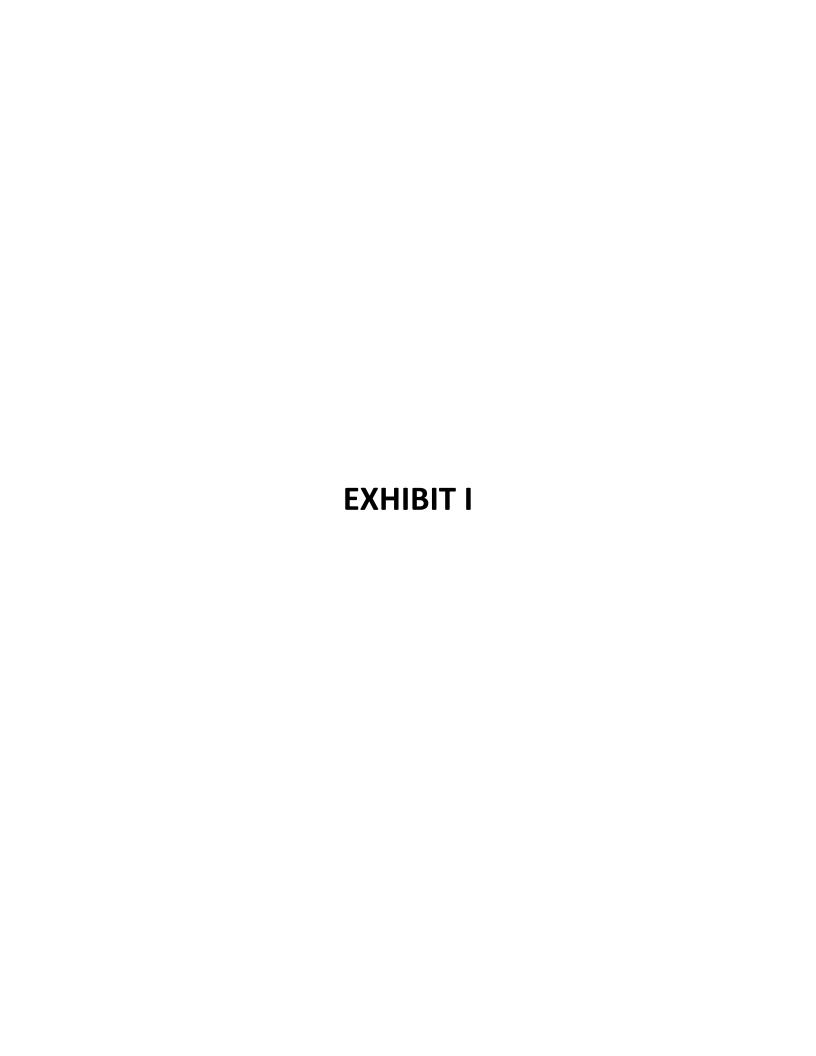
Conclusion

In conclusion, the insolvency of Homewise 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 Insurance Company, Years Ended December 31, 2006 through 2010, and for the six months ended June 30, 2011

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



Statutory Basis Financial Statements and Other Financial Information

HomeWise Insurance Company

For the year ended December 31, 2006 with Report of Independent Auditors

Thomas Howell

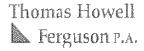
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Statutory Basis Financial Statements and Other Financial Information

Year ended December 31, 2006

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Report of Independent Auditors

The Board of Directors HomeWise Insurance Company

We have audited the accompanying statement of admitted assets, liabilities and capital and surplus - statutory basis of the HomeWise 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 year 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 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 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 Insurance Company as of December 31, 2006, and the results of its operations and its cash flows for the year then ended, on the basis of accounting described in Note 1.

Thomas Howell

Ferguson P.A.

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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 year ended 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 the 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 Insurance Company and state insurance regulatory authorities and should not be used for any other purpose.

Thomas Howell Feynm B.a.

May 25, 2007

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

December 31, 2006

Admitted assets Cash and invested assets: Short-term investments Cash and cash equivalents	\$ 2,058,147 20,673,342
Total cash and invested assets	22,731,489
Accrued investment income Premiums receivable Reinsurance balances recoverable Electronic data processing equipment, net Receivables from parent and affiliates Net deferred tax asset Federal income taxes recoverable Other assets	19,518 3,662,727 764,564 90,815 48,217 183,011 780,575 104,365
Total admitted assets	\$ 28,385,281
Liabilities and capital and surplus Liabilities: Loss and loss adjustment expense reserves Unearned premiums, net Reinsurance premiums payable Accounts payable and accrued expenses Payable to affiliates	\$ 80,702 2,663,052 12,652,500 1,160,934 1,489,850
Payable to Citizens Property Insurance Corporation Total liabilities	1,185,888
Capital and surplus Total liabilities and capital and surplus	19,232,926 9,152,355 \$ 28,385,281

Statement of Operations - Statutory Basis

Year ended December 31, 2006

Underwriting income:	
Premiums earned, net of reinsurance ceded	\$ 4,337,035
Underwriting expenses:	
Losses and loss adjustment expenses incurred	240,555
Underwriting, acquisition, and other expenses incurred	5,078,323
Total underwriting expenses	5,318,878
Net underwriting loss	(981,843)
Net investment income	638,975
Other income (loss)	(127)
Loss before federal income tax expense	(342,995)
Federal income tax expense	(41,206)
Net loss	\$ (384,201)

HomeWise Insurance Company

Statement of Changes in Capital and Surplus - Statutory Basis

Year ended December 31, 2006

			Gross Paid-in and		
	Common Stock	Stock	Contributed	Unassigned	
	Shares Par Value	Par Value	Surplus		Total
Balance as of December 31, 2005	100,000	\$ 100,000	100,000 \$ 100,000 \$ 9,400,000 \$	\$ 31,287 \$ 9,531,287	\$ 9,531,287
Change in net deferred income taxes	1	:	ı	183,011	183,011
Change in nonadmitted assets	ī	1	ŧ	(177,742)	(177,742)
Net loss	F	***************************************	**	(384.201)	(384,201) (384,201)
Balance as of December 31, 2006	100,000	\$ 100,000	100,000 \$ 100,000 \$ 9,400,000 \$ (347,645) \$ 9,152,355	\$ (347.645)	\$ 9,152,355

See accompanying notes.

Statement of Cash Flows - Statutory Basis

Year ended December 31, 2006

Operating activities	
Premiums collected, net of reinsurance	\$ 17,172,332
Net investment income received	622,074
Losses and loss adjustment expenses paid	(409,917)
Underwriting, acquisition, and other expenses paid	(4,504,711)
Income taxes paid	(827,303)
Net cash provided by operating activities	12,052,475
Financing and miscellaneous activities	
Other miscellaneous sources	1,142,971
Net cash provided by financing and miscellaneous activities	1,142,971
Net increase in cash	13,195,446
Cash at beginning of year	9,536,043
Cash at end of year	\$ 22,731,489
Cash consists of the following:	
Cash and cash equivalents	\$ 20,673,342
Short-term investments	2,058,147
	\$ 22,731,489

Notes to Statutory Basis Financial Statements

Year ended December 31, 2006

1. Summary of Significant Accounting Policies

Organization and Description of Company

HomeWise Insurance Company (the Company), a wholly-owned subsidiary of HomeWise Holdings, Inc., an insurance holding company, is domiciled in the state of Florida. The Company received its Certificate of Authority on December 5, 2005, and commenced operations on January 12, 2006.

The Company writes wind-only 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 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 statement of admitted assets, liabilities, and capital and surplus and are charged directly to unassigned surplus. Under GAAP, such assets are included in the balance sheet at net realizable values.
- Loss and loss adjustment expense reserves and unearned premiums ceded to reinsurers have been reported as reductions of the related liabilities rather than as assets as would be required under GAAP.

Notes to Statutory Basis Financial Statements

1. Summary of Significant Accounting Policies (continued)

Basis of Presentation (continued)

- Cash in the statement of cash flows represent 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 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.

Other significant accounting practices are as follows:

Recognition of Premium Revenues

Premiums are recorded as earned on a monthly 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.

Cash, Cash Equivalents, and Short-term Investments

Cash and cash equivalents includes demand deposits with financial institutions and other highly liquid investments with original maturities of three months or less. Short-term investments are highly liquid investments with remaining maturities of one year 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, short-term investments, 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.

All investment transactions have credit exposure to the extent that a counterparty may default on an obligation to the Company. Credit risk is a consequence of carrying investment positions. To manage credit risk, the Company focuses primarily on highly liquid debt instruments, reviews the credit strength of all entities in which it invests, limits its exposure in any one investment, and monitors portfolio quality, taking into account credit ratings assigned by recognized credit rating organizations.

Electronic Data Processing (EDP) Equipment

The admitted value of the Company's EDP equipment and operating software is limited to 3% of capital and surplus. The admitted portion is reported at cost, less accumulated depreciation of \$27,631 at December 31, 2006. EDP equipment and operating software 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 non-admitted asset and depreciated using the straight-line method over the estimated useful life of seven years. Depreciation expense charged to operations in 2006 was \$37,661.

Reinsurance

The accompanying statutory basis financial statements reflects reserves for premiums and losses and loss adjustment expenses (LAE) net of reinsurance ceded (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 contract. 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 (FIGA), Citizens Property Insurance Corportation (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 FIGA, Citizens and 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 assessed are recorded as a recoverable asset. As of December 31, 2006, the Company had no outstanding notices of assessments.

Notes to Statutory Basis Financial Statements

1. Summary of Significant Accounting Policies (continued)

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 and Restrictions

Florida Statutes Section 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 Statutes Section 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 an amount on deposit with the state of Florida to secure the payment of claims. A cash deposit in the amount of \$310,371 has been assigned to the Office to satisfy this requirement. This deposit was included in cash and cash equivalents in the accompanying statement of admitted assets, liabilities, and capital and surplus at December 31, 2006.

3. Investments

Short-term investments consist of U.S. Government 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:

Cash and cash equivalents	\$ 1,029,790
Short-term investments	 65,774
	1,095,564
Investment expenses:	
Interest expense on funds held under	
reinsurance agreements	(435,082)
Interest expense on arbitration	(6,981)
Bank fees	 (14,526)
Net investment income	\$ 638,975

Notes to Statutory Basis Financial Statements

4. Premiums Receivable

Premiums receivable includes 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 uncarned premium. Premiums receivable is charged to bad debt expense in the period determined uncollectible. Recoveries received on amount 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	\$	3,666,143
Nonadmitted premiums receivable	•	(3.416)
Premiums receivable, net	\$	3,662,727

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.

	(in thousands)
Loss and LAE reserves at beginning of year	\$ -
Losses and LAE incurred related to:	
Current year	241
Prior years	
	241
Losses and LAE paid related to:	
Current year	160
Prior years	**
	160
Loss and LAE reserves at end of year	\$ <u>81</u>

Anticipated reinsurance recoverables on unpaid losses and LAE are approximately \$242,000 at December 31, 2006. Reinsurance recoverables on paid losses and LAE are \$250,000 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 quota share and excess of loss reinsurance for catastrophic events. Following is a summary of the reinsurance coverage.

Notes to Statutory Basis Financial Statements

6. Reinsurance (continued)

Effective January 4, 2006, the Company entered into a quota share agreement that generally provides coverage for 75% of all losses net of other reinsurance coverages. The reinsurer's maximum liability per occurrence shall be limited to 75% of \$20,000,000, and as respects to any one risk shall be 75% of \$4,000,000. The reinsurer allows the Company a ceding commission percentage equal to that of the Company's acquisition costs. Premiums ceded under the quota share agreement, net of reinsurer's pro rata cost of catastrophe coverages and ceding commissions were \$19,541,734 and \$13,831,937, respectively, for the year December 31, 2006. The ceding commissions have been recorded as a reduction of underwriting, acquisition, and other expenses in the accompanying statement of operations. In addition, the reinsurer shall pay the Company a 15% profit commission on net profit to be determined at the expiration of the contract period, May 31, 2007.

Effective June 1, 2006, the Company executed catastrophe excess of loss agreements in which the coverage is provided by agreements with commercial reinsurers and coverage provided by the FHCF. The excess of loss treaties generally provide coverage on ultimate net losses of approximately \$142,600,000 in excess of \$5,200,000 per occurrence, not to exceed approximately \$158,700,000 for all occurrences. The FHCF provided coverage for 90% of the losses from qualifying catastrophic events in excess of approximately \$34,300,000 up to a maximum of approximately \$142,600,000, plus 100% of qualifying losses in excess of \$2,900,000 (drop down layer) up to a maximum of \$10,000,000. For the year ended December 31, 2006, premiums of \$13,110,945 and \$6,223,942 were ceded under the commercial excess catastrophe agreements and FHCF, respectively.

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, 2006, 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 \$7,723,023.

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 reinsuring companies do not meet their obligations under these reinsurance contracts. Given the quality of the reinsuring companies, management believes this possibility to be remote. See Note 5 for recoveries due from reinsurers relating to paid and unpaid losses and LAE.

Notes to Statutory Basis Financial Statements

6. Reinsurance (continued)

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

The effects of reinsurance on premiums written and earned at December 31, 2006, are as follows:

	<u> Written</u>	<u>Earned</u>
Direct premiums	\$ 37,776,317	\$ 13,858,975
Assumed premiums	21,873,836	21,496,120
Ceded premiums	<u>(52,650,065</u>)	<u>(31.018.060</u>)
Net premiums	\$ <u>7,000,088</u>	\$ <u>4,337.035</u>

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

7. Policy Assumption Agreement

The Company assumed written premiums of \$21,873,836 during 2006 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 2006 were \$3,499,814.

8. Income Taxes

Income before federal income taxes differs from taxable income principally due to differences in loss and LAE reserves and uncarned 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	\$	252,962
Gross DTLs		(35,370)
Net admitted DTAs		217,592
Nonadmitted DTAs	_	(34.581)
Net admitted DTAs	\$	183,011

B. Unrecognized DTLs

There are no unrecognized DTLs.

Notes to Statutory Basis Financial Statements

8. Income Taxes (continued)

C. Current tax and change in deferred tax:

The provisions for income taxes incurred on earnings were:

Current year income tax expense	\$ 41,206
Prior year over accrual	
Current income taxes incurred	\$ 41,206

The tax effect of temporary differences at December 31, 2006, that give rise to significant deferred tax assets and deferred tax liabilities are as follows:

DTAs	<u>Statutory</u>	<u>Tax</u>	Difference	Tax Effect
Unpaid losses and LAE	\$ 80,702	\$ 75,046	\$ 5,656	\$ 1,923
Unearned premiums	2,663,052	2,130,442	532,610	181,087
Nonadmitted assets	***	205,742	205,742	69.952
Gross DTAs				\$ <u>252,962</u>
DTLs	Statutory	Tax	Difference	Tax Effect
Furniture and equipment	\$ -	\$ (87,033)	\$ (87,033)	\$ (29,591)
Prepaid expenses	-	(16,998)	(16,998)	(5,779)
Gross DTLs				\$ (35.370)

The change in gross DTAs of \$252,962 and gross DTLs of \$(35,370) 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:

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

	2006	Effective Tax Rate
Provision computed at		
statutory rate	\$ (116,618)	(34.00)%
Nonadmitted assets	(69,952)	(20.39)
Other	10,184	2.96
Total	\$ <u>(176,386</u>)	<u>(51.43</u>)%
Federal income tax	\$ 41,206	12.01 %
Change in deferred taxes	(217,592)	(63.44)
Statutory income taxes	\$ <u>(176.386</u>)	(51.43)%

Notes to Statutory Basis Financial Statements

8. Income Taxes (continued)

- 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. The Company had no unused net operating loss carryforwards available to offset future taxable income at December 31, 2006.
 - 3. The following is income tax expense that is available for recoupment in the event of future net losses:

F. Consolidated federal income tax return:

The Company files a consolidated income tax return with the following: HomeWise Holdings, Inc.
HomeWise Preferred Insurance Company
HomeWise Management Company

9. Capital and Surplus

The Company has authorized 100,000 shares of \$1 par value common stock, of which 100,000 shares are issued and outstanding. The parent company, HomeWise Holdings, Inc., is the sole shareholder.

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's capital and surplus exceeds 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 December 31, 2006.

Notes to Statutory Basis Financial Statements

10. Related Party Transactions

The Company is a wholly-owned subsidiary of HomeWise Holdings, Inc. (HHI) and is affiliated with HomeWise Management Company (HMC) and HomeWise Preferred Insurance Company (HPIC), which are also wholly-owned subsidiaries of HHI.

Effective January 1, 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 \$12,994,250. As of December 31, 2006, the Company has a net payable due to HMC in the amount of \$1,489,850.

Effective December 5, 2005, the Company entered into a service agreement with HHI. Pursuant to the agreement, HHI provides to the Company 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 \$591,640. As of December 31, 2006, the Company has a receivable due from HHI in the amount of \$40,952.

The Company is also party to a Cost Allocation Agreement with HPIC, 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 expenses. As of December 31, 2006, the Company has a receivable due from HPIC in the amount of \$7,625.

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. HMC has contracted with an unaffiliated service company to provide this function. 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 <u>Written</u>	
HomeWise Management 18302 Highwoods Preserve Prkwy Suite 110 Tampa, FL 33647	20-3395152	Yes	Wind-only	Premium collection, claims adjustment, binding authority, and underwriting	\$ 37,776,31	7

Notes to Statutory Basis Financial Statements

12. Lease Commitments

On September 2, 2005, the Company entered into an operating lease agreement for office space in Tallahassee, Florida, which is effective October 15, 2005, through October 31, 2008.

On May 1, 2006, the Company also entered into an operating lease agreement for office space in Tampa, Florida, which is effective June 1, 2006, through May 31, 2011. The Company has the option to renew the term of the lease for an additional five year period at the prevailing rental rate at that time, provided the Company gives the lessor written notice nine months prior to its intent to renew the lease.

Approximate future lease payments under these operating leases are as follows at December 31, 2006:

2007	\$ 238,421
2008	236,969
2009	175,001
2010	182,048
2011	 77,077
	\$ 909,516

Total rent expense for the combined leases was \$166,386 for the year ended December 31, 2006.

13. Subsequent Events

On January 1, 2007 the Company terminated and commuted its quota share reinsurance agreement with Glacier Reinsurance AG. Effective January 1, 2007, the Company and its affiliated company HomeWise Preferred 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 expire 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 their gross premiums after deducting the cost of the above referenced inuring reinsurance to the Reinsurer. The Reinsured cedes 75% of their cover 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 their 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 share 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 bank.

Notes to Statutory Basis Financial Statements

13. Subsequent Events (continued)

As of December 31, 2006, the Company had filed for arbitration regarding the Office's denial of the Company's proposed 80% rate increase, which it had implemented under Florida's "Use and File" Statutes. The panel awarded the Company an approved rate increase of 75.4%. The effect of the arbitration award is included in the accompanying statutory basis financial statements.

As of December 31, 2006, the Company was in negotiations with Citizens regarding ownership of a \$3.1 million reinsurance surcharge. The Company's position was that the surcharge was properly ceded to the Company when it assumed policies from Citizens in January and March of 2006. Citizens maintained that the surcharge was improperly ceded to the Company and should be returned. The Company has reached an agreement in principle with Citizens wherein the Company will return 25% of the disputed amount to Citizens and has included the agreed-upon amount (\$2.3 million) in assumed premiums in the accompanying statement of operations.

14. 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, 2006, resulting from reclassification of reinsurance balances and other liabilities. 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, 2006.

	Audited Financial Statement <u>Amount</u>	Annual Statement Amount	Increase (Decrease)	
Total admitted assets	\$ 28,385,281	\$ 28,566,558	\$ (181,277)	
Total liabilities	19,232,926	19,414,204	(181,278)	
Total capital and surplus	9,152,355	9,152,354	1	
Net loss	384,201	384,202	(1)	



SUMMARY INVESTMENT SCHEDULE

			Gros Investment	Holdings	Admitted Assets in the Annual		
		Investment Categories	1 Amount	2 Percentage	3 Amount	4 Percentag	
	ond:						
1.		U.S. treasury securities		0.0	hadrosinari hitim vikaranda a arraia adi	0	
1.3	2	U.S. government agency obligations (excluding mortgage-backed securities):					
		1.21 Issued by U.S. government agencies.			holoshow hinton rebecate escatation	0	
		1.22 Issued by U.S. government sponsored agencies.			***************************************	0	
1,		Foreign government (including Canada, excluding mortgage-backed securities)	. ###\$\$q=##==\limb\pmq=pee	0.0		0	
1,4	4	Securities issued by states, territories and possessions and political subdivisions in the U.S.:					
		1.41 States, territories and possessions general obligations		1		0	
		1.42 Political subdivisions of states, territories & possessions & political subdivisions general obligations	1	0.0		0	
		1.43 Revenue and assessment obligations		0.0			
		1.44 Industrial development and similar obligations	· ····································	0.0		0	
1.3	5	Mortgage-backed securities (includes residential and commercial MBS):					
		1.51 Pass-through securities:					
		1.511 Issued or guaranteed by GNMA	**************************************	0.0	may forming interest about a distribution of a second of the second of t	0	
		1.512 Issued or guaranteed by FNMA and FHLMC	***************************************	0.0	*********************	0	
		1.513 All other	deeedes) neitieneehi rovoi eurobso	00	0700000001-033-0000000000000000000000000	٥	
		1.52 CMOs and REMICs;					
		1.521 Issued or guaranteed by GNMA, FNMA, FHLMC or VA	***************************************	0.0	to combat to the circumstance in a circ	0	
		1.522 Issued by non-U.S. Government issuers and collateralized by mortgage-backed				1	
		securities issued or guaranteed by agencies shown in Line 1.521		0.0		I	
		1.523 All other	*************************		************	0	
2. Ot		debt and other fixed income securities (excluding short-term):			 		
2.1	1	Unaffiliated domestic securities (includes credit tenant loans rated by the SVO)		0.0		0	
2.7		Unaffsated foreign securities		0.0	A(************************************	٥٥	
2.	3	Affiliated securities.	**************************************	0.0	00(n)=100#0n/s)vv(=v#aaaaaaaaaaaa).b3	0	
3. Eq	quity	y interests:					
3.1	1	Investments in mutual funds	***************************************	0.0	dar#linde>nd>l>n>immaasassussan	0	
3.2	2	Preferred stocks:					
		3.21 Affisted		00		0	
		3.22 Una seed	***************************************	0.0		0	
3.3	3	Publicly traded equity securities (excluding preferred stocks):					
		3.31 Afficiated	444 (m4 m) 4 m (mp) mp - m - m (m) (mp) pp p			0	
		3.32 Unafficied.	1117	00		0	
3.4	4	Other equity securities:					
		3.41 Affiliated	***************************************	0.0		0	
		3.42 Unaffisited	: accessional objective contributions of a co	00	->	£	
3.5	5	Other equity interests including tangible personal property under lease:					
		3.51 Affizited	· exceedeebladienthussbounsers	0.0	}v###!v#v(n#(nh###\\\\\		
		3.52 Unafficated	eeeeebaardbaaaans-daamdaas		>-60>0-9-000->>001-6111-600		
4. Mc	ortg	jage loans:					
4.1	1	Construction and land development	,,	0.0	nimmeedardebaansssass-sv-		
4.2	2	Agricultural	244444>>->>	0.0		l	
4,3	3	Single family residential properties	4******************************	0.0		l	
4.4	4	Multitamily residential properties	######################################				
4.5	5	Commercial joans	1	0.0			
4.6		Mezzarine real estate loans.	1	00		0	
5. Re	ea! e	estate investments:	1				
5.1		Property occupied by company.	15 (411)4(p-man(x)) =		ninnigen and a defect on a language of section (e.g.)	r	
5.2		Property held for production of income (including \$0 of property acquired in satisfaction of debt)	1		1		
5.3		Property held for sale (including \$	1	00			
		act loans	I		1		
				0.0	devided to a tomatic transaction and		
		ivebles for securities.					
		, cash equivalents and short-term investments	1		l '''	!	
9. Ot	ther	invested assets	22,731,490	1.4	310,371		



Due April 1

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

NAIC Group Code.....4111

NAIC Company Code.....12438

Employer's ID Number....20-3395013

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.

ŧ.	Repo	rting entity's total admitted assets as reported on Page 2 of	this annual statement.			\$28,566,558
2.	Teni	argest exposures to a single issuer/borrower/investment.				
		1	2	3	4	
					Percentage of Total	
		<u>lesuer</u>	Description of Exposure	<u>Amount</u>	Admitted Assets	
	2.01	#0 bbsecticl#permidianistications by midding of the permission of	o oran a filoson no españa da anta de desar de desar ante ante de desar ante de desar de desar de desar de desar de desar de de desar de de desar de de desar de de desar de de desar de de desar de de desar de d	\$		
	2.02			\$		
	2.03	a) treembelenbreld-basen holder hill bildment annel block the entitue et based to be vivreezable a same i	()	\$	0.000 %	
	2.04	destructives and resonant remains a series and the resonant of the remains of the		\$	0.000 %	
	2.05	#: 0m#/=10m \$77; mr a v00m a v 10m a v 10m a 0.00 a a v 200 d 200 a 200 d 200 a 200 a 200 a 200 a 200 a 200 a 2	**************************************	\$	0.000 %	
	2.06	E) desert de la constant de la const	***************************************	\$,,,		
	2.07	d had a some of the many decompleted design of the second section of the section of the second section of the	Checken 10 Shadh 12 14 10 12 12 12 12 12 12 12 12 12 12 12 12 12	\$	······································	
	2.08	ed where sides is a successful and a successful and the successful and	anya (unina (2008) uninas sesita asessa tipera tabela e terrandes uninas yundas pidanong	\$	0.000 %	
	2.09	ann an eigeadh coma an dos an anns an aigeans ag sinn a filir an 200 ann 200 an an aigean an ann agus ag ag ag		\$		
	2.10	**************************************	elana (franco (citara e) como e estrelle esta como as en in Gilamana, franco distribuidad de la citara de la c	\$	0.000 %	
3.	Amou	ints and percentages of the reporting entity's total admitted	assets held in bonds and preferred stocks by NA	AIC ratino.		
		Bonds		1	2	
	3.01	NAC-1 described to the contract of the contrac	erands rang vertos e vastos e autoras os es el esperos fores escretas escretas de como el como el como el como	\$	0.000 %	
	3.02	NAIC-2	ynifau www.wakan.wagaw wiqqaaakkanupanau kijugit 3544 siwagahinii 6545 iu gamiguugu 5,5	\$		
	3.03	NAIC-3	rumbd x x x 356x466 comb 4666m466 (bax x 1 168266 (bmb x 1662x2x bada x 1 1142x1 114622) (billion x 1642b) (b	\$		
	3.04	NAIC4	naraa ka mada na mana 19 maara 22 maa 22 maa 22 maa 19	\$	0.000 %	
	3.05	NAIC-5	00000000000000000000000000000000000000	\$	2,000 %	
	3.06	NAIC-6		S		
		Preferred Stocks		3	4	
	3.07	P/RP-1	harmann na arannar sguman (Damenim na gen 4 deggar 4 Dear à tgolann abuddo Damen dhalanan a	\$		
	3.08	PRP-2	and the constant was a like the transfer of the transfer of the second o	\$ barriase erabababbilistations a coloniario		
	3.09	P7P-3		\$		
	3.10	P/P-4				
	3.11	PRP-6				
	3.12	P/RP-6	(Shanada Gaman add Camlarda Shapan (8 4 2 3000 80 4 4 2 300 4 4 4 4 6 5 4 4 4 4 4 4 4 4 4 4 4 4 4 4	\$20,000 to 2000 to 200		
4,	Asset	is held in foreign investments:				
	4.01	Are assets held in foreign investments less than 2.5% of ti	he reporting entity's total admitted assets?			Yes[] No[X]
	4.02	Total admitted assets held in foreign investments			\$->=-10-10-10-10-10-10-10-10-10-10-10-10-10-	
	4.03	Foreign-currency-denominated investments			\$	0.000 %
	4.04	Insurance liabilities denominated in that same foreign our	ency		\$	0.000 %
	il res	ponse to 4.01 above is yes, responses are not required for it	nterrogatories 5-10.			
5.	Aggre	egate foreign investment exposure categorized by NAIC sov	rereign rating:			
				1	2	
	5.01	Countries rated NAIC-1	as of midwofts but later or himser cament about the announce of the streen hood of lader observed in	\$	0.000 %	
	5.02	Countries rated NAIC-2	ne quant annual ree la el la lime e quanto de me e un popular de en er y plane el lesse de la felle i annaer u		0.000 %	
	5.03	Countries rated NAIC-3 or below	[3-3-4-4-4-4-4-4-4-4-4-4-4-4-4-4-4-4-4-4	\$		
	T 1		Commission of the State of the			
6.	1 74/0 1	argest foreign investment exposures to a single country, cal	regorized by the country's NAIC sovereigh rating	j: \$	2	
		Countries rated NAIC-1:		¥	2	
	E 04	Country:		\$	ስ በስባስ ፍረ	
		Country				
	UNE	Countries rated NAIC-2:	- 20,44			
	E 03	Country		s	ስ ሰሰባ ፍር	

6.04 Country: _____

APPLIES SUBMINIST THE YEAR 2008 OF THE HOMEWise Insurance Company

		Countries reled NAIC-3 or below:			
	6.05		\$,	0.000 %	
	6.06	County.	Stocker and the second state of the second second		
			1	2	
		ak takan sina sina sina sina sina sina sina si			
7.	Aggre	gate unhedged foreign currency exposure:			
8.	Aggre	gate unhedged foreign currency exposure categorized by NAIC sovereign rating:			
	8.01	Countries rated NAIC-1	\$		
	8.02	Countries rated NAIC-2.	S	0.000 %	
		Countries rated NAIC-3 or below	•		
			•		
9.	Two is	argest unhedged foreign currency exposures to a single country, categorized by the country's NAIC sovereign	n rating:		
			1	2	
		Countries rated NAIC-1:			
	9.01	County: Access to the contract of the contract	Contract and restances while the bounded season of a		
	9.02	COUNTY: Objective (web we will depend on the control of the contro	\$		
		Countries rated NAIC-2:			
	9.03	Country:	\$	0.000 %	
	9.04	Country: 2000 to the contract of the contract	\$		
		Countries rated NAIC-3 or below:			
	9.05	Country:	\$,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,		
	9.06	Country: State (State (\$ company to the members of the control of the cont		
40	¥ 1-	seems are received for the many accompanies of the second			
10.	i en ia	rgest non-sovereign (i.e. non-governmental) foreign issues:			
		1 2	•		
	48.04	issuer NAIC Rating	3	4	
		erdat)lääär)leesda näidel)läesderdata)almarkendaradardardardardardardardardardardardar			
		$ = \frac{1}{2} \left(\frac{1}{2} \right) \right) \right) \right)}{1} \right)} \right)}{1} \right) \right)} \right) \right)} \right) $	•		
		potential policy (not the policy of the poli		***************************************	
		$ \begin{array}{ll} & & & & \\ +& & & \\ +& & & \\ +& & & \\ +& & & \\ +& & & \\ +& & & \\ +& & \\ +& & \\ +& & \\ +& & \\ +& & \\ +& & \\ +& & \\ +& & \\ +& & \\ +& \\ +& & \\ +& $			
		war an unanangan in unani in ini dan dan unanangan ada ina Banas an unanan na da Banas an unan na da Banas an un			
		$\{(H(t), (H(t), (H(t),$	•		
		$ + (A_{1}(P)(P)(P)(P)(P)(P)(P)(P)(P)(P)(P)(P)(P)($			
		$ = a.b.c. \\ mass = a.b.c. \\ mass = b.c. \\ $			
		$ \\ \\ \\ \\ \\ \\ \\ \\ \\ \\ \\ \\ \\ \\ \\ \\ \\ \\ \\$			
	10.10	Forerielle weets where the control of the control o	\$	0.000 %	
11,	Amou	nts and percentages of the reporting entity's total admitted assets held in Canadian investments and unhed	ned Canadian		
,		icy 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		\$,	
		Canadian-denominated insurance liabilities		\$	0.000
		Unhedged Canadian currency exposure		\$	
				4	
12.	Repor	t aggregate amounts and percentages of the reporting entity's total admitted assets held in investments with	ontractual sales restrict	ions.	
	12,01	Are assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's tot	al		
		admitted assets?			Yes[] No[X]
		If response to 12.01 is yes, responses are not required for the remainder of Interrogatory 12.			
		1	2	3	
	12.02	Aggregate statement value of investments with contractual sales restrictions:	\$		
		Largest 3 investments with contractual sales restrictions:			
	12.04		\$		
	12.05		\$		
13.	Amoun	nts and percentages of admitted assets held in the largest 10 equity interests;			
, ی		Are assets held in equity interest less than 2.5% of the reporting entity's total admitted assets?			Vaci i Na!VI
	, U.U 1				Yes[] No[X]
		If response to 13.01 above is yes, responses are not required for the remainder of Interrogatory 13.	2	3	
		Name of issuer		3	
	13.02	**************************************	Sa desarras de sora varios d'initia d'Antonaco	0.000 %	
		antizza) mantidi montana antizi manomo i inam manogano anti, montana i manoma i manoma antizza manoma i manomo i manomo i manoma antizza manomo i m			
	13,04		·	LELEGE TO	

Actual Statement for the year 2006 of the HomeWise Insurance Company

		dak da			
	13.11		***************************************	0.000 %	
14.	Amounts and percentages of the	e reporting entity's total admitted assets held in nonaf	listed navately discad equities:		
	•	listed, privately placed equities less than 2.5% of the	**		Yes[] No[X]
		e is yes, responses are not required for the remainds	* * *		, w ₁ , w ₂ ,
		1	2	3	
	14.02 Aggregate statement value	e of investments held in nonaffiliated, privately place	_		
		id in nonalitisted, privately placed equities:	•		
	-				
		***************************************	••		
15.	Amounts and percentages of the	e reporting entity's total admitted assets held in gener	al partnership interests:		
	15.01 Are assets held in general	il partnership interests less than 2.5% of the reporting	entity's total admitted assets?		Yes[] No[X]
	If response to 15.01 abov	e is yes, responses are not required for the remainde	r of Interrogatory 15.		
		1	2	3	
	15.02 Aggregate statement valu	e of investments held in general partnership interests	\$		
	Largest 3 investments in	general partnership interests:			
	15.03	m de coducione es dutos estados astronos astronos astronos astronos astronos astronos da calendados de calendados	\$	0.000 %	
	15.04		\$	0000 %	
	15.05	***************************************	\$ \$	0000 %	
16.	Amounte and normantures of the	reporting entity's total admitted assets held in mortgi	ross bands		
IQ.	· · · · ·	reposing easy's was builded assets hear among ted in Schedule B less than 2.5% of the reporting ent	•		Versil Namify's
		-			Yes[] No[X]
	n response to 10.01 2004	e is yes, responses are not required for the remainde 1	r or interrogatory to and interrogatory 17.	3	
	Tune (D	sidential, Commercial, Agricultural)	2	3	
		SSACTIONS, CASIS SEEDING, PAIRCUPATER!	ę	0.000 as	
			** *		
		300 - 100 36 (10 - 66 4 7 - 10 - 10 - 10 - 10 - 10 - 10 - 10 -			
		333			
	1 V (2)	tiga magam pamanganga magamang pamangangka pa tang pamanga ng papat anda pi babba at babba ang papa pang pang Tang	**************************************		
	Amount and percentage of the ri	eporting entity's total admitted assets held in the follow	wing categories of mortgage loans:		
			Lo	ans	
	16.12 Construction loans	**************************************		0.000 %	
	16.13 Mortgage loans over 90 d	ays past due	\$, \$,		
	16.14 Mortgage loans in the pro	cess of foreclosure	\$s.	0.000 %	
	16.15 Mortgage loans foreclose	đ	\$ \$	0.000 %	
	16.16 Restructured mortgage to	aris	\$	0.000 %	
17.	Aggregate mortgage loans hastr statement date:	g the following loan-to-value ratios as determined fro	m the most current appraisal as of the annual		
	Losn-to-Value	Residential	Commercial	*	, de and
	COMPLETANCE	1 2	3 4	5	r <u>ideral</u> E
	17 01 ahros Q5%	\$	•	-	6 0.000 %
		\$			
		\$			
		\$			
		\$			
	THE MARKET I W/FEITHER THE TENTE	7	**************************************	▼ 49197 hat and 4950 can had advanced adding a made of	
18.	Amounts and percentages of the	reporting entity's total admitted assets held in each of	of the five largest investments in real estate:		
18.		reporting entity's total admitted assets held in each o late reported less than 2.5% of the reporting entity's t	•		Yes[] No[X]

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

Arrival Statement for the year 2006 of the HomeWise Insurance Company

	Description				2	3	
	18.02	****	-00X1=00-1X0-1X0-0-1X0-0	**************************************		0000 %	
	18.03	reetoiesmassetseesmetreetsm		ś			
	18.04		5				
	18.05	row), mile an invest tradition du live	************************		L		
	18.06						
19.	Report appregate amounts and percentages of the report	ina antihên tatal ad	lealthad constructed in w		atoto la one		
19.	19,01 Are assets held in investments held in mezzanine						Yes[] No[X]
	Is response to 19.01 is yes, responses are not requ				Company Contractor Con		ical i matvi
		1			2	3	
	19.02 Aggregate statement value of investments held in	mezzanine real est	tate loans	\$		0.000 %	
	Largest three investments held in mezzanine real of	estate loans.					
	19.03	****>*******	Mitrophy 000 to a 1966 of Colombia Adalbana of Colombia	S	elarabio saal _are re_arelarercess s		
	19.04	Peviliniai anno cham aaana saa.	Formana dia ada ada ang ning 84 at mang		***************************************		
	19.05	**	l binding with the class of the could did prince the class of the wealth	14 m) 14 m 14 h 14 m 14 m 14 m 14 m 14 m 14 m	e. Firesoonde kool ne ekd ni roonidisees vanius d	0.000 %	
				_			
20.	Amounts and percentages of the reporting entity's total ac-	imitted assets subj		es of agreement	s:		
			At Year-End			At End of Each Quarter	
					1st Otr	2nd Otr	3rd Ofr
		1		2	3	4	5
	20.01 Securities lending (do not include assets held as collateral for such transactions)			n non er é			*
	20.02 Repurchase agreements						
	20.03 Reverse repurchase agreements.					*	•
	• •					•	•
	20.04 Dollar repurchase agreements						
	2000 Dosdi reverse reprintisse egirennens	vi 			en de a de media de la constante constante en de empresado en la constante en	· • • • • • • • • • • • • • • • • • • •	***************************************
21,	Amounts and percentages indicated below for warrants ne	ot attached to othe	r financial instruments,	options, caps ar	nd floors:		
			Owned			V.	in a
		1		2		3	4
	21.01 Hedging	\$.,,					
	21.02 Income generation.	··· \$	Milesterestresis telestratement			\$ - 110 - 10	0.000 Y
	21.03 Other	\$	olomas laures and same liberarios series	% 0.000 %		\$,	
22.	Amounts and percentages of the reporting entity's total ac	imitted assets of p	olental exposure for co	wars, swaps, an	d forwards:		
		•	At Year-End			At End of Each Quarter	
					1st Otr	2nd Otr	3ನ್ 07
		1		2	3	4	5
	22.01 Hedging	\$,		0.000 % \$			S
	22.02 Income generation	. S		0.000 % \$		\$	S
	22.03 Replications.	. \$		0.000 % S		\$	\$
	22.04 Other.						
23.	Amounts and percentages of the reporting entity's total ad	imized assets of p	•	tures contracts:		ser core in	
			At Year-End		tut Ota	At End of Each Quarter	6
		,		2	1st Otr	2nd Otr	3rd Otr
	23.01 Hedging	1		_	3	- \$	5
	23.02 Income generation.						•
	23.03 Replications.	•					•
	23.03 Repications			\$ 67 000 U 1 14 000 0		·· V	*

Selected General Interrogatories Relating to Reinsurance

December 31, 2006

/.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)?	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)

- 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 Insurance Company

Years ended December 31, 2007 and 2006 with Report of Independent Auditors

Thomas Howell Ferguson RA.

Statutory Basis Financial Statements and Other Financial Information

Years ended December 31, 2007 and 2006

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Report of Independent Auditors

The Board of Directors
HomeWise Insurance Company

We have audited the accompanying statements of admitted assets, liabilities and capital and surplus - statutory basis of the HomeWise 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 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 Insurance Company as of December 31, 2007 and 2006, 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 BA.

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, 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 Insurance Company and for filing with the state insurance regulatory authorities and should not be used for any other purpose.

Thomas Howell Feynson B.a.

May 9, 2008

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

	December 31, 2007 2006			
Admitted assets				
Cash and invested assets:				
Cash and cash equivalents	\$	4,475,371	\$ 20,673.	342
Short-term investments		2,166,986	2,058	
Total cash and invested assets	-	6,642,357	22,731	
Accrued investment income		13,866	19.	518
Premiums receivable		969,600	3,662	
Reinsurance balances recoverable		4,288	764,	
Electronic data processing equipment, net		111,750	,	815
Receivables from parent and affiliates		4,401,316		217
Net deferred tax asset		24,658	183,	
Federal income taxes recoverable		660,278	780,	
Other assets		833,866	104,	
Total admitted assets	\$	13,661,979	\$ 28,385,	281
Liabilities and capital and surplus Liabilities:				
Loss and loss adjustment expense reserves	\$	70,190	\$ 80.	702
Unearned premiums, net	•	1,358,639	2,663,	
Reinsurance premiums payable		1,390,154	12,652,	
Accounts payable and accrued expenses		326,956	1,160,	
Payable to affiliates		295,464	1,489,	
Payable to Citizens Property Insurance Corporation		533,176	1,185,	
Total liabilities		3,974,579	19,232,	
Capital and surplus		9,687,400	9,152,3	355
Total liabilities and capital and surplus	\$	13,661,979	\$ 28,385,2	

Statements of Operations - Statutory Basis

	Years ended December 31, 2007 2006			
Underwriting income:				
Premiums earned, net of reinsurance ceded	\$	2,651,949	\$	4,337,035
Underwriting expenses:				
Losses and loss adjustment expenses incurred		(14,429)		240,555
Underwriting, acquisition, and other expenses incurred		2,232,468		5,078,323
Total underwriting expenses		2,218,039		5,318,878
Net underwriting gain (Ioss)		433,910		(981,843)
Net investment income		529,899		638,975
Other expense		(4,461)		(127)
Income (loss) before federal income tax expense		959,348	***************************************	(342,995)
Federal income tax expense		183,424		41,206
Net income (loss)		775,924	\$	(384,201)

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

Years ended December 31, 2007 and 2006

	Common Stock		Gross Paid-ii		
	Shures	Par Value	Contributed Surplus	Unassigned Funds	i <u>Total</u>
Balance as of December 31, 2005	100,000	S 100,000	\$ 9,400,000	\$ 31,287	7 \$ 9,531,287
Change in deferred income taxes	•	-	-	183,011	183,011
Change in nonadmitted assets	-	-	•	(177,742	(177,742)
Net loss		*		(384,201	(384,201)
Balance as of December 31, 2006	100,000	100,000	9,400,000	(347,645	9,152,355
Issuance of common stock	550,000	550,000	(550,000) -	-
Change in deferred income taxes	•	-	-	(158,354) (158,354)
Change in nonadmitted assets	•	-	-	(82,525) (82,525)
Net income	şa.			775,924	775,924
Balance as of December 31, 2007	650,000	\$650,000	S8,850,000	\$187,400	S9,687,400

See accompanying notes.

Statements of Cash Flows - Statutory Basis

	Years ended December 31		
	2007 2006		
Operating activities			
Premiums (paid) collected, net of reinsurance	\$ (7,870,979) \$ 17,172,332		
Net investment income received	535,551 622,074		
Losses and loss adjustment expenses recovered (paid)	249,693 (409,917)		
Underwriting, acquisition, and other expenses paid	(2,557,825) (4,504,711)		
Income taxes paid	(63,127) (827,303)		
Net cash (used in) provided by operating activities	(9,706,687) 12,052,475		
Dimension and active the			
Financing and miscellaneous activities			
Other miscellaneous (uses) sources	(6,382,445) 1,142,971		
Net cash (used in) provided by financing			
and miscellaneous activities	(6,382,445) 1,142,971		
Net (decrease) increase in cash			
ret (decrease) mercase in cash	(16,089,132) 13,195,446		
Cash at beginning of year	22,731,489 9,536,043		
Cash at end of year	\$ 6,64 2,35 7 \$ 22,731,489		
•	\$ 6,642,357 \$ 22,731,489		
Cash consists of the following:			
Cash and cash equivalents	\$ 4,475,371 \$ 20,673,342		
Short-term investments	2,166,986 2,058,147		
	\$ 6,642,357 \$ 22,731,489		

Notes to Statutory Basis Financial Statements

Years ended December 31, 2007 and 2006

1. Summary of Significant Accounting Policies

Organization and Description of Company

HomeWise Insurance Company (the Company), a wholly-owned subsidiary of HomeWise Holdings, Inc. (HHI), an insurance holding company, is domiciled in the state of Florida. The Company received its Certificate of Authority from the Florida Office of Insurance Regulation (the Office) on December 5, 2005, and commenced operations on January 12, 2006. The Company is affiliated with HomeWise Management Company (HMC) and HomeWise Preferred Insurance Company (HPIC), which are wholly-owned subsidiaries of HHI.

The Company writes wind-only 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 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 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 expenses 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)

Other significant accounting practices are as follows:

Recognition of Premium Revenues

Premiums are recorded as earned on a monthly 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.

Investments

Short-term investments are highly liquid investments with remaining maturities of one year 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, short-term investments, reinsurance recoveries, and premiums 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.

All investment transactions have credit exposure to the extent that a counterparty may default on an obligation to the Company. Credit risk is a consequence of carrying investment positions. To manage credit risk, the Company focuses primarily on highly liquid debt instruments, reviews the credit strength of all entities in which it invests, limits its exposure in any one investment, and monitors portfolio quality, taking into account credit ratings assigned by recognized credit rating organizations.

Electronic Data Processing (EDP) Equipment

The admitted value of the Company's EDP equipment and operating software is limited to 3% of capital and surplus. The admitted portion is reported at cost, less accumulated depreciation of \$83,693 and \$27,631 at December 31, 2007 and 2006, respectively. EDP equipment and operating software 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 non-admitted asset and depreciated using the straight-line method over the estimated useful life of seven years. Depreciation expense charged to operations was \$79,293 and \$37,661 in 2007 and 2006, respectively.

Notes to Statutory Basis Financial Statements

1. Summary of Significant Accounting Policies (continued)

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.

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).

Notes to Statutory Basis Financial Statements

1. Summary of Significant Accounting Policies (continued)

Guaranty Fund and Residual Market Pool Assessments (continued)

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 \$755,526 (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 and Restrictions

Florida Statutes Section 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 Statutes Section 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 an amount on deposit with the state of Florida to secure the payment of claims. Cash on deposit in the amount of \$326,483 and \$310,371 has been assigned to the Office as of December 31, 2007 and 2006, respectively, to satisfy this requirement. This deposit was 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

Short-term investments consist of U.S. Government 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:

Torondon and '	Y (Years ended 2007		d December 31, 2006		
Investment income:	_					
Cash and cash equivalents	\$	439,564	\$	1,029,790		
Short-term investments		109,604		65.774		
		549,168		1,095,564		
Investment expense:				, .		
Interest expense on funds held under						
reinsurance agreements		-		(435,082)		
Interest expense on arbitration		-		(6,981)		
Bank fees		<u>(19,269</u>)		(14,526)		
NT	•	<u>(19,269</u>)	P	(456,589)		
Net investment income	\$	529,899	\$	638,975		

4. Premiums Receivable

Premiums receivable includes 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 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 consists of the following:

	December 31,			
	2007	2006		
Premiums receivable, gross Nonadmitted premiums receivable	\$ 969,60	3,666,143 (3,416)		
Premiums receivable, net	\$969,600	\$ <u>3,662,727</u>		

Notes to Statutory Basis Financial Statements

5. Loss and Loss Adjustment Expense (LAE) Reserves

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

	December 31,			
	2007		2006	
	(ir	thousand	ds)	
Loss and LAE reserves at beginning of year Losses and LAE incurred related to:	`\$	81 \$	•	
Current year		67	241	
Prior years		(81)		
Losses and LAE paid related to:	1	(14)	241	
Current year		36	160	
Prior years		(39)		
		(3)	160	
Loss and LAE reserves at end of year	\$	<u>70</u> \$	81	

Anticipated reinsurance recoverables on unpaid losses and LAE are approximately \$94,000 and \$242,000 at December 31, 2007 and 2006, respectively. Reinsurance recoverables on paid losses and LAE are approximately \$4,000 and \$250,000 at December 31, 2007 and 2006, respectively.

In 2007, net incurred losses and LAE attributable to insured events of prior years have decreased by \$81,000 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 January 1, 2007, the Company and its affiliated company, HomeWise Preferred 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 their gross premiums after deducting the cost of the above referenced inuring reinsurance to the Reinsurer. The Reinsured cedes 75% of

Notes to Statutory Basis Financial Statements

6. Reinsurance (continued)

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 their 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 share 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 bank. Premiums ceded under the quota share agreement, net of reinsurer's pro rata cost of catastrophe coverages, and ceding commissions were \$17,535,964 and \$13,258,493, respectively, for the year December 31, 2007. The ceding commissions have been recorded as a reduction of underwriting, acquisition, and other expenses in the accompanying statements of operations.

Effective January 4, 2006, the Company entered into a quota share agreement that generally provides coverage for 75% of all losses net of other reinsurance coverages. The reinsurer's maximum liability per occurrence shall be limited to 75% of \$20,000,000, and as respects to any one risk shall be 75% of \$4,000,000. The reinsurer allows the Company a ceding commission percentage equal to that of the Company's acquisition costs. Premiums ceded under the quota share agreement, net of reinsurer's pro rata cost of catastrophe coverages and ceding commissions were \$19,541,734 and \$13,831,937, respectively, for the year December 31, 2006. The ceding commissions have been recorded as a reduction of underwriting, acquisition, and other expenses in the accompanying statements of operations. In addition, the reinsurer shall pay the Company a 15% profit commission on net profit to be determined at the expiration of the contract period, May 31, 2007.

The catastrophe excess of loss coverage is provided by agreements with commercial reinsurers and by the FHCF. For the year ended December 31, 2007, the excess of loss treaties generally provide coverage on ultimate net losses of approximately \$107,400,000 in excess of \$2,700,000 per occurrence, not to exceed approximately \$111,700,000 for all occurrences. The FHCF provided coverage for 90% of the losses from qualifying catastrophic events in excess of approximately \$19,700,000 up to a maximum of approximately \$93,100,000, plus 100% of \$10,000,000 in excess of \$2,700,000 (drop down layer). For the year ended December 31, 2007, premiums of \$1,283,217 and \$9,034,430 were ceded under the commercial excess catastrophe agreements and FHCF, respectively. For the year ended December 31, 2006, the excess of loss treaties generally provide coverage on ultimate net losses of approximately \$142,600,000 in excess of \$5,200,000 per occurrence, not to exceed approximately \$158,700,000 for all occurrences. The FHCF provided coverage for 90% of the losses from qualifying catastrophic events in excess of approximately \$34,300,000 up to a maximum of approximately \$142,600,000, plus 100% of \$10,000,000 in excess of \$2,900,000 (drop down layer). For the year ended December 31, 2006, premiums of \$13,110,945 and \$6,223,942 were ceded under the commercial excess catastrophe agreements and FHCF, respectively.

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 assessments from its policyholders.

Effective June 1, 2007 and 2006, 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 agreements during 2007 and 2006 were \$551,517 and \$7,723,023, respectively.

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 companies do not meet their obligations under these reinsurance agreements. Given the quality of the reinsuring companies, management believes this possibility to be remote. See Note 5 for recoveries due from reinsurers relating to paid and unpaid losses and LAE.

On May 31, 2007, the Company terminated and commuted its excess of loss reinsurance agreement with Catlin Insurance Company Ltd. There were no losses assumed or gain or loss recognized on the commutation. Per the agreement, the Company was owed the amount in the experience account that was established under the original reinsurance agreement. That amount, calculated pursuant to the agreements, was \$822,000. The experience account balance was reduced by a commutation settlement charge of \$360,000. The net settlement amount of \$522,000 was received by the Company on July 22, 2007.

The Company terminated and commuted its quota share reinsurance agreement with Glacier Reinsurance AG on January 1, 2007. As a result of the commutation, \$7,989,164 in unearned premium was returned to the Company and \$6,833,689 in ceding commission was returned to Glacier Reinsurance AG. The cession of any future losses at January 1, 2007 and forward was also terminated. The Company also increased its ceded loss and loss adjustment paid and reduced its ceded reserves to recognize the effect of releasing the insurer from its obligation under the treaty. The net effect of the commutation was an increase in losses incurred of \$210,623. The reinsurance agreement with Glacier Reinsurance AG was replaced with a 75% quota share agreement with Harlequin Insurance (Bermuda) SAC Limited effective January 1, 2007.

Notes to Statutory Basis Financial Statements

6. Reinsurance (continued)

The effects of reinsurance on premiums written and earned at December 31, are as follows:

	2007	2006	
	<u> Written Earned</u>	<u> Written</u>	Earned
Direct premiums	\$ 21,766,628 \$ 33,475,44	9 \$ 37,776,317 \$	13,858,975
Assumed premiums	(2,343) 375,37	,	21,496,120
Ceded premiums	<u>(20,416.752)</u> <u>(31,198.87</u>	<u>4</u>) <u>(52,650,065</u>) <u>(</u> 3	<u>31.018,060</u>)
Net premiums	\$ <u>1.347.533</u> \$ <u>2.651.94</u>	9 \$ 7,000,088 \$	4.337,035

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

Direct unearned premiums Assumed unearned premiums Ceded unearned premiums Unearned premiums, net	2007 \$ 12,208,521 - (10.849,882) \$ 1,358,639	2006 \$ 23,917,342 377,716 (21,632,006) \$ 2,663,052
Assumed commission equity Ceded commission equity Commission equity, net	\$(3,227,628) \$(3,227,628)	\$ 60,435 (6.382,638) \$ (6,322,203)

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.

For the year ended December 31, 2007, recoveries under reinsurance contracts amounted to \$518,929 (none in 2006).

7. Policy Assumption Agreement

The Company assumed written premiums of \$21,873,836 during 2006 under a policy assumption agreement with Citizens. The Company provided 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 2006 were \$3,499,814 (none in 2007).

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.

Notes to Statutory Basis Financial Statements

8. Income Taxes (continued)

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

	December 31,			31,
		2007		2006
Gross DTAs	\$	182,436	\$	252,962
Gross DTLs	_	(157,778)	_	(35,370)
Net admitted DTAs		24,658	*****	217,592
Nonadmitted DTAs				(34,581)
Net admitted DTAs	\$_	24,658	\$	183,011
(Decrease) increase in nonadmitted DTAs	\$	<u>(34.581</u>)	\$	34,581

B. Unrecognized DTLs

There are no unrecognized DTLs.

C. Current tax and change in deferred tax:

The provision for income taxes incurred is:

	Years ended December 3			
		2007		2006
Current year income tax expense	\$	120,253	\$	41,206
Prior year under accrual	•••	63,171	_	<u> </u>
Current income taxes incurred	\$_	183,424	\$	41,206

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 Nonadmitted assets Gross DTAs	<u>Statutory</u> \$ 70,190 1,358,639	Tax \$ 65,608 1,086,911 260,266	Difference \$ 4,582 271,728 260,266	Tax Effect \$ 1,558 92,388 88.490 \$ 182,436
Nonadmitted DTAs				\$
DTLs	Statutory	Tax	Difference	Tax Effect
Furniture and equipment	\$ -	\$ (211,223)		
Prepaid expenses	-	(32,400)	(32,400)	(11,016)
Profit sharing expense	•••	(220,429)	(220,429)	<u>(74,946)</u>
Gross DTLs			-	\$_(157,778)

Notes to Statutory Basis Financial Statements

8. Income Taxes (continued)

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

De	ecember 31	,			
_	2007	_	2006		Change
\$	1,558	\$	1.923	\$	(365)
	92,388		181,087	-	(88,699)
_	88,490		•		18,538
S_	182,436	\$	252,962	\$	(70,526)
S _	-	\$_	(34,581)	\$_	34.581
	Decem	ber	31,		
	2007		2006		Change
\$	(71,816)	\$	(29,591)	\$	(42,225)
	(11,016)		(5,779)		(5,237)
-	<u>(74,946</u>)			_	<u>(74,946)</u>
e.	(157 779)	\$	(35,370)	S	(122,408)
	\$ \$_ \$_	2007 \$ 1,558 92,388 88,490 \$ 182,436 \$ Decem 2007 \$ (71,816) (11,016) (74,946)	2007 \$ 1,558 \$ 92,388	2007 2006 \$ 1,558 \$ 1,923 92,388 \$ 181,087 88,490 \$ 69,952 \$ 182,436 \$ 252,962 \$ - \$ (34,581) December 31, 2006 \$ (71,816) \$ (29,591) (11,016) (5,779) (74,946) -	\$ 1,558 \$ 1,923 \$ 92,388 181,087 88,490 69,952 \$ 182,436 \$ 252,962 \$ \$ \$ \$ (34,581) \$ \$ \$ \$ (34,581) \$ \$ \$ \$ (29,591) \$ (11,016) (5,779) (74,946) \$

The change in gross DTAs of \$(70,256) and gross DTLs of \$(122,408) 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:

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

Provision computed at	 2007	Effective Tax Rate	_	2006	Effective Tax Rate
statutory rate Nonadmitted assets Other Total	\$ 326,178 (18,538) 68,718 376,358	34.00 % (1.93) 7.16 39.23 %	-	(116,618) (69,952) 10,184 (176,386)	(34.00)% (20.39) <u>2.96</u> (51.43)%
Federal income tax Change in deferred taxes Statutory income taxes	\$ 183,424 192,934 376,358	19.12 % 20.11 39.23 %		41,206 (217,592) (176,386)	12.01 % (63.44) (51.43)%

Notes to Statutory Basis Financial Statements

8. Income Taxes (continued)

- E. Operating loss and tax credit carryforwards:
 - 1. At December 31, 2007 and 2006, 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:

Year	 Amount
2007	\$ 120,253
2006	104,377

F. Consolidated federal income tax return:

The Company files a consolidated income tax return with the following: HomeWise Holdings, Inc. HomeWise Preferred Insurance Company HomeWise Management Company

9. Capital and Surplus

The Company has authorized 1,000,000 shares of \$1 par value common stock, of which 650,000 and 100,000 shares are issued and outstanding at December 31, 2007 and 2006, respectively. The parent company, HomeWise Holdings, Inc., is the sole shareholder. 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's capital and surplus exceeds the RBC requirements at December 31, 2007 and 2006, respectively.

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, 2007 or 2006.

Notes to Statutory Basis Financial Statements

9. Capital and Surplus (continued)

The Company is currently in the process of applying to the Louisiana Department of Insurance for a certificate of authority in that state. To meet the Louisiana regulation that the Company's minimum common capital stock be \$650,000, the Company issued 550,000 of its \$1 par value authorized shares of common stock to its parent, HHI, in a non-cash transaction. The issuance of these shares was accounted for by reclassifying \$550,000 from the gross paid-in and contributed surplus account to common stock. This transaction does not impact the total policyholder surplus or ownership of the Company.

10. Related Party Transactions

The Company is a wholly-owned subsidiary of HomeWise Holdings, Inc. (HHI) and is affiliated with HomeWise Management Company (HMC) and HomeWise Preferred Insurance Company (HPIC), which are also wholly-owned subsidiaries of HHI.

Effective January 1, 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 \$6,967,680 and \$12,994,250, respectively. At December 31, 2007 and 2006, the Company has a net payable due to HMC in the amount of \$295,464 and \$1,489,850, respectively.

Effective December 5, 2005, the Company entered into a service agreement with HHI. Pursuant to the agreement, HHI provides to the Company 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 \$214,370 and \$591,640, respectively. At December 31, 2007 and 2006, the Company has a receivable due from HHI in the amount of \$271,751 and \$40,592, respectively.

The Company is also party to a Cost Allocation Agreement with HPIC, 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 expenses. At December 31, 2007 and 2006, the Company has a receivable due from HPIC 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. HMC has contracted with an unaffiliated service company to provide this function. 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 Authority Granted	Direct Premium Written
HomeWise Management Company, Inc. 18302 Highwoods Preserve Prkwy Suite 110 Tampa, FL 33647	20-3395152	Yes	Wind-only	Premium collection, claims adjustment, binding authority, and underwriting	\$ 21,766,628

12. Lease Commitments

On September 2, 2005, the Company entered into an operating lease agreement for office space in Tallahassee, Florida, which is effective October 15, 2005, through October 31, 2008. This lease was terminated effective May 31, 2007.

On May 1, 2006, the Company also entered into an operating lease agreement for office space in Tampa, Florida, which is effective June 1, 2006, through May 31, 2011. The Company has the option to renew the term of the lease for an additional five year period at the prevailing rental rate at that time, provided the Company gives the lessor written notice nine months prior to its intent to renew the lease.

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

2008	\$ 293,875
2009	305,844
2010	317,813
2011	 134,500
	\$ 1,052,032

Total rent expense for the combined leases was \$266,409 and \$166,386 for the years ended December 31, 2007 and 2006, respectively.

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 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 year ended December 31, 2007.

	Audited Financial Statement <u>Amount</u>	Annual Statement Amount	Increase _(Decrease)
Total admitted assets	\$ 13,661,979	\$ 13,635,171	\$ 26,808
Total liabilities	3,974,579	3,947,773	26,806
Total capital and surplus	9,687,400	9,687,398	2
Net income	775,924	775,921	3

Other Financial Information

SUMMARY INVESTMENT SCHEDULE

	SUMMARY INVESTMENT SCI	(G	oross .	Admitted As	sots as Reports
		investmi 1	ent Höldings 2		ual Statement
	investment Categories	Amount			Percentac
1. B	Bands:				ĺ
1	.1 U.S. treasury securifies.		0.0		
	.2 U.S. government agency obligations (excluding mortgage-backed securities);		Accession 144 Accession	Accompliant predimpresses	
	1.21 (ssued by U.S. government agencies.		0.0		
	1.22 Issued by U.S. government sponsored agencies.		0.0	even a proper proper by the contract of the co	1
1.	3 Foreign government (including Canada, excluding mortgage-backed securities)		N D		
1.		Participation of the second		***************************************	
	1.41 States, territories and possessions general obligations.				1.
	1.42 Political subdivisions of states, territories & possessions & pultical subdivisions general obligations			APPER OF THE PER LAND AND ADDRESS OF THE PER LAND AND ADDR	[u.s.u.
	1.43 Revenue and assessment obligations.		0.6	PAI Promisson () Habitabusyes	···· ·······························
	1.44 Industrial development and similar obligations.	Septemblished Septemblish Septemblish	4.9/2/22/2	***************************************	····· ······························
1.5	5 Mortgage-backed securities (includes residential and commercial MBS):	PF 84 AFF PALL LANGUAGE PAREQUES		************	···· ·······
	1.51 Pass-through securities:			1	
	1.511 Issued or guaranteed by GNMA				
	1.512 issued or guaranteed by FNMA and FHLMC.	**** BPI (97) bilikk a kanamanan (13).		*************	
	1.513 All other	**** BM (74 s.) reference () 39A3B1 s. B(J)		\$1000000000000000000000000000000000000	
	1.52 CMOs and REMICs:	**** ##9 *** / ** **** **** *** **** **** **	-ra	#171411144112	J
	1.521 Issued or guaranteed by GNMA, FNMA, FHLMC or VA				
	1.522 Issued by non-U.S. Government issuers and collateratized by mortgage-backed	led bed for her way property a bits broken		#1*74mmrre(\$734561) ==4x+x	0.0
	securities issued or guaranteed by agencies shown in Line 1,521				
	1.523 All other	***************************************		***************************************	
2. Ott	ner debt and other fixed income securities (excluding short-torm):	***************************************			• 0.0
2.1	Unalificated domesec securities (includes credit tenant loans rated by the SVO)		0.0		
2.2	Unalitiated foreign securifes.	ALC: ALC: LANGE PARTICION PO	-	#P\$ \$1 map (- 11225 mm er 44-m)	
2.3	Affiliated securities.	***************************************	" [her reservable to comme de comme	Į
3. Equ	uity interests:	***************************************	×		
3.1	Investments in mutual funds				
	Professed stocks:	***************************************	" ""	2	.
	3.21 Affiated		1 00		
	3.22 Unaffialed	***************************************		rd vý přímanna caz (vámě říka v 1922)	- 0.0
3.3	Publicly traded equity securities (excluding preferred slocks):	of Philips Continuency by harden		Men englishderir pewarita bi Jan.	- 0.0
	3.31 Afficied.				
	3.32 Unaffisied.	***************************************		***************	
3.4	Other equity securities:		·	browning of best property and desired	0.0
	3.41 Afficiated				
	3.42 Unaffiiated	***************************************	·	> , s e descripto a coma descripto de sessi	0.0
3.5	Other equity interests including langible personal property under lease:	######################################			0.0
	3.51 Afficied				
	3.52 Unaffiliated	1			
Mort	gage loans;		C,D		0.0
4.1					
4.2	Construction and land development		O.O	************	0.0
4.3	Agricultural. Single family residential properties.	**************************************		3 4 4 6 7 8 8 100 0 100	0.0
4.4	All items ratificated acoustics	3 * \$ < ********************************	0.0		C.O
4.5	Mutifamily residential properties	***************************************		FT*1 histomorry because these	
4,6	Commercial loans	7M79944413990044334444444	0.0	***************************************	
	Mazzanino real estate loans.	PPRESSOR STATE CONTRACTOR CONTRAC	0.0	**************************************	0.0
5.1					
5.2	Property occupied by company	***************************************	0.0		0.0
5.3	Property held for production of income (including S	***************************************	0.0	***************************************	0.0
	Property held for sale (including \$	494 t 177+34444 t 127 (200440) 144+4-14		a b an mand down (Cabb bed Elly) years	0,0
n	Pet loans	### (330 marks) (7) (4) (1 proper)	0,0		0.0
HOCE	ivables for securities.	NVAMABO-/A-14-bahap-a-(7417a-22)	0.0		
Cash	, each equivalents and short-term investments.	6,642,357	0.00	6,642,357	100.0
Uiner	invested essets	3343 1869 (prosperators) had a seemal	0.0	Manual Republication of the second	0.0
Total	invested assets	6.642.357	100.0	6,642,357	100.0



Due April 1

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

NAIC Group Code.....4111

NAIC Company Code....12438

Employer's ID Number....20-3395013

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

2,		of this cannual statement.	\$13,635,1
	Ten largest exposures to a single issuer/borrower/investment		
	1	2 3 4	
	lesuer	Percentage of Total <u>Description of Exposure</u> Amount Admitted Assets	
	2.01	\$	í.
	2.02	Samuel Sa	ń
	2.03	\$	é
	2.04 sandabassos terreta mortanas as orani es corporar no magazina de mar	5.0.000	6
	2.05	5	:
	2.05	50.000 9	£
	207208	\$0.000 9	5
	2.09	\$	6
	2.10	0.000	į.
•	Er PU	0.000	•
). <i>E</i>	Amounts and percentages of the reporting entity's total admitte	d assets held in bonds and preferred stocks by NAIC ration	
	<u> Bonds</u>	1 3	
3	101 NAIC-1	5 nm1 es	
3	3.02 NAIC-2	55	
3	1.03 NAIC-3	5 ppg 45	
3	1.04 NAIC-4	\$ 0.000 %	
-	ROS NAIC-5	0.000.40	
3	LOS NAIC-E	0.000 %	
	Preferred Stocks	3 4	
	1,07 P/RP-1	ACOLA CONTRACTOR CONTR	
3	I.DB P/RP-2		
3.	LO9 P/RP-3	A DAN SE	
_	.10 PAP-4	2 000 0	
	.11 PRP-50 telespiraces remains a secure of the manufacture of the secure of the secur	, Section 1997	
3.	.12 P/RP-6	\$	
A	ssets held in foreign Investments;		
	.01 Are assets held in foreign investments less than 2.5% of t	this separation entiring total animiting country	
	.02 Total admitted assets held in foreign investments		Yes [X] No[]
	.03 Foreign-currency-denominated investments	Summate and an appropriate the summate and appropriate the summate and appropriate and appropr	
4,	.04 Insurance liabilities denominated in that same foreign cun	tency \$	
	response to 4.01 above is yes, responses are not required for		·····
	Opregate foreign investment exposure categorized by NAIC sor	- ·	
Αį	64 Counting and Marco	1 2	
_	VI COUNTRES FERENCIARE D	2,000 %	
5,0	VZ COURTRIES FATEC (GGC-Z	5.000%	
5,0 5,0	17 Countries with the Constant	S ROOD by	
5,0 5,0	03 Countries rated NAIC-3 or below	Tomas was a series of the seri	
5,0 5,0 5,0	03 Countries rated NAIC-3 or below		
5,0 5,0 5,0	O3 Countries rated NAIC-3 or below	degorized by the country's NAIC sovereign rating:	
5,0 5,0 5,0	O3 Countries rated NAIC-3 or below	degorized by the country's NAIC sovereign rating:	
5,1 5,0 5,0 Tw	O3 Countries rated NAIC-3 or below	regorized by the country's NAIC sovereign rating:	
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Supplement for the year 2007 of the HomeWise Insurance Company

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	B.01	Countries reled NAIC-1		5	0.005	e:	
	B,02	Countries rated NAIC-2	****		0.000	n.	
	8.03	Countries rated NAIC-3 or below,	had an all and the born to a specific property of the handle specific property behavior to be a transport over a specific property of the specific	Ş	0.000	** *:	
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		Countries rated NAIC-1:		1	2		
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10.	Ten la	rgest non-sovereign (i.e. non-governmentel) foreign	n issues:				
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		Issuer	NAIC Rating	3	4		
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12.	report.	aggregate amounts and percentages of the reporting	ng entity's total admitted assets hold in investments v	rith contractual sales restri	tions.		
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13.	Amount	and porcentages of admitted assets held in the lat	gest 10 equity interests:				
		re assets held in equity interest less than 2.5% of th				VALIVI	Mar 1
		response to 13.01 above is yes, responses are not				Yes [X]	Mef I
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Supplement for the year 2007 of the HomeWise Insurance Company

14	 Amounts and percentages of the reporting entity's total admitted excets held in normalizated, privately placed 	strovaldinos		
	14.01 Are assets held in nonalistated, privately placed equities less than 2.5% of the reporting entity's total a	Tiguiuss. Meditad annatus		
	If response to 14,01 above is yes, responses are not required for the remainder of interrogatory 14.	enimen seemel		Yes [X] No[]
	i interchance are used and the content of interchance in interchance in	_		
	14.02 Aggregate statement value of investments held in nonafficiated, privately placed equibas:	2	3	
	Largest 3 investments held in nonatificated, privately placed equities:	\$		é
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	14.03	Ş		ត់
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	14.05		0.000 9	- 4
15			, ,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,	•
14.	Amounts and percentages of the reporting entity's total admitted assets hald in general partnership interests:			
	15.01 Are assets held in general permarchip interests less than 2.5% of the reporting entity's total admitted at	\$58 5 ?		Yes[X] Nel 1
	If response to 15.01 above is yes, responses are not required for the remainder of Interrogatory 15.			
	1	2	3	
	15.02 Aggregate statement value of investments held in general partnership interests:	\$	0,000 5	
	Largest 3 investments in general partnership interests:			
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	15.04	P	······································	
	15.05	· ·	0.000 %	
			0,000 %	
16,	Amounts and percentages of the reporting entity's total admitted assets held in mortgage loans:			
	16.01 Are mortgage loans reported in Schedule Bless than 2.5% of the reporting entity's total admitted assets	, 7		
	If response to 16.01 above is yes, responses are not required for the remainder of interregatory 16 and	Fr.		Yes [X] No[]
	1			
	Type (Residential, Commercial, Agricultural)	2	3	
	16.02	. \$		
	16.03	\$		
	16.04	. 5	0.000 %	
	IO,U2 assessment of the latest and the part	\$	a ana er	
	IO.VC assessment containing a property of the contract of the	t	0.000 11	
	10.UF APPART IN THE PROPERTY OF A PARTY OF A	S	0.000 #1	
	16.00	C	C 000 N	
	16.09	E		
	16.10	3	0.00D %	
	fi 11	5		
	16.11	\$		
	Amount and percentage of the reporting antity's total admitted assets held in the following categories of mortgag	o loans:		
		Loi	en e	
	16.12 Censtruction loans.	Š		
	16.13 Mortgage loans over 90 days past dua.	5	O COD as	
	16.14 Mongage loans in the process of foreclosure	\$	0.000 **	
	16.15 Margage laans foreclased	**************************************		
	16.16 Restructured mongage loans	\$		
			0.000 %	
17.	Aggregate mongage loans having the following loan-to-value ratios as determined from the most current appraisa	al as of the second		
	statement date:	en en ei als avildet		
	Loan-to-Velue Residential Commi	emial	Amsta I	5
	1 2 3	4	<u>Agricul:</u> 5	
1	17.01 above 95%	6.868.84		6
	17.02 91% to 95% \$	0.000 At .	\$ 4+0+90+7 17 34 344 47 384 484 17 12 144 144 147 177	0,000 %
	17.03 81% to 90%		t Firktingsprettimmine Mirabaddel	0.000 %
	17.04.71% to 80%	0.00 % ;		0.000 %
	17.04 71% to 80% \$	0.000 % :		0.000 %
•	17.05 below 70% \$			0,000 %
18. /	Amounts and percentages of the reporting entity's total admitted assets held in each of the five largest investmen			
	Names and the state of the stat	nis in real estate:		
	18.01 Are assets held in real estate reported less than 2.5% of the reporting entity's total admitted assets?		Y	[]off [X]am
	If response to 18.01 above is yes, responses are not required for the remainder of interrogatory 18,			
į.	ergest live investments in any one parcel or group of configuous parcels of real estate.			
	Description	2	3	
1	18.02	t -		
1		V		
1	8.02	,		
	10.830 and the same of the sam	t .	0.000 %	
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	R.04	COMMUNICATION MANAGEMENTS IN STREET	0.000 %	
	R.04	COMMUNICATION MANAGEMENTS IN STREET	0.000 %	
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1) 1) 19. R	18.04 S 18.05 S 18.05 S 18.06 S 18.06 S 18.07 S 18.08 S 18.09 S 18.00	S	0.000 % 0.000 % 0.000 %	:[X] No[]
1) 19. R 19	18.04 18.04 18.05 18.06 18.06 18.06 18.07 18.08 18.09 18	nezzanine real ostate loar admitted assets?	0.000 % 0.000 % 0.000 % s.	s[X] No[]
11 19. R 19	18.04 Section 19.01 is yes, responses are not required for the remainder of Interrogatory 19.	nezzanine real estato loar admitted assets?	0.000 % 0.000 % 0.000 % s. Yo	s[X] No[]
11 19. R 19	1 18.04 18.05 18.06 18.06 18.07 18.08 18.09	nezzanine real ostate loar admitted assets?	0.000 % 0.000 % 0.000 % s. Yo	[X] No }
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19.

Supplement for the year 2007 of two HomeWise Insurance Company

		ALYO	er-End		At End of Each Quarter	
				1st Qtr	2nd Ob	3rd Qtr
		1	2	3	4	5
	20.01 Securities landing (do not include assets					
	held as collateral for such transactions)	S	0.000 % \$		\$	Ş
	ZU.WZ Repulchase agreements	S. 1. 1. 2. 2. 2. 2. 2. 2. 2. 2. 2. 2. 2. 2. 2.	0.000 % \$		•	ŧ
	20,03 Heverse repurchase agreemants	\$	0.000 % \$		₹	e
	ZU.U4 DOUBLIEDURCHBIS BOTBEMBRIS				ξ	ŧ
	20.05 Dollar reverse repurchase agreements	\$	0.000 % S		\$	\$
1.	Amounts and percentages indicated below for warrants	not attached to other Enancial	instruments, opéons, caps and l	ioars:		
		<u>Ow</u>			Writ	ten
	24.24.14	1	2		3	4
	21.01 Hedging	\$,	0.000 %		S	
	21.02 Income generation	\$	0.000 %		\$	D.(
)	21.03 Other			rwards:	\$	
2			osure for collars, swaps, and to		At End of Each Quader	
1		admided assets of polensel exp ALYON	ossure for collars, swaps, and to r-End	1st Qtr	At End of Each Quader 2nd Otr	
2.	Amounts and percentages of the reporting entity's total ϵ	admitted assets of polential exp ALYon 1	ossure for collars, swaps, and to n-End 2	1st Qtr 3	At End of Each Quarter 2nd Otr 4	
	Amounts and percentages of the reporting entity's total at 22.01 Hedging.	admitted assals of polential axp At You 1	oosure for collars, owaps, and to re-End 2	1st Qtr 3	At End of Each Quader Zod Dtr 4	3rd Ob 5
	Amounts and percentages of the reporting entity's total at 22.01 Hedging	admitted assats of polential axp At You 1 5	posure for cotters, twaps, and to the End 2	1st Ofr 3	At End of Each Quader Zod Otr 4	3rd Qtr 5
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•	Amounts and percentages of the reporting entity's total at 22.01 Hadging	dmitted assets of potential exp 1 5 5 5 5 dmitted assets of potential exp ALYDE	2	1st Qtr 3	At End of Each Quader 2nd Otr 4 S	3rd Or 5
•	Amounts and percentages of the reporting entity's total at 22.01 Hedging	dmitted assets of potential exp ALYDE 1 S	2	1st Otr 3	At End of Each Quader 2nd Otr 4 S	3rd Or 5 3rd Or 5
•	Amounts and percentages of the reporting entity's total at 22.01 Hadging	dmitted assets of potential exp 1 5 5 5 6 6 6 6 6 6 6 6 6 6	2	1st Otr 3	At End of Each Quader 2nd Otr 4 5 5 5 6 At End of Each Quader 2nd Otr 4 5 5 5 5 5 6 At End of Each Quader 2nd Otr 4 5 5 5 5 6 5 6 5 6 6 6 6 6	3rd Or 5 3rd Or 5

Selected General Interrogatories Relating to Reinsurance

December 31, 2007

7.1	Has the reporting entity reinsured any risk with any other entity under a quota share reinsurance contract that includes a provision that would limit the reinsurer's losses below the stated quota share percentage (e.g., a deductible, a loss ratio corridor, a loss cap, an aggregate limit or any similar provisions)?	ÌNo□
7.2	If yes, indicate the number of reinsurance contracts containing such provisions1	
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	l 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☑

See report of independent auditors.

Selected General Interrogatories Relating to Reinsurance (continued)

- 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 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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Certified Public Accountants 2615 Centennial Blvd., Suite 200 (32308) P. O. Drawer 14569 Tallahasses, FL 32317-4569

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

Report of Independent Auditors

The Board of Directors
HomeWise Insurance Company

We have audited the accompanying statements of admitted assets, liabilities and capital and surplus - statutory basis of HomeWise 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 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.

Thomas Howell
Ferguson F.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 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 Insurance Company and for filing with the state insurance regulatory authorities and should not be used for any other purpose.

Thomas Howell Fegure B.a.

May 13, 2009

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

	December 31,				
	2008			2007	
Admitted assets					
Cash and invested assets:					
Short-term investments	\$	2,231,467	\$	2,166,986	
Cash and cash equivalents	Ψ	3,814,707	Ψ	4,475,371	
Total cash and invested assets		6,046,174		6,642,357	
Total cash and invested assets		0,040,174		0,042,337	
Accrued investment income		7,762		13,866	
Premiums receivable		839,085		969,600	
Reinsurance balances recoverable		1,406,688		4,288	
Federal income taxes recoverable		1,629,206		660,278	
Net deferred tax asset		=		24,658	
Electronic data processing equipment, net		220,633		111,750	
Receivables from parent and affiliates		3,972,670		4,401,316	
Other assets		520,757		833,866	
Total admitted assets		14,642,975	\$	13,661,979	
Liabilities and capital and surplus					
Liabilities:					
Loss and loss adjustment expense reserves	\$	210,649	\$	70,190	
Unearned premiums, net	Ψ	1,210,680	ψ	1,358,639	
Reinsurance premiums payable		1,228,276		1,390,154	
Accounts payable and accrued expenses		334,535		326,956	
Payable to affiliates		3,263,021		295,464	
Payable to Citizens Property Insurance Corporation		- , ,		533,176	
Total liabilities		6,247,161		3,974,579	
		0.60=0::		0.00=.00=	
Capital and surplus		8,395,814		9,687,400	
Total liabilities and capital and surplus	\$_	14,642,975	\$	13,661,979	

Statements of Operations - Statutory Basis

	Years ended December 31,			
		2008		2007
Underwriting income:				
Premiums earned, net of reinsurance ceded	\$	1,362,358	\$	2,651,949
Underwriting expenses:				
Losses and loss adjustment expenses incurred		243,595		(14,429)
Underwriting, acquisition, and other expenses incurred		3,242,916		2,232,468
Total underwriting expenses		3,486,511		2,218,039
Net underwriting (loss) gain		(2,124,153)		433,910
Net investment income		107,349		529,899
Other income (expense)		4,561		(4,461)
(Loss) income before federal income tax (benefit) expense		(2,012,243)		959,348
Federal income tax (benefit) expense		(968,927)	····	183,424
Net (loss) income	\$	(1,043,316)	\$	775,924

HomeWise Insurance Company

Statements of Changes in Capital and Surplus - Statutory Basis

Years ended December 31, 2008 and 2007

			Gross Paid-in		
	Сеште	Common Stock	Contributed	Unassigned	
	Shares	Par Value	Surplus	Funds	Total
Balance as of December 31, 2006	100,000	\$ 100,000 \$	\$ 9.400.000	\$ (347,645) \$	\$ 9,152,355
Issuance of common stock	550,000	550,000	(550,000)	ŧ	ş
Change in deferred income taxes	4	ı	í	(158,354)	(158,354)
Change in nonadmitted assets	1	ı	ı	(82,525)	(82.525)
Net income	±	4		775,924	775.924
Balance as of December 31, 2007	650,000	650,000	8,850,000	187,400	9,687,400
Change in deferred income taxes	ì	ı	ſ	42,148	42,148
Change in nonadmitted assets	ı	ı	ı	(290,418)	(290,418)
Net loss	**	I.	-	(1,043,316)	(1,043,316)
Balance as of December 31, 2008	650.000	\$ 650,000	s 8.850.000	s (1,104,186) \$ 8,395.814	\$ 8,395.814

See accompanying notes.

Statements of Cash Flows - Statutory Basis

	Years ended December 31, 2008 2007			
		2008		2007
Operating activities				
Premiums collected (paid), net of reinsurance	\$	649,860	\$ (7,870,979)
Net investment income received		113,453		535,551
Losses and loss adjustment expenses (paid) recovered		(1,505,536)		249,693
Underwriting, acquisition, and other expenses paid		(3,050,573)	(2,557,825)
Income taxes paid		<u>-</u>		(63,127)
Net cash used in operating activities		(3,792,796)	(9,706,687)
Financing and miscellaneous activities			,	
Other miscellaneous sources (uses)		3,196,613	(<u>6,382,445)</u>
Net cash provided by (used in) financing				
and miscellaneous activities		3,196,613	(6,382,445)
Net decrease in cash		(596,183)	(1	6,089,132)
Cash at beginning of year		6,642,357	2	2,731,489
Cash at end of year	_\$_	6,046,174	\$	6,642,357
Cash consists of the following:	•	* * * * * * * * * * * * * * * * * * * *	ets.	4 405 001
Cash and cash equivalents	\$	3,814,707		4,475,371
Short-term investments		2,231,467		2,166,986
	\$	6,046,174	\$	<u>6,642,357 </u>

Notes to Statutory Basis Financial Statements

Years ended December 31, 2008 and 2007

1. Summary of Significant Accounting Policies

Organization and Description of Company

HomeWise Insurance Company (the Company), a wholly-owned subsidiary of HomeWise Holdings, Inc. (HHI), an insurance holding company, is domiciled in the state of Florida. The Company received its Certificate of Authority from the Florida Office of Insurance Regulation (the Office) on December 5, 2005, and commenced operations on January 12, 2006. The Company received a Certificate of Authority from the state of Louisiana on August 6, 2008, and commenced operations on November 25, 2008. The Company is affiliated with HomeWise Management Company (HMC) and HomeWise Preferred Insurance Company (HPIC), which are wholly-owned subsidiaries of HHI.

The Company writes coverage exclusively in the states of Florida and Louisiana, 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 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.

Notes to Statutory Basis Financial Statements

1. Summary of Significant Accounting Policies (continued)

Basis of Presentation (continued)

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

Investments

Investments are recorded at admitted asset values as prescribed by the valuation procedures of the NAIC's Securities Valuation Office (SVO). The valuation technique used to measure fair value (market value) is to obtain the published securities' fair value from the SVO publication, Valuation of Securities. If the specific security is not listed in this publication, then the fair value is obtained from a registered U.S. exchange.

Short-term investments include investments with original maturities of one year or less from the time of acquisition 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, short-term investments, 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.

Notes to Statutory Basis Financial Statements

1. Summary of Significant Accounting Policies (continued)

Concentration of Credit Risk (continued)

All investment transactions have credit exposure to the extent that a counterparty may default on an obligation to the Company. Credit risk is a consequence of carrying investment positions. To manage credit risk, the Company focuses primarily on highly liquid debt instruments, reviews the credit strength of all entities in which it invests, limits its exposure in any one investment, and monitors portfolio quality, taking into account credit ratings assigned by recognized credit rating organizations.

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 \$174,870 and \$83,693 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. Other furniture and equipment is recorded as a non-admitted asset and depreciated using the straight-line method over the estimated useful life of seven years. Depreciation expense charged to operations was \$157,016 and \$79,293 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 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.

Notes to Statutory Basis Financial Statements

1. Summary of Significant Accounting Policies (continued)

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

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.

The Company was assessed \$755,526 by FIGA in 2007 (none in 2008). The FIGA assessment recoverable from policyholders was \$227,145 and \$755,526 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 \$17,692 and \$81,082 at December 31, 2008 and 2007, respectively. The liability for assessments collected but not remitted to Citizens and FHCF totaled \$62,611 and \$55,773 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.

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 Statutes Section 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 Statutes Section 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 Louisiana statutes to help secure the payment of claims. Cash on deposit in the amount of \$342,595 and \$326,483 has been assigned to the Office as of December 31, 2008 and 2007, respectively, and a certificate of deposit in the amount of \$100,000 has been assigned to the Louisiana Department of Insurance as of December 31, 2008 (none at December 31, 2007), 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, 2008 and 2007.

3. Investments

Short-term investments consist of U.S. Government 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					
	2008			2007		
Investment income:						
Cash and cash equivalents	\$	76,351	\$	439,564		
Short-term investments	***************************************	64,787	w	109.604		
		141,138		549,168		
Investment expense:						
Bank fees		<u>(33,789</u>)		(19,269)		
Net investment income	\$	107,349	\$	529,899		

Notes to Statutory Basis Financial Statements

4. Premiums Receivable

Premiums receivable includes 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 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 totaled \$839,085 and \$969,600, with no nonadmitted premiums receivable, as of December 31, 2008 and 2007, respectively.

5. Loss and Loss Adjustment Expense (LAE) Reserves

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

	December 31,			
	2	2008	2007	
		(in thou	isands)	
Loss and LAE reserves at beginning of year	\$	70	\$ 81	
Losses and LAE incurred related to:				
Current year		263	67	
Prior years		(19)	(81)	
•		244	(14)	
Losses and LAE paid related to:			, ,	
Current year		174	36	
Prior years		(71)	(39)	
•		103	(3)	
Loss and LAE reserves at end of year	\$	211	\$ <u>70</u>	

Anticipated reinsurance recoverables on unpaid losses and LAE are approximately \$162,000 and \$94,000 at December 31, 2008 and 2007, respectively. Reinsurance recoverables on paid losses and LAE are approximately \$135,000 and \$4,000 at December 31, 2008 and 2007, respectively.

In 2008 and 2007, net incurred losses and LAE attributable to insured events of prior years have decreased by \$19,000 and \$81,000, respectively, 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 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.

Notes to Statutory Basis Financial Statements

6. Reinsurance (continued)

Effective June 1, 2008, the Company and its affiliated company, HomeWise Preferred 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 and the first layer of the commercial excess of loss. 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 into an aggregate excess of loss agreement to reinsure the Reinsurer's catastrophe obligation 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.

Effective January 1, 2007, the Company and its affiliated company, HomeWise Preferred 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 where in 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.

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, 2008, the commercial excess of loss treaties generally provide 100% coverage on ultimate net losses of approximately \$9,300,000 in excess of \$2,900,000 and 25% coverage on ultimate net losses of approximately \$12,700,000 in excess of approximately \$12,200,000 per occurrence, not to exceed approximately \$12,500,000 for all occurrences. The FHCF provided coverage for 90% of the losses from qualifying catastrophic events in excess of approximately \$12,200,000 up to a maximum of approximately \$72,900,000. For the year ended December 31, 2007, the commercial excess of loss treaties generally provide coverage on ultimate net losses of approximately \$14,100,000 in excess of \$12,800,000 per occurrence, not to exceed approximately \$28,100,000 for all occurrences. The FHCF provided coverage for 90% of the losses from qualifying catastrophic events in excess of approximately \$19,700,000 up to a maximum of approximately \$123,100,000, plus 100% of \$10,000,000 in excess of \$2,700,000 (drop down layer).

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, 2008 and 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.

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 companies do not meet their obligations under these reinsurance agreements. Given the quality of the reinsuring companies, management believes this possibility to be remote. See Note 5 for recoveries due from reinsurers relating to paid and unpaid losses and LAE.

On May 31, 2007, the Company terminated and commuted its excess of loss reinsurance agreement with Catlin Insurance Company Ltd. There were no losses assumed or gain or loss recognized on the commutation. Per the agreement, the Company was owed the amount in the experience account that was established under the original reinsurance agreement. That amount, calculated pursuant to the agreements, was \$822,000. The experience account balance was reduced by a commutation settlement charge of \$360,000. The net settlement amount of \$522,000 was received by the Company on July 22, 2007.

Notes to Statutory Basis Financial Statements

6. Reinsurance (continued)

The Company terminated and commuted its quota share reinsurance agreement with Glacier Reinsurance AG on January 1, 2007. As a result of the commutation, \$7,989,164 in unearned premium was returned to the Company and \$6,833,689 in ceding commission was returned to Glacier Reinsurance AG. The cession of any future losses at January 1, 2007 and forward was also terminated. The Company also increased its ceded loss and loss adjustment paid and reduced its ceded reserves to recognize the effect of releasing the insurer from its obligation under the treaty. The net effect of the commutation was an increase in losses incurred of \$210,623. The reinsurance agreement with Glacier Reinsurance AG was replaced with a 75% quota share agreement with Harlequin Insurance (Bermuda) SAC Limited effective January 1, 2007.

The effects of reinsurance on premiums written and earned at December 31 are as follows:

	20	008	2007				
	<u>Written</u>	<u>Earned</u>	<u>Written</u>	<u>Earned</u>			
Direct premiums	\$ 11,943,311	\$ 16,941,545	\$ 21,766,628	\$ 33,475,449			
Assumed premiums	•••	-	(2,343)	375,374			
Ceded premiums	(10,728,913)	<u>(15,579,187</u>)	(20,416,752)	(31,198,874)			
Net premiums	\$ <u>1,214,398</u>	\$ <u>1,362,358</u>	\$ <u>1,347,533</u>	\$ <u>2,651.949</u>			

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

	2008	2007
Direct unearned premiums	\$ 7,210,289	\$ 12,208,521
Ceded unearned premiums	(5,999,609)	<u>(10,849,882</u>)
Unearned premiums, net	\$ <u>1,210,680</u>	\$ <u>1,358.639</u>
Commission equity, net	\$ <u>(1,676,392</u>)	\$ <u>(3,227,628</u>)

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

	_	<u> 2008 </u>		2007
Swiss Reinsurance America Corporation	\$	3,502,000	\$	-
Florida Hurricane Catastrophe Fund		979,000		3,737,000

For the years ended December 31, 2008 and 2007, recoveries under reinsurance contracts totaled \$282,554 and \$518,929, respectively.

Notes to Statutory Basis Financial Statements

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 statements of operations.

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

		Decem	bei	· 31,
		2008		2007
Gross DTAs	\$	252,727	\$	182,436
Gross DTLs	*****	(185,921)	_	(157,778)
Net admitted DTAs		66,806		24,658
Nonadmitted DTAs		<u>(66,806</u>)	_	-
Net admitted DTAs	\$_	<u> </u>	\$_	24,658
Increase (decrease) in nonadmitted DTAs	\$_	66,806	\$_	(34,581)

B. Unrecognized DTLs

There are no unrecognized DTLs.

C. Current tax and change in deferred tax:

The provision for income taxes incurred is:

	Ye	ears ended D	ecember 31,		
		2008	2007		
Current year income tax (benefit) expense	\$	(866,185) \$	120,253		
Prior year (over) under accrual	_	(102,742)	63,171		
Current income taxes incurred	\$_	<u>(968,927</u>) S	S <u>183.424</u>		

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

DTAs	<u>Statutory</u>	_	Tax	<u>D</u>	<u>ifference</u>	T	ax Effect
Unpaid losses and LAE	\$ 210,000	\$	192,700	\$	17,300	\$	5,882
Unearned premiums	1,210,680		968,544		242,136		82,326
Nonadmitted assets	-		483,878		483,878		164,519
Gross DTAs						\$	252,727
Nonadmitted DTAs						\$	66,806

Notes to Statutory Basis Financial Statements

7. Income Taxes (continued)

DTLs	Sta	tutory	 <u>Tax</u>	D	ifference	T	ax Effect
Fixed assets	\$	-	\$ (478,881)	\$	(478,881)	\$	(162,820)
Prepaid expenses		-	(67,943)		(67,943)		(23,101)
Gross DTLs						\$_	(185,921)

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

DTAs Resulting from Book/Tax		December 31,				
Differences		2008		2007	_	Change
Unpaid losses and LAE	\$	5,882	\$	1,558	\$	4,324
Uncarned premiums		82,326		92,388		(10,062)
Nonadmitted assets		164,519	_	88.490	-	76,029
Gross DTAs	\$_	252,727	\$_	182,436	\$_	70.291
Nonadmitted DTAs	\$_	66,806	\$_	-	\$_	66,806
DTLs Resulting from Book/Tax		Decem	ber	31.		
Differences		2008		2007		Change
Furniture and equipment	\$	(162,820)	\$	(71,816)	\$	(91,004)
Prepaid expenses		(23,101)		(11,016)		(12,085)
Profit sharing expense			_	(74,946)	_	74,946
Gross DTLs	\$_	(185,921)	\$	(157,778)	\$_	(28.143)

The change in gross DTAs and DTLs of \$42,148 is the change in net deferred income taxes before the consideration of nonadmitted DTAs and DTLs.

Notes to Statutory Basis Financial Statements

7. Income Taxes (continued)

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

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

	2008	Effective Tax Rate	2007	Effective Tax Rate
Provision computed at statutory rate Nondeductible items Prior period tax adjustment Nonadmitted assets Other	\$ (684,161) 9,918 (260,803) (76,029)	34.00 % (0.49) 12.96 3.78	\$ 326,178 - (18,538) 68,718	34.00 % - - (1.93)
Total	\$ <u>(1,011,075</u>)	50.25 %	\$ <u>376,358</u>	39.23 %
Federal income tax Change in deferred taxes	\$ (968,927) (42,148)	48.16 % 2.09	\$ 183,424 192,934	19.12 %
Statutory income taxes	\$ <u>(1,011,075</u>)	50.25 %	\$ <u>376.358</u>	39.23 %

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:

Year	 Amount
2008	\$ -
2007	120,253

F. Consolidated federal income tax return:

The Company files a consolidated income tax return with the following:

HomeWise Holdings, Inc.

HomeWise Preferred 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

8. Capital and Surplus

The Company has authorized 1,000,000 shares of \$1 par value common stock, of which 650,000 shares are issued and outstanding at December 31, 2008 and 2007. The parent company, HomeWise Holdings, Inc., is the sole shareholder. 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, respectively.

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 or 2007.

During 2007, to meet the Louisiana regulation that the Company's minimum common capital stock be \$650,000, the Company issued 550,000 of its \$1 par value authorized shares of common stock to its parent, HHI, in a noncash transaction. The issuance of these shares was accounted for by reclassifying \$550,000 from the gross paid-in and contributed surplus account to common stock. This transaction does not impact the total policyholder surplus or ownership of the Company.

Notes to Statutory Basis Financial Statements

9. Related Party Transactions

The Company is a wholly-owned subsidiary of HomeWise Holdings, Inc. (HHI) and is affiliated with HomeWise Management Company (HMC) and HomeWise Preferred Insurance Company (HPIC), which are also wholly-owned subsidiaries of HHI.

Effective January 1, 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 \$3,275,793 and \$6,967,680, respectively. At December 31, 2008 and 2007, the Company has a net payable due to HMC in the amount of \$3,263,021 and \$295,464, respectively.

Effective December 5, 2005, the Company entered into a service agreement with HHI. Pursuant to the agreement, HHI provides to the Company 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 \$116,993 and \$214,370, respectively. At December 31, 2008 and 2007, the Company has a receivable due from HHI in the amount of \$519 and \$271,751, respectively.

The Company is also party to a Cost Allocation Agreement with HPIC, 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 expenses. At December 31, 2008 and 2007, the Company has a receivable due from HPIC in the amount of \$3,972,151 and \$4,129,565, respectively.

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. HMC has contracted with an unaffiliated service company to provide this function. 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 <u>Granted</u>		Direct Premium <u>Written</u>
HomeWise Management	20-3395152	Yes	Wind-only	Premium	S	11,943,311
Company, Inc.				collection, claims		
18302 Highwoods				adjustment,		
Preserve Prkwy				binding		
Suite 110				authority, and		
Tampa, FL 33647				underwriting		

Notes to Statutory Basis Financial Statements

11. Lease Commitments

On September 2, 2005, the Company entered into an operating lease agreement for office space in Tallahassee, Florida, which is effective October 15, 2005, through October 31, 2008. This lease was terminated effective May 31, 2007.

On May 1, 2006, the Company also entered into an operating lease agreement for office space in Tampa, Florida, which is effective June 1, 2006, through May 31, 2011. The Company has the option to renew the term of the lease for an additional five year period at the prevailing rental rate at that time, provided the Company gives the lessor written notice nine months prior to its intent to renew the lease. Expenses associated with this lease are allocated equally between the Company and HPIC.

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

2009	\$ 248,453
2010	258,323
2011	 109,348
	\$ 616,124

Total rent expense for the combined leases was \$184,969 and \$266,409 for the years ended December 31, 2008 and 2007, respectively.



SUMMARY INVESTMENT SCHEDULE

•			Gross Gross		Admitted Assets as Reported			
		·	Investment 1	Holdings 2	in the Annual	Statement 4		
		Investment Categories	Amount	Percentage	Amount	Percentage		
1.	Bono	ds:				İ		
	1.1	U.S. treasury securities		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 [ssued by U.S. government sponsored agencies						
	1.3	Foreign government (including Canada, excluding mortgage-backed secunities).		1		1		
	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		00		
		1.42 Political subdivisions of states, territories & possessions & political subdivisions general obligations	ł		1			
		143 Revenue and assessment obligations			i			
		1.44 Industrial development and similar obligations				1		
	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	1					
		1.513 All other	1		i	i		
		1.52 CMOs and REMICs:	**************************************					
		1.521 Issued or guaranteed by GNMA_FNMA_FHLMC or VA.						
		- · · · · · · · · · · · · · · · · · · ·		0.0		0.0		
		1.522 Issued by non-U.S. Government issuers and collateralized by mortgage-backed securities issued or guaranteed by agencies shown in Line 1.521.		0.0		0.0		
		1.523 All other		Į.		į.		
2.	Other	r debt and other fixed income secunties (excluding short-term):		,	***************************************			
-	2.1	Unaffiliated domestic securities (includes credit tenant loans rated by the SVO)						
	2.2	Unaffiliated foreign securities.		1				
	2.3	Affiliated securities.		1				
3.		y interests:			******************************	0.0		
Ų.	3.1	Investments in mutual funds.		0.0				
	3.2	Preferred stocks	***************************************	0.0	/**************************************	0.0		
	J.Z							
		3.21 Affibated	l .		I			
		3.22 Unaffiliated	***************************************	0.0		0.0		
	3.3	Publicly traded equity securities (excluding preferred stocks):						
		3.31 Affiliated	1		1			
		3.32 Unaffiliated		0.0	******************	0.0		
	3.4	Other equity secunties:						
		3.41 Affiliated	ı		i			
		3.42 Unaffiliated		0.0		0.0		
	3.5	Other equity interests including tangible personal property under lease:						
		3.51 Affiliated		0.0	***************************************	0.0.		
		3.52 Unaffliated		0.0	***************************************	0.0		
4.	Morto	gage loans:						
	4.1	Construction and land development	***************************************	0.0	A	0.0		
	4.2	Agricultural.		0.0		0.0		
	4.3	Single family residential properties.		0.0				
	4.4	Multifamily residential properties		0.0		0.0		
	4.5	Commercial loans	*************************	0.0				
	4.6	Mezzanine real estate loans		0.0	***********************	0.0		
5.	Real (estate investments:						
	5.1	Property occupied by company		0.0		0.0		
	5.2	Property held for production of income (including \$,0 of property acquired in satisfaction of debt)		0.0		0.0		
	5.3	Property held for sale (including \$0 property acquired in satisfaction of debt)	*******************************	0.0		0.0		
6.	Contr	ad loans		0.0	######################################	0.0		
7.	Rece	vables for secunities		0.0		0.0		
8.		, cash equivalents and short-term investments						
9.		Invested assets		0.0				
10.		invested assets.		100.0	6,046,174	100.0		

SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES

For the year ended December 31, 2008 (To be filed by April 1) Of HomeWise Insurance Company Address (City, State, Zip Code): Tampa FL 33647

NAIC Group Code.....4111

NAIC Company Code.....12438

Employer's ID Number.....20-3395013

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

1.	Серс	rting entity's total admitted assets as reported on Page 2 of	f this annual statement.			514,642,975
2.	Ten I	argest exposures to a single issuer/borrower/investment.				
		1	2	3	4	
					Percentage of Total	
		<u>lssuer</u>	Description of Exposure	Amount	Admitted Assets	
	2.01	First Amer Govt Oblig Fd Insti Inv Ci Class			15.239 %	
	02					
	.03	Accomplished programme many wear with wear way are considerable and a second				
	.04	The second secon				
	05	The second secon				
	.06	Same same consequences of the consequences of				
	.07	**************************************				
2	.08					
2	.09			\$		
2	.10	The second contact of		\$		
3. /	imoi	unts and percentages of the reporting entity's total admitted	assets held in boods and preferred stocks by	NAIC rating		
		Bonds	access note in particle and produces access by	1	2	
3	.01	NAIC-1		· ·	-	
	.02	NAIC-2				
	.03	NAIC-3				
	.04	NAIC-4				
	.05	NAIC-5				
	.06	NAIC-6				
		Preferred Stocks	· · · · · · · · · · · · · · · · · · ·	3	4	
•	07	P/RP-1		•	**	
	.08	P/RP-2				
	.09	P/RP-3				
	.10	P/RP-4				
	.11	P/RP-5				
	.12	P/RP-6				
-	. 12	FBMT-Vancous accordance and accordan	an orange are assessed to the control of the contro			
1. A	sset	s held in foreign investments:				
4	.01	Are assets held in foreign investments less than 2.5% of t	he reporting entity's total admitted assets?			Yes[X] No[]
1	res	conse to 4.01 above is yes, responses are not required for a	nterrogatories 5-10.			
4	02	Total admitted assets held in foreign investments			S	0.000 %
4	03	Foreign-currency-denominated investments			\$	0.000 %
4	04	Insurance liabilities denominated in that same foreign curr	rency		S	
i. A	***	note former investment evens we established by NAIO and				
). F	ggre	egale foreign investment exposure categorized by NAIC so-	vereign rating:	1		
-	n،	Countries rated MAIC 1			2	
	.01 .03	Countries rated NAIC-1.				
	.02	Countries rated NAIC-2				
٥	.03	Countries rated NAIC-3 or below	***************************************	\$,	0.000 %	
. L	arge	st foreign investment exposures by country, categorized by	the country's NAIC sovereign rating:			
				1	2	
		Countries rated NAIC-1				
6	.01	Country 1:		S		
6	.02	Country 2:		\$		
		Countries rated NAIC-2:				
6	.03	Country 1:		\$		
		Country 2:				
		Countries rated NAIC-3 or below:				
6	.05	Country 1:		\$. 0.000 %	

Supplement for the year 2008 of the HomeWise Insurance Company

			1		2		
7.	Aggregate unhedged foreign currency exposure:		S		0.000 %		
8.	Aggregate unhedged foreign currency exposure categorized b	y NAIC sovereign rating:	1		2		
	8.01 Countries rated NAIC-1		S		0.000 %		
	8.02 Countries rated NAIC-2						
	8.03 Countries rated NAIC-3 or below	eraka krazzaniak ini nasi izak (1200 km) asa zanin zilini izilini izilini izilini izilini izilini izilini izil	3				
9.	Largest unhedged foreign currency exposures by country, cate	agorized by the country's NAIC equateion ratio	rr:				
٠.	Eargest anneaged foreign contents exposures by country, care	agonized by the cooling to MAIO abvertigationin					
			1		2		
	Countries rated NAIC-1:						
	9.01 Country 1:		5		0.000 %		
	9.02 Country 2:		5	number of the last of the second			
	Countries rated NAIC-2:						
	9.03 Country 1		5		0.000 %		
	9.04 Country 2:						
	,	* 1 **********************************	All the second	**** -**** ** - ** *******			
	Countries rated NAIC-3 or below:						
	9.05 Country 1:						
	9.06 Country 2:	***************************************	\$		%		
10.	Ten largest non-sovereign (i.e. non-governmental) foreign issu						
	ą.	2					
	ssuer	NAIC Rating	3		4		
	10.01	** - 1 - 41	S		0.000 %		
	10.02		S		0.000 %		
	10.03						
	10.04						
	10.05						
	10.06						
	10 07		S		0.000 %		
	10.08	**** ** * ***** ***** ***** ***** ******	S		0.000 %		
	10.09		\$		0.000 %		
	10.10		S		0.000 %		
11.	Amounts and percentages of the reporting entity's total admitte	and managed the left in Comment and in contrast which were less					
3 1.	Allound and percentages of the reputing entry's wall admitte	eo asseis neio in Canadian investments and bi	nhedged Canadian				
31.	cattering exposure:	eo asseis neio in Ganadian investments and bi	nhedged Canadian				
3 .	currency exposure:		Ť			Yes(XI No.)	
31.	currency exposure: 11.01 Are assets held in Canadian investments less than 2.5%	% of the reporting entity's total admitted assets	Ť			Yes[X] No[]	
31.	currency exposure: 11.01 Are assets held in Canadian investments less than 2.59 If response to 11.01 is yes, detail is not required for the	% of the reporting entity's total admitted assets	Ť				
3 F.	currency exposure: 11.01 Are assets held in Canadian investments less than 2.59 If response to 11.01 is yes, detail is not required for the 11.02 Total admitted assets held in Canadian investments	% of the reporting entity's total admitted assets	Ť	S,		0.00	
3 F.	currency exposure: 11.01 Are assets held in Canadian investments less than 2.59 If response to 11.01 is yes, detail is not required for the	% of the reporting entity's total admitted assets	Ť	S,			
3 F.	currency exposure: 11.01 Are assets held in Canadian investments less than 2.59 If response to 11.01 is yes, detail is not required for the 11.02 Total admitted assets held in Canadian investments	% of the reporting entity's total admitted assets	Ť	S, S		0.00	0 %
3 F.	currency exposure: 11.01 Are assets held in Canadian investments less than 2.55 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	% of the reporting entity's total admitted assets	Ť	S S		0.00	0 % 0 %
	currency exposure: 11.01 Are assets held in Canadian investments less than 2.55 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	% of the reporting entity's total admitted assets	Ť	S S		0.00	0 % 0 %
12.	currency exposure: 11.01 Are assets held in Canadian investments less than 2.55 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	% of the reporting entity's total admitted assets remainder of Interrogatory 11.	?	S S S		0.00	0 % 0 %
	currency exposure: 11.01 Are assets held in Canadian investments less than 2.55 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	% of the reporting entity's total admitted assets remainder of Interrogatory 11.	? Is with contractual s	S S S		0.00	0 % 0 %
	currency exposure: 11.01 Are assets held in Canadian investments less than 2.55 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	% of the reporting entity's total admitted assets remainder of Interrogatory 11.	? Is with contractual s	S S S			0 % 0 %
	currency exposure: 11.01 Are assets held in Canadian investments less than 2.55 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?	% of the reporting entity's total admitted assets remainder of Interrogatory 11. entity's total admitted assets held in investment instructions less than 2.5% of the reporting entity	? Is with contractual s	S S S		0.00	0 % 0 %
	currency exposure: 11.01 Are assets held in Canadian investments less than 2.55 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:	% of the reporting entity's total admitted assets remainder of Interrogatory 11. entity's total admitted assets held in investment instructions less than 2.5% of the reporting entity	? Is with contractual s	S S S			0 % 0 %
	currency exposure: 11.01 Are assets held in Canadian investments less than 2.55 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 in 12.01.	% of the reporting entity's total admitted assets remainder of Interrogatory 11. entity's total admitted assets held in investment istrictions less than 2.5% of the reporting entity for the remainder of Interrogatory 12.	? Is with contractual s	S S S			0 % 0 %
	currency exposure: 11.01 Are assets held in Canadian investments less than 2.55 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 habilities. 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 in 12.02. Aggregate statement value of investments with contract.	% of the reporting entity's total admitted assets remainder of Interrogatory 11. entity's total admitted assets held in investment istrictions less than 2.5% of the reporting entity for the remainder of Interrogatory 12. tual sales restrictions:	? Is with contractual s	S S S			0 % 0 %
	currency exposure: 11.01 Are assets held in Canadian investments less than 2.55 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 in 12.02. Aggregate statement value of investments with contractual sales restrict.	% of the reporting entity's total admitted assets remainder of Interrogatory 11. entity's total admitted assets held in investment istrictions less than 2.5% of the reporting entity for the remainder of Interrogatory 12. tual sales restrictions:	s with contractual si s's total	S S S s	30.005 %		0 % 0 %
	currency exposure: 11.01 Are assets held in Canadian investments less than 2.55 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 in 12.02. Aggregate statement value of investments with contract Largest three investments with contractual sales restrict.	% of the reporting entity's total admitted assets remainder of Interrogatory 11. entity's total admitted assets held in investment instructions less than 2.5% of the reporting entity for the remainder of Interrogatory 12. tual sales restrictions:	s with contractual solves total 2 S	S S S sales restrictions.	3		0 % 0 %
	currency exposure: 11.01 Are assets held in Canadian investments less than 2.55 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 in 12.02. Aggregate statement value of investments with contractual sales restrict.	% of the reporting entity's total admitted assets remainder of Interrogatory 11. entity's total admitted assets held in investment instructions less than 2.5% of the reporting entity for the remainder of Interrogatory 12. tual sales restrictions:	s with contractual solves total 2 S	S S S sales restrictions.	3		0 % 0 %
	currency exposure: 11.01 Are assets held in Canadian investments less than 2.55 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 in 12.02. Aggregate statement value of investments with contract Largest three investments with contractual sales restrict.	% of the reporting entity's total admitted assets remainder of Interrogatory 11. entity's total admitted assets held in investment istrictions less than 2.5% of the reporting entity for the remainder of Interrogatory 12. tual sales restrictions:	s with contractual solvis total 2 S	S S S sales restrictions.	3		0 % 0 %
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12.	currency exposure: 11.01 Are assets held in Canadian investments less than 2.55 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 in 12.02. Aggregate statement value of investments with contract Largest three investments with contractual sales restrict 12.03. 12.04. 12.05. 13.04. 13.07. Are assets held in equity interest less than 2.5% of the inference to 13.01 above is yes, responses are not refusion. 13.02. 13.03. 13.03.	% of the reporting entity's total admitted assets remainder of Interrogatory 11. entity's total admitted assets held in investment istrictions less than 2.5% of the reporting entity 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.	s with contractual soles (soles total) 2 S	S S S ales restrictions.	3 		0 % 0 %
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12.	currency exposure: 11.01 Are assets held in Canadian investments less than 2.55 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 12.04	% of the reporting entity's total admitted assets remainder of Interrogatory 11. entity's total admitted assets held in investment istrictions less than 2.5% of the reporting entity for the remainder of Interrogatory 12. tual sales restrictions: tual sales restrictions: transporting entity's total admitted assets? reporting entity's total admitted assets? quired for the remainder of Interrogatory 13.	\$ with contractual so //s total 2 \$	S	3 		0 % 0 %
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14.	Amounts and percentages of the reporting entity's total admitted assets held in nonaffiliated, privately placed e	quities:				
	14.01 Are assets held in nonaffiliated, privately placed equities less than 2.5% of the reporting entity's total ad	mitted assets?		Yes [X]	No [1
	If response to 14.01 above is yes, responses are not required for the remainder of Interrogatory 14.				•	•
	1	2	3			
	44.00 Assessed statement where the experiments hald in approfit and existate interest equitions	\$				
	14 02 Aggregate statement value of investments held in nonaffiliated, privately placed equities:	9				
	Largest three investments held in nonaffiliated, privately placed equities:					
	14.03					
	14.04	. \$	0.000 %			
	14.05 ,	\$	0.000 %			
4.5	A					
15.	Amounts and percentages of the reporting entity's total admitted assets held in general partnership interests:					
	15.01 Are assets held in general partnership interests less than 2.5% of the reporting entity's total admitted as	ssets?		Yes [X]	No [J
	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:	S				
	Largest three investments in general partnership interests:					
	15.03	. S				
	15.04	\$				
	15.05	S				
16.	Amounts and percentages of the reporting entity's total admitted assets held in mortgage loans:					
	16.01 Are mortgage loans reported in Schedule B less than 2.5% of the reporting entity's total admitted assets	s'?		Yes[X]	No [1
	If response to 16.01 above is yes, responses are not required for the remainder of Interrogatory 16 and	Interrogatory 17.				
	1	2	3			
	Type (Residential, Commercial, Agricultural)					
	16.02	¢	ብ ብብብ የፈ			
	16.03					
	16.04					
	16.05					
	16.06	. \$	0.000 %			
	16.07	\$	0 000 %			
	16.08	\$	0.000 %			
	16.09	\$	0.000 %			
	16.10	\$	0.000 %			
	16.11	\$				
	Amount and percentage of the reporting entity's total admitted assets held in the following categories of mortgi	age loans:				
		Lo	ans			
	16.12 Construction loans	Ş				
	16.13 Mortgage loans over 90 days past due.					
	16.14 Mortgage loans in the process of foreclosure.					
	- T					
	16.15 Mortgage loans foreclosed					
	16.16 Restructured mortgage loans.	S				
17.	Aggregate mortgage loans having the following loan-to-value ratios as determined from the most current appra	aisal as of the annual				
	statement date:					
		mercial	Agric	uitural		
	1 2 3	4	5		6	
	17.01 above 95% S 0.000 % S	0.000 %	\$.000
	17.02 91% to 95% S					
	17.03 81% to 90% S					
	17.04 71% to 80% \$					
	17.05 below 70% S		\$		0	.000
18.	Amounts and percentages of the reporting entity's total admitted assets held in each of the five targest investor	nacts in rest estaté				
ED.		iena in reas coraic.		M CVI		,
	18 01 Are assets held in real estate reported less than 2.5% of the reporting entity's total admitted assets?			Yes [X]	IND [)
	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	\$				
	18.05					
	18 06					
	V VV Commission of the com					
19.	Report aggregate amounts and percentages of the reporting entity's total admitted assets held in investments	held in mezzanine real est	ate loans.			
	19.01 Are assets held in investments held in mezzanine real estate loans less than 2.5% of the reporting entitle			Yes[X]	No f]
	If response to 19.01 is yes, responses are not required for the remainder of Interrogatory 19.	-		1		•
	4	2	3			
	10.00 Agreents statement value of inventments held in management and a later to the control of t					
	19.02 Aggregate statement value of investments held in mezzanine real estate loans:	O,,				
	Largest three investments held in mezzanine real estate loans.					
	19.03					
			0.000 %			
	19.04	_	0.000 8			

Supplement for the year 2008 of the HomeWise Insurance Company

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

		At Year	<u>End</u>		At End of Each Quarter	
				1st Otr	2nd Qtr	3rd Qtr
		1	2	3	4	5
20.	.01 Securities lending agreements (do not include assets					
	held as collateral for such transactions)					
	.02 Repurchase agreements					
	.03 Reverse repurchase agreements					
	04 Dollar repurchase agreements					
20.	.05 Dollar reverse repurchase agreements	\$	0.000 % S		· \$	\$
21. Am	nounts and percentages of the reporting entity's total adm	tted assets for warrants not	attached to other financial ins	struments, options,	caps and floors:	
		<u>Own</u>				ntten
		1	2		3	4
	.01 Hedging				*	
	.02 Income generation				S	0.000 %
21	.03 Other	S	0.000 %		\$	0.000 %
22. An	nounts and percentages of the reporting entity's total adm	itted assets of potential exp	osure for collars, swaps, and t	forwards:		
		At Year	-End		At End of Each Quarter	
				1st Qtr	2nd Qtr	3rd Qtr
		1	2	3	4	5
	.01 Hedging					
	.02 Income generation					
	.03 Replications					
22	.04 Other	\$			S	. \$
23. An	nounts and percentages of the reporting entity's total adm	itted assets of potential exp	osure for futures contracts:			
		At Yea	-End		At End of Each Quarter	-
				1st Qtr	2nd Qtr	3rd Otr
		1	2	3	4	5
	.01 Hedging					
	.02 Income generation					
	.03 Replications					
23	.04 Other	\$			\$	\$

Selected General Interrogatories Relating to Reinsurance

December 31, 2008

7.1	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□
7.2	If yes, indicate the number of reinsurance contracts containing such provisions1	
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.

Statutory Basis Financial Statements and Other Financial Information

HomeWise Insurance Company

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

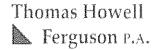
Thomas Howell Ferguson P.A.

Statutory Basis Financial Statements and Other Financial Information

Years ended December 31, 2009 and 2008

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Report of Independent Auditors

The Board of Directors HomeWise Insurance Company

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

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities and capital and surplus of HomeWise 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 P.A.

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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 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 Insurance Company and for filing with the Florida Office of Insurance Regulation and is not intended to be and should not be used by anyone other than these specified parties.

Thomas Howell Feynma B.a.

March 23, 2010

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

	Decen	nber 31,
	2009	2008
Admitted assets		
Cash and invested assets:		
Short-term investments	\$ 5,687,089	\$ 2,231,467
Cash and cash equivalents	8,298,372	3,814,707
Total cash and invested assets	13,985,461	6,046,174
Accrued investment income	11,924	7,762
Premiums receivable	6,409,016	839,085
Reinsurance balances recoverable	365,365	1,406,688
Federal income taxes recoverable	118	1,629,206
Net deferred tax asset	708,396	_
Electronic data processing equipment, net	••	220,633
Receivables from parent and affiliates	1,359,469	3,972,670
Capital contribution receivable	13,000,000	-
Other assets	<u>296.813</u>	520.757
Total admitted assets	\$ <u>36,136,562</u>	\$ <u>14.642.975</u>
Liabilities and capital and surplus		
Liabilities:		
Loss and loss adjustment expense reserves	\$ 574,123	\$ 210,649
Unearned premiums, net	6,906,109	1,210,680
Reinsurance premiums payable	6,499,800	1,228,276
Provision for reinsurance	80,000	-
Accounts payable and accrued expenses	453,552	334,535
Taxes, licenses, and fees payable	523,116	-
Return premiums payable	504,285	-
Payable to affiliates	333,407	3.263,021
Total liabilities	15,874,392	6,247,161
Capital and surplus	20,262,170	8,395,814
Total liabilities and capital and surplus	\$ <u>36,136,562</u>	\$ <u>14.642,975</u>

Statements of Operations - Statutory Basis

	<u></u>	Years ended 2009	Dec	ember 31, 2008
Underwriting income:				
Premiums earned, net of reinsurance ceded	\$	4,555,001	\$	1,362,358
Underwriting expenses:				
Losses and loss adjustment expenses incurred		1,228,091		243,595
Underwriting, acquisition, and other expenses	_	5,273,642		3,238,904
Total underwriting expenses	_	6,501,733	_	3.482.499
Net underwriting loss		(1,946,732)		(2,120,141)
Net investment income		5,110		107,349
Other income		93,716		549
Loss before federal income tax expense (benefit)		(1,847,906)		(2,012,243)
Federal income tax expense (benefit)	_	255,049	_	(968.927)
Net loss	s	(2,102,955)	\$ _	(1.043.316)

HomeWise Insurance Company

Statements of Changes in Capital and Surplus - Statutory Basis

Years ended December 31, 2009 and 2008

			Gross Paid-in		
	Сошис	Common Stock	and Contributed	Unassigned	
	Shares	Par Value	Surplus	Funds	Total
Balance as of December 31, 2007	650,000	\$ 650,000	\$ 8,850,000	\$ 187,400	\$ 9,687,400
Change in deferred income taxes	ŧ	í	ı	42,148	42,148
Change in nonadmitted assets	•	ř	ı	(290,418)	(290,418)
Net loss	*	1000 1000 1000 1000 1000 1000 1000 100		(1,043,316)	(1,043,316)
Balance as of December 31, 2008	650,000	650,000	8,850,000	(1,104,186)	8,395,814
Capital contributions	*	ı	13,000,000	ı	13,000,000
Change in deferred income taxes	î	¥	i	641,590	641,590
Change in nonadmitted assets	r	*	•	407,721	407,721
Change in provision for reinsurance	ı	r	,	(80,000)	(80,000)
Net loss	*			(2,102,955)	(2,102,955)
Balance as of December 31, 2009	650,000	000'059 S	S 21,850,000	S (2,237,830) S 20,262,170	S 20,262,170

See accompanying notes.

Statements of Cash Flows - Statutory Basis

	Years ended 2009	December 31, 2008
Operating activities		
Premiums collected, net of reinsurance	\$ 10,456,308	\$ 649,860
Net investment income received	948	113,453
Other income received	81,442	-
Losses and loss adjustment expenses recovered		
(paid)	176,706	(1,505,536)
Underwriting, acquisition, and other expenses		
paid	(4,602,173)	(3,050,573)
Federal income taxes recovered	1,374,039	**
Net cash provided by (used in) operating activities	<u>7.487,270</u>	<u>(3,792,796</u>)
Financing activities Other miscellaneous sources	<u>452,017</u>	3.196.613
Net cash provided by financing activities	452.017	3.196,613
Net increase (decrease) in cash	7,939,287	(596,183)
Cash at beginning of year	6.046.174	6.642.357
Cash at end of year	\$ <u>13,985.461</u>	\$ <u>6.046,174</u>
Cash consists of the following:		
Cash and cash equivalents	S 8,298,372	\$ 3,814,707
Short-term investments	<u>5.687.089</u>	2.231.467
	S <u>13,985,461</u>	\$ <u>6.046.174</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 Insurance Company (the Company), a wholly-owned subsidiary of HomeWise Holdings, Inc. (HHI), an insurance holding company, is domiciled in the state of Florida. The Company received its Certificate of Authority from the Florida Office of Insurance Regulation (the Office) on December 5, 2005, and commenced operations on January 12, 2006. The Company received a Certificate of Authority from the state of Louisiana on August 6, 2008, and commenced operations on November 25, 2008. The Company is affiliated with HomeWise Management Company (HMC) and HomeWise Preferred Insurance Company (HPIC), which are wholly-owned subsidiaries of HHI.

The Company writes coverage exclusively in the states of Florida and Louisiana, 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 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.

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 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.

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.

Investments

Investments are recorded at admitted asset values as prescribed by the valuation procedures of the NAIC's Securities Valuation Office (SVO). The valuation technique used to measure fair value (market value) is to obtain the published securities' fair value from the SVO publication, *Valuation of Securities*. If the specific security is not listed in this publication, then the fair value is obtained from a registered U.S. exchange.

Short-term investments include investments with original maturities of one year or less from the time of acquisition and are principally stated at cost, which approximates fair value.

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, short-term investments, 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.

All investment transactions have credit exposure to the extent that a counterparty may default on an obligation to the Company. Credit risk is a consequence of carrying investment positions. To manage credit risk, the Company focuses primarily on highly liquid debt instruments, reviews the credit strength of all entities in which it invests, limits its exposure in any one investment, and monitors portfolio quality, taking into account credit ratings assigned by recognized credit rating organizations.

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 \$174,870 at December 31, 2008 (none at December 31, 2009). 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 was \$135,689 and \$157,016 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.

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 \$95,153 by FIGA in 2009 (none in 2008). The FIGA assessment recoverable from policyholders was \$95,153 and \$227,145 at December 31, 2009 and 2008, 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 \$105,999 and \$17,692 at December 31, 2009 and 2008, respectively. The liability for assessments collected but not remitted to Citizens and FHCF totaled \$294,763 and \$62,611 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 23, 2010, the date the financial statements were available to be issued.

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.

Reclassification

Certain 2008 amounts in the financial statements have been reclassified to conform to the 2009 financial statement presentation.

Notes to Statutory Basis 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 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 deposits pursuant to Florida and Louisiana statutes to help secure the payment of claims. Cash on deposit in the amount of \$348,756 and \$342,595 has been assigned to the Office as of December 31, 2009 and 2008, respectively, and a certificate of deposit in the amount of \$100,000 has been assigned to the Louisiana Department of Insurance as of December 31, 2009 and 2008, 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,					
	****		2008			
Investment income:						
Cash and cash equivalents	\$	15,810	\$	76,351		
Short-term investments		16,760		64.787		
Total investment income		32,570		141,138		
Investment expense:						
Bank fees		(27,460)		(33.789)		
Net investment income	\$ <u></u>	5,110	\$	107,349		

4. Premiums Receivable

Premiums receivable includes 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 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 totaled \$6,409,016 and \$839,085, with no nonadmitted premiums receivable, as of December 31, 2009 and 2008, respectively.

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,			
		2009	2	2008
		(in tho	usands)
Loss and LAE reserves at beginning of year Losses and LAE incurred related to:	\$	211	\$	70
Current year		1,413		263
Prior years		<u>(185</u>)		<u>(19)</u>
Losses and LAE paid related to:		1,228		244
Current year		841		174
Prior years		24		(71)
		<u>865</u>		103
Loss and LAE reserves at end of year	\$	574	\$	211

Anticipated reinsurance recoverables on unpaid losses and LAE are approximately \$1,399,000 and \$162,000 at December 31, 2009 and 2008, respectively. Reinsurance recoverables on paid losses and LAE are approximately \$365,000 and \$135,000 at December 31, 2009 and 2008, respectively.

In 2009 and 2008, net incurred losses and LAE attributable to insured events of prior years have developed favorably by \$(185,000) and \$(19,000), respectively, 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 Preferred 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.

Notes to Statutory Basis Financial Statements

6. Reinsurance (continued)

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.

Effective June 1, 2008, the Company and its affiliated company, HomeWise Preferred 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 and the commercial excess of loss. 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 obligation 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

Notes to Statutory Basis Financial Statements

6. Reinsurance (continued)

generally provide coverage on ultimate net losses of approximately \$26,500,000 in excess of \$2,520,000 per occurrence, not to exceed approximately \$51,200,000 for all occurrences. The FHCF provided coverage for 90% of the losses from qualifying catastrophic events in excess of approximately \$18,600,000 up to a maximum of approximately \$97,200,000. For the year ended December 31, 2008, the commercial excess of loss treaties generally provide 100% coverage on ultimate net losses of approximately \$9,300,000 in excess of \$2,900,000 and 25% coverage on ultimate net losses of approximately \$12,700,000 in excess of approximately \$12,200,000 per occurrence, not to exceed approximately \$25,000,000 for all occurrences. The FHCF provided coverage for 90% of the losses from qualifying catastrophic events in excess of approximately \$12,200,000 up to a maximum of approximately \$72,900,000.

For 2009, the Company and its affiliated company, HomeWise Preferred 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 agreements.

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, 2009 and 2008, 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.

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 companies do not meet their obligations under these reinsurance agreements. Given the quality of the reinsuring companies, management believes this possibility to be remote. See Note 5 for recoveries due from reinsurers relating to paid and unpaid losses and LAE.

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

	20	009	2008			
	<u>Written</u>	<u>Earned</u>	<u>Written</u>	Earned		
Direct premiums	\$ 38,926,642	\$ 23,728,632	\$ 11,943,311	\$ 16,941,545		
Ceded premiums	(28,676,212)	(19,173,631)	<u>(10.728.913</u>)	<u>(15.579.187</u>)		
Net premiums	\$ <u>10,250,430</u>	S <u>4,555,001</u>	\$ <u>1.214,398</u>	\$ <u>1,362,358</u>		

Notes to Statutory Basis Financial Statements

6. Reinsurance (continued)

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	\$ 22,408,299	\$ 7,210,289
Ceded unearned premiums	(15,502,190)	(5,999,609)
Unearned premiums, net	\$ 6,906,109	\$ <u>1.210.680</u>
Commission equity, net	\$ <u>(4,495,765)</u>	\$ <u>(1.676.392</u>)

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:

		2009	_	2008
Signet Star (Berkley Insurance Co.)	S	2,935,000	\$	_
Florida Hurricane Catastrophe Fund		1,683,000		979,000
Swiss Reinsurance America Corporation		-		3,502,000

For the years ended December 31, 2009 and 2008, recoveries under reinsurance contracts totaled \$1,684,176 and \$282,554, respectively.

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 in the accompanying statements of operations.

Notes to Statutory Basis Financial Statements

7. Income Taxes (continued)

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

				2009		
)rdinary		Capital	_	Total
Total gross DTAs	S	796,804	S	-	S	796,804
Total gross DTLs		88,408		-		88,408
Net DTA					_	708,396
Nonadmitted DTAs						
Net admitted DTAs					\$	708.396
Decrease in nonadmitted DTAs					S_	(66,806)
			.,.	2008		***************************************
m	***************************************	rdinary	_	<u>Capital</u>		<u>Total</u>
Total gross DTAs	\$	252,727	\$	-	\$	252,727
Total gross DTLs		185,921		-	_	<u> 185.921</u>
Net DTA						66,806
Nonadmitted DTAs					_	<u>(66,806</u>)
Net admitted DTA					\$_	-
Increase in nonadmitted DTAs					\$_	66,806

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.

Notes to Statutory Basis Financial Statements

7. 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:

				2009		
	<u>O</u> :	rdinary		Capital		Total
Can be recovered through loss carrybacks				_		
(10.a.)	S	-	S	-	\$	-
Lesser of:						
Expected to be recognized within one						
year (10.b.i.)		791,602		-		791,602
Ten percent of adjusted capital and						
surplus (10.b.ii.)		740,262		-		740,262
Adjusted gross DTAs offset against						
existing DTLs (10.c.)		56,542		-		56,542
Risk-based capital level used in paragraph						
10.d.:						
Total adjusted capital						0,262,170
Authorized control level					:	2,555,084
				2000		
		rdinora		2008		Total
Can be recovered through loss carrybacks	<u>O</u>	rdinary	_	2008 Capital		Total
Can be recovered through loss carrybacks		rdinary	<u> </u>			Total
(10.a.)	O	rdinary -	<u> </u>		- 	Total
(10.a.) Lesser of:		rdinary -	\$		\$	Total -
(10.a.) Lesser of: Expected to be recognized within one		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
(10.a.) Lesser of: Expected to be recognized within one year (10.b.i.) Ten percent of adjusted capital and surplus (10.b.ii.)		rdinary - - -	\$		\$	Total
(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		-	\$		\$	-
(10.a.) Lesser of: Expected to be recognized within one year (10.b.i.) Ten percent of adjusted capital and surplus (10.b.ii.)		- - - 185,920	\$		\$	Total 185,920
(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.)		-	\$		\$	-
(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.:

	2009	2008
Admitted DTAs	\$ 708,396	\$ -
Admitted assets	36,136,562	14,642,975
Statutory surplus	20,262,170	8,395,814
Total adjusted capital	20,262,170	8,395,814

Notes to Statutory Basis Financial Statements

7. 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:

	Years ended December				
		2009		2008	
Current year income tax expense	S		\$	(866,185)	
Prior year under (over) accrual	_	255,049	_	(102.742)	
Current income taxes incurred	S_	255,049	\$_	(968,927)	

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

	December 31,			
		2009		2008
Deferred Tax Assets:				
Discount on unpaid losses and LAE	S	13,003	\$	5,882
20% of unearned premiums		469,615		82,326
Nonadmitted assets		48,607		164,519
Profit sharing		46,330		-
Charitable contribution		23,375		-
Other		195,874		-
Total DTAs	***************************************	796,804		252,727
Nonadmitted DTAs			_	(66,806)
Admitted DTAs	_	796,804	_	185.921
Deferred Tax Liabilities:				
Depreciation of fixed assets		(71,279)		(162,820)
Other		(17,129)		(23.101)
Total DTLs		(88,408)	_	(185,921)
Net admitted DTAs	S	708,396	S_	<u>.</u>

Notes to Statutory Basis Financial Statements

7. Income Taxes (continued)

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

	December 31,					
	_	2009		2008		<u>Change</u>
Total gross DTAs	\$	796,804	\$	252,727	\$	544,077
Total gross DTLs	_	(88,408)	••••	<u>(185.921</u>)	-	97,513
Net DTA	S	708,396	\$_	66,806		641,590
Deferred tax on change in net						
unrealized capital gains					-	-
Change in net deferred income tax					\$_	641,590

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

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

		2009	Percentage of Pre-Tax Income
	_	2009	\$(1,847,906)
Provision computed at statutory rate	S	(628,289)	(34.00)%
Nondeductible items		340	0.02
Change in nonadmitted assets		115,911	6.27
Prior period adjustment	_	125,497	<u>6.79</u>
Total	S_	(386,541)	(20.92)%
Federal income tax	\$	255,049	13.80 %
Change in deferred taxes		<u>(641,590</u>)	(34.72)
Statutory income taxes	\$_	(386,541)	(20.92)%

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

- 1. At December 31, 2009 and 2008, the Company had no unused capital losses and \$576,093 of net operating 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> Aniount</u>
2009	\$ -
2008	-

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

Notes to Statutory Basis Financial Statements

7. Income Taxes (continued)

F. Consolidated federal income tax return:

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

HomeWise Holdings, Inc. HomeWise Preferred 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.

8. Capital and Surplus

The Company has authorized 1,000,000 shares of \$1 par value common stock, of which 650,000 shares are issued and outstanding at December 31, 2009 and 2008. No other classes of common or preferred shares were issued during 2009 or 2008. The parent company, HHI, is the sole shareholder. In February 2010, HHI made a cash contribution of additional paid-in capital totaling \$13,000,000. The Company received authorization from the Office to report the related capital contribution receivable at December 31, 2009, as an admitted asset in accordance with Statement on Statutory Accounting Principles No. 72, Surplus and Quasi-reorganizations.

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, respectively.

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 or 2008.

Notes to Statutory Basis Financial Statements

9. Related Party Transactions

The Company is a wholly-owned subsidiary of HomeWise Holdings, Inc. (HHI) and is affiliated with HomeWise Management Company (HMC) and HomeWise Preferred Insurance Company (HPIC), which are also wholly-owned subsidiaries of HHI.

Effective January 1, 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 \$10,117,751 and \$3,275,793, respectively. At December 31, 2009 and 2008, the Company has a net receivable due from (payable due to) HMC in the amount of \$641,776 and \$(3,263,021), respectively.

Effective December 5, 2005, the Company entered into a service agreement with HHI. Pursuant to the agreement, HHI provides to the Company 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 \$381,802 and \$116,993, respectively. At December 31, 2009 and 2008, the Company has a receivable due from HHI in the amount of \$717,693 and \$519, respectively.

The Company is also party to a Cost Allocation Agreement with HPIC, 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 expenses. At December 31, 2009 and 2008, the Company has a (payable due to) receivable due from HPIC in the amount of \$(333,407) and \$3,972,151, respectively.

The Company reported a capital contribution of \$13,000,000 from HHI in 2009 that was received in February 2010 (see Note 8).

Notes to Statutory Basis Financial Statements

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. HMC has contracted with an unaffiliated service company to provide this function. 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.

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	Premium	\$ 38,926,642
Management				collection,	
Company, Inc.				claims	
18302 Highwoods				adjustments,	
Preserve Parkway,				binding	
Suite 110				authority, and	
Tampa, FL 33647				underwriting	

11. Leases

On May 1, 2006, the Company entered into an operating lease agreement for office space in Tampa, Florida, which is effective June 1, 2006, through May 31, 2011. The Company has the option to renew the term of the lease for an additional five year period at the prevailing rental rate at that time, provided the Company gives the lessor written notice nine months prior to its intent to renew the lease. Expenses associated with this lease are allocated equally between the Company and HPIC.

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

2010	\$ 505,131
2011	 218,697
	\$ 723,828

Total rent expense for the lease was \$274,845 and \$184,969 for the years ended December 31, 2009 and 2008, respectively. The current year rent expense includes \$274,845 of reimbursements received by HPIC for HPIC's share of the lease expense.

Notes to Statutory Basis Financial Statements

12. 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, 2009, resulting from reclassification of premiums receivable and return premiums payable 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, 2009.

	Audited Financial Statement <u>Amount</u>	Annual Statement Amount	Increase (Decrease)
Total admitted assets	\$ 36,136,562	\$ 35,632,277	\$ 504,285
Total liabilities	15,874,392	15,370,107	504,285
Total capital and surplus	20,262,170	20,262,170	<u></u>
Net loss	2,102,955	2,102,954	1

13. Subsequent Events

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 the Company and HMC. The agreement in principle also includes a renewal rights agreement to acquire certain insurance policies from HPIC. 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.



Arrival Statement for the year 2009 of the HomeWise Insurance Company

SUMMARY INVESTMENT SCHEDULE

				Gross		as Reported	
			Investment Holdings 1 2		in the Annual Statement 3 4		
	······································	investment Categories	Amount	Percentage	Amount	Percentage	
1.	Bono	rie-					
••		U.S. treasury securities		0.0		0.0	
	1.2	U.S. government agency obligations (excluding mortgage-backed securities):	0-14-3	B-11-122-11 B-10-0	K) 10(, r v m) 10 pr m m m (20 00) a a h (10 10 m)	,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,	
	**	121 Issued by U.S. government agencies		0.0		0.0	
		1.22 Issued by U.S. government sponsored agencies.		0.0	#>	0.0	
	1.3	Non-U.S. government (including Canada, excluding mortgage-backed securities).	ŀ	00	en linearmen na semana more avoland	0.0	
	1.4	Securities issued by states, territories and possessions and political subdivisions in the U.S.:	an et bidear vain it mouet va minis	اللا لِلسَّاءِ السَّاءِ السَّ	. Properties and the second second second second		
	1.4	·					
		1.41 States, territories and possessions general obligations.		00	f-une + 20/2 = - 00/2 = - 20/00 = 2 20/00/2	0.0	
		1,42 Political subdivisions of states, territories & possessions & political subdivisions general obligations			**************************************		
		1.43 Revenue and assessment obligations.		0.0	V-10004414444444444444444444444444444444	0.0	
	4.5	1.44 Industrial development and similar obligations.	adi errebetamastumisarum bid-a	0.0		D.O	
	1.5						
		1.51 Pass-through securities:				l	
		1.511 issued or guaranteed by GNMA		0.0	######################################	0.0	
		1.512 Issued or guaranteed by FNMA and FHLMC	>=== > >	0.0	#*************************************	0.0	
		1.513 All other	>	0.0	alsoluted advaluate and medicular survivate and net		
		1.52 CMOs and REMICs:					
		1.521 Issued or guaranteed by GNMA, FNMA, FHLMC or VA	_,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,	0.0	w/	0.0	
		1.522 Issued by non-U.S. Government issuers and collateralized by mortgage-backed				l	
		securities issued or guaranteed by agencies shown in Line 1.521	1	00	*/************************************		
_		1.523 All other	***************************************	DO	0	0.0	
2.		or debt and other fixed income securities (excluding short-term):					
	2.1		ı	0.0		0.0	
	2.2	Unaffiliated non-U.S. securities (including Canada)		00	**************************************	0.0	
		Affiliated securifies.	and he made to easy of \$10000 and on a set	O.O.	****************************		
3.	Edm	ity inderests:				İ	
	3.1	Investments in mutual funds		0.0		0.0	
	3.2	Preferred stocks:					
		3.21 Afficied:	mijelj de a statiski de milet il stamme province politice me	00	w^\dowsCho.dw/ddwhwb\nussan Chebu	0.0	
		3.22 Unaffisited	ina (wapana	0.0	****************************	0.0	
	3.3	Publicly traded equity securities (excluding preferred stocks):					
		331 AFEACC	wada/iindika.boredh.mei-nbbakiin	0.0	annobardolean.acarr.cagabodor	0.0	
		3.32 Utalitated	determinant or his discovers while the he		achinola arrosana ana and biband shaar	0.0	
	3.4	Other equity securities:					
		3.41 Affiliated		00	w0=00Av==0+0= 0==0/=0030() b=<</td <td>0.0</td>	0.0	
		3.42 Uto Male Incommendate of the commendate of	ide a rominar in medane a company comp	0.0		0.0	
	3.5	Other equity interests including tangible personal property under lease:	ŀ				
		3.51 Affiliation	arrendaenhinininahannini	0.0	**********	0.0	
		3.52 Unafficialed		0.0	a) (nia) animo-hinin-honia) (nimo	0.0	
4.	Mort	gage loans:					
	4.1	Construction and land development	-1.01.01.00.00.00.00.00.00.00.00.00.00	0.0	~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~	0.0	
	4.2	Agricitural	dan seksonasark donas mus borsi nessi sensi	0.0	****	0.0	
	4.3	Single family residential properties		0.0	ernterettreenmistamileermett	0,0	
	4.4	Multitamily residential properties.		0.0			
	4.5	Commercial loans.		0.0	etotida evilos el hiddel hebeel (doc)		
	4.5	Mezzanine real estate loans		0.0		0.0	
5.		estate investments:					
	5.1			0.0		0.0	
	5.2	Property held for production of income (including \$0 of property acquired in satisfaction of debt)	1	!		0.0	
	5.3				edmaaddhrads midriddishidadissas		
٥		Property held for sale (including \$0 property acquired in satisfaction of debt)	1		almente, a nitire de la later de nitiral de mentella la later de later de later de la later de la later de la later de la later de la later de la later de la later de la later de la later de la later de la later de la later de la later de la later de la late	0.0	
6.		rad loans.		00		0.0	
7. P		evables for securities		0.0	40.007.504	0.0	
8.		h, cash equivalents and short-term investments	daler to elektrolemia er mireko		13,985,461	100.0	
9.		# invested assets	and as entered exect as on failer (as an ele-	00		0.0	
10.	Total	kryested assets	0	0.0	13,985,461	100.0	

SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES

For the year ended December 31, 2009
(To be filed by April 1)
Of HomeWise Insurance Company
Address (City, State, Zip Code): Tampa FL 33647

NAIC Group Code.....4111

NAIC Company Code.....12438

Employer's ID Number.....20-3395013

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

Answer the following interrogationes 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	urling entity's total admitted assets as reported on Pag	e 2 of this annual statement.			\$35,632,27
2.	Ten	argest exposures to a single issuen/borrowen/investme	ent			
		\$	2	3	4	
					Percentage of Total	
		issuer	Description of Exposure	Amount	Admitted Assets	
			Money Market Prime Cash Obligations Fund			
	2.02		Govt. Oblig Fd Insti Inv Cl			
	2.03	Florida Dept. of Financial Services	Treasury Cash Fund Deposit	\$348,756	0.979 %	
	2.04		Certificate of Deposit			
	2.05		######################################		·	
	2.06	amid venimee Librei nedimei ne In manibanaa en ame en en en en popular, уруги уруги уруги уруги, уруги уруги ур	100110000000000000000000000000000000000	\$		
	2.07	mana a manina a tamana di damana a tamana di dada a manina a a manina a a a a a a a a a a a a a a a a a	mirral 1000 (Ericon Granne) o and Ericon Laura and Lauran Liverpas is before jumpos 1, 100 (100-17) (100 (100-17)	\$	0000 %	
	2.08	**-(X	hang \$4 km km ad \$ 3 5 m h \$ pup\$3 m > 320 52 m (320 52) p \ 2 05 20 C (10 60 C) (10 m h C) \ 2 0 0 0 0 0 C (10 m h C) \ 2 0 0 0 0 0 C (10 m h C) \ 2 0 0 0 0 0 C (10 m h C) \ 2 0 0 0 0 0 C (10 m h C) \ 2 0 0 0 0 0 C (10 m h C) \ 2 0 0 0 0 0 C (10 m h C) \ 2 0 0 0 0 0 C (10 m h C) \ 2 0 0 0 0 0 C (10 m h C) \ 2 0 0 0 0 0 C (10 m h C) \ 2 0 0 0 0 C (10 m h C) \ 2 0 0 0 0 C (10 m h C) \ 2 0 0 0 0 C (10 m h C) \ 2 0 0 0 0 C (10 m h C) \ 2 0 0 0 C (10 m h C) \ 2 0 0 0 C (10 m h C) \ 2 0 0 0 C (10 m h C) \ 2 0 0 0 C (10 m h C) \ 2 0 0 0 C (10 m h C) \ 2 0 0 C (10 m h C) \ 2 0 0 0 C (10 m h C) \ 2 0 0 0 C (10 m h C) \ 2 0 0 0 C (10 m h C) \ 2 0 0 0 C (10 m h C) \ 2 0 0 C (10 m h C) \ 2 0 0 C (10 m h C) \ 2 0 0 C (10 m h C) \ 2 0 0 C (10 m h C) \ 2 0 0 C (10 m h C) \ 2 0 0 C (10 m h C) \ 2 0 0 C (10 m h C) \ 2 0 0 C (10 m h C) \ 2 0 0 C (10 m h C) \ 2 0 0 C (10 m h C) \ 2 0 0 C (10 m h C) \ 2 0 0 C (10 m h C) \ 2 0 0 C (10 m h C) \ 2 0 0 C (10 m h C) \ 2 0 0 C (10 m h C) \ 2 0 C (10 m h C) \ 2 0 0 C (10 m h C) \ 2 0 0 C (10 m h C) \ 2 0 C (10 m h C) \ 2 0 0 C (10 m h C) \ 2 0 0 C (10 m h C) \ 2 0 C (10 m h C) \ 2 0 0 C (10 m h C) \ 2 0 0 C (10 m h C) \ 2 0 C (10 m h C) \ 2 0 0 C (10 m h C) \ 2 0 0 C (10 m h C) \ 2 0 C (10 m h C) \ 2 0 0 C (10 m h C) \ 2 0 0 C (10 m h C) \ 2 0 C (10 m h C) \ 2 0 0 C (10 m h C) \ 2 0 0 C (10 m h C) \ 2 0 C (10 m h C) \ 2 0 0 C (10 m h C) \ 2 0 0 C (10 m h C) \ 2 0 C (10 m h C) \ 2 0 0 C (10 m h C) \ 2 0 0 C (10 m h C) \ 2 0 C (10 m h C) \ 2 0 0 C (10 m h C) \ 2 0 0 C (10 m h C) \ 2 0 C (10 m h C) \ 2 0 0 C (10 m h C) \ 2 0 0 C (10 m h C) \ 2 0 C	\$	0.000 %	
	2.09			\$		
	2.10	About a anne un datations hondras administra mini hi nongranimas gruppy granglygging hwythys ynwy y planting	######################################	\$//***********************************	D.000 %	
3.	Amos	arts and percentages of the reporting entity's total adm	nitted assets held in bonds and preferred stocks by NA	JC rating.		
		Bonds		1	2	
	3.01	NAIC-1	terminal protection (not the content of the content	\$13,714,923	38.490 %	
	3.02	NAXC-2	on service de la contraction d	\$	0.000 %	
	3.03	NAXC3	te keptivi, keperandin kapi tova krobno surknji idosna	\$->->->	0.000 %	
	3.04	NAXC-4 do not compare the compare of	Dversi Presi sarab Imbaels i saad ibress vanan vadan duary syaar iyoy suuroo qoogs saassa says sa	\$		
	3.05	NAIC-5, po- tourist transcript relimination and transcript and a proper injuries	ooneli tiin belli biid bi obeli yi uu etaleleen yshiste ob uuslaab dala adibaa ali waaataa aa abiiaali kaakkuuaaa aa w	\$.,,		
	3.06	NAIC-6	rilaninia kan kanni uma dilikan kemingunjuh kapinan jugu bugat kemingka bidi dengan berbasi bel	\$		
		Preferred Stocks		3	4	
	3.07		(%) #700			
	3.08		0xf(d)=f()fx=3ch+0+fic/2-re30+reeixx20+ra-chaveeri-reaxi-ra-ch-ava			
	3.09		994 ***********************************	•		
	3.10		***************************************			
	3.11	PRP-5	**************************************	\$	0000 %	
	3.12	PRP-6	Meteody picking editore 1855 pour editation voltaging is defined asset, voltage and asset asset com-	\$		
4.	Asset	s held in foreign investments:				
	4,01	Are assets held in foreign investments less than 2.5	% of the reporting entity's total admitted assets?			Yes[X] No[]
	if rest	oonse to 4.01 above is yes, responses are not require	d for interrogatories 5-10.			
	4.02	Total admitted assets held in foreign investments			\$	0.000
	4.03	Foreign-currency-denominated investments			\$_,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,	0.000
	4.04	Insurance liabilities denominated in that same foreig	n currency		\$	0.000
5.	Aggre	gate foreign investment exposure categorized by NAI	C sovereign rating:			
	E 64	Complete and MARCA		1	2	
			Opposite the state of the state of the same of the same and the same as a state of the same as a same as a same			
			t pep and a feet of ent the ent to a substance becomes account and substance becomes a substance and win			
	5.03	Lounnes rated NARC>3 or below	n ender de la company de la faite de la company de la faire de la company de la company de la faite de la fait			
6.	Large	st foreign investment exposures by country, categoriz	ed by the country's NAIC sovereign rating;			
		Countries rated NAIC-1:		*	2	
	Ent		arthweather writings the second and an amount of the second and an arthur of the second and the	•	n nan ar	
		-	desired to be rised in a single of the singl			
	2.02	Countries rated NAIC-2:	elea-leadh-an tan - bhlian-baillibh na dhub ann blus a bhu ta b ann air ann t-uaid air ann t-uaid aid ann a' b	V 11) reeddes of units a community some		
	6.03		A Visited in the control of the cont	•	5 000 to	
		•				
	0.04	Countries rated NAIC-3 or below:	ADERNIÉRE DE DES DE DES LOS DE LA PROPERCIONA (QUE LO CONTRA LA C	→ ->>		
	6.05		**************************************	•	ስ በስስ ተ	
	0.00		**************************************	₩-00app-00000000000000000000000000000000		

Supplement for the year 2009 of the HomeWise Insurance Company

		1	2	
7.	Aggregate unhedged foreign currency exposure:	\$	0.000 %	·
8.	Engraphy inheritand familian or many avanous antenning by MAID assumation which		•	
о.	Aggregate unhedged foreign currency exposure categorized by NAIC sovereign rating: 8.01 Countries rated NAIC-1	1	2	
	8.02 Countries rated NAIC-2			
	8.03 Countries rated NAIC-3 or below.			
9.	Lergest unhedged foreign currency exposures by country, categorized by the country's NAIC sovereign rating	•		
	Countries rated NAIC-1:	1	2	
	9.01 Country 1:		5 000 W	
	9.02 Country 2:			
	Countries rated NAIC-2:	****** ********************************		
	9.03 Country 1:	\$-,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,		
	9.04 Country 2			
	Countries rated NAIC-3 or below:			
	9.05 Country 1:			
	9.06 Country 2:	, \$	0.000 %	
10.	Ten largest non-sovereign (i.e. non-governmental) foreign issues:			
	1 2			
	Issuer NAIC Rating	3	4	
	10.01 Servicione de describación de describaci			
	18.02 Augment to the second control of the s			
	10.03			
	10.05			
	10.06			
	10.07			
	10.08	\$	0.000 %	
	10.09	\$		
	10.10	\$		
11.	Amounts and percentages of the reporting entity's total admitted assets held in Canadian investments and un	hedned Canadian		
	critical expositions:	ranger ouncous		
	11.01 Are assets held in Canadian investments less than 2.5% of the reporting entity's total admitted assets?	7		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		\$	
	11.03 Cenadian currency-denominated investments		\$	
	11.04 Canadian-denominated insurance liabilities			0.000 %
	11.05 Unhedged Canadian ourrency exposure		\$ 10 a felindora arcabile an entrare exemulate page and a	0.000 %
12.	Report aggregate amounts and percentages of the reporting entity's total admitted assets held in investments	with contractual sales	s restrictions.	
	12.01 Are assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity	s lotal		
	admitted assets?			Yes[X] No[]
	If response to 12.01 is yes, responses are not required for the remainder of Interrogatory 12.	_		
	1 12.02 Aggregate statement value of investments with contractual sales restrictions:	2	3	
	Largest three investments with contractual sales restrictions;	Today or Electric actions to the Core		
	12.03	. \$.	ስ በሰብ %	
	12.04			
	12.05			
42	American maniferent and admitted manufacturing the transformation with the same			
13,	Amounts and percentages of admitted assets held in the ten largest equity interests: 13.01 Are assets held in equity interest less than 2.5% of the reporting entity's total admitted assets?			VacIV3 No. 1 3
	If response to 13.01 above is yes, responses are not required for the remainder of Interrogatory 13.			Yes[X] No[]
	1	2	3	
	Name of Issuer			
	13.02			
	13.03			
	13.04			
	13.05			
	13.07			
	13.08			
	13.05			
	13.10			
	13.11 Separate representation of the separate se			

Supplement for the year 2009 of the HomeWise Insurance Company

14.	Amounts and percentages of the reporting entity's total admitted assets h	eld in nonal	liliated, privately pla	ced equities:				
	14.01 Are assets held in nonaffiliated, privately placed equities less than	2.5% of the	reporting entity's to	tal admitted assets	s?		Yes[X]	No I 1
	If response to 14.01 above is yes, responses are not required for t	he remainde	er of Interrogatory 14	ł.				• •
	1		• .		2	3		
	14.02 Aggregate statement value of investments held in nonalitizated, pri	ivately ntane	d aniëliee					
	Largest three investments held in nonafficialed, privately placed eq		a equaes.	· Profesionarionario		······································		
						7 NAG 44		
	14.03							
	14.04							
	14.05		removed the series and series and an arrangement	\$				
15.	Amounts and percentages of the reporting entity's total admitted assets h	old in oans	ol andanakia istaa	-4-:				
IJ.	15.01 Are assets held in general partnership interests less than 2.5% of	•						
	· '		•				Yes [X]	No []
	If response to 15.01 above is yes, responses are not required for t	he remaind	a of Interrogatory 15	i.				
	§				2	3		
	15.02 Aggregate statement value of investments held in general partners	ship interest	S:	\$		0.000 %		
	Largest three investments in general partnership interests:							
	15.03		*** h = ## h # # 4 p p = - p = 0 - 0 p + 0 0 0 0 0 0 0	· \$				
	15.04			S		0.000 %		
	15.05							
						,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,		
16.	Amounts and percentages of the reporting entity's total admitted assets h	eld in mortg	age loans:					
	16.01 Are mortgage loans reported in Schedule Bless than 2.5% of the	reporting en	lity's total admitted a	ssets?			Yes[X]	No 1
	If response to 16.01 above is yes, responses are not required for t	he remaind	er of Interrogatory 16	and interrogators	17.		٠.	- 1 1
	1				2	3		
	Type (Residential, Commercial, Agricultural)				-	•		
	16.02					0.000.00		
	16.03							
	16.04 services has recover women and considerate agents accoming in adjustic model of the recovery of the reco							
	16.05							
	16.06	reception domination		\$	······································	0.000 %		
	16.07		e***->/**e e=*********************************	\$		0.000 %		
	16.08	**********		\$		0.000 %		
	16.09	ennen Ovaka erbeen	*************************	\$		0.000%		
	16.10							
	16.11							
	Amount and percentage of the reporting entity's total admitted assets held	in the folio	wing categories of n	nortgage loans;				
					Lo	ens		
	16.12 Construction lizens			\$		0.000.95		
	16.13 Montgage 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			\$	weed to be a served whome a	0.000 %		
17.	Aggregate mortgage loans having the following loan-to-value ratios as de	termined for	m the most current	annraical ac of the	anne roi			
	statement date:		an Dis Most Sastenti	approisor as or arc	- GIRIOGI			
	Loan-to-Value Residential			Commercial		Agrica	dh end	
	1 2		3	S.C. S.C. S.C.	4	5	PACTA CH	6
	17.01 above 95% \$		-		0.000 %			
	17.02 91% to 95%\$						**********	0.000 9
	17.03 81% to 90% \$							
	17.04 71% to 80% \$							
	17.05 below 70% \$	0.000 %	\$		0.000 %	\$		0.000 9
18.	Amounts and percentages of the reporting entity's total admitted assets h	eld in each	of the five largest inv	restments in real e	estate:			
	18.01 Are assets held in real estate reported less than 2.5% of the report	ling entity's	iotal admitted assets	3			Yes [X]	No []
	If response to 18.01 above is yes, responses are not required for the	he remainde	r of Interrogatory 18	ł.				
	Largest five investments in any one parcel or group of contiguous parcels	of real esta	te.					
	Description				2	3		
	18.02			*	-			
	18.03							
	18.54							
	18.05							
	18.06	~~~~	**********	\$.,_,,				
40	Daniel annual an			4. 5. 415				
19,	Report aggregate amounts and percentages of the reporting entity's total					te loans.		
	19.01 Are assets held in investments held in mezzanine real estate loans	less than 2	.5% of the reporting	entity's admitted a	assets?		Yes [X]	No[]
	if response to 19.01 is yes, responses are not required for the rem	ainder of Int	errogatory 19.					
	t				2	3		
	19.02 Aggregate statement value of investments held in mezzanine real	estate loans	Ç.	\$				
	Largest three investments held in mezzanine real estate loans.					- * *-		
	19.03			\$		0.000 %		
	19.04							
	40.85		**************************************					

Supplement for the year 2009 of the HomeWise Insurance Company

20.	Amounts and percentages of the reporting entity's total ad	imitted assets subject to th	e following types of agreements:			
		At	'ear-End		At End of Each Quarter	
				1st Otr	2nd Otr	3rd Otr
		1	2	3	4	5
	20.01 Securities lending agreements (do not include asse					
	held as collateral for such transactions)					
	20.02 Repurchase agreements					•
	20.03 Reverse repurchase agreements	. \$			<u> </u>	\$
	20.04 Doğar repurchase agreements					
	20.05 Dollar reverse repurchase agreements	. \$		is have deliberable access of madishers	**** \$	\$
21.	Amounts and percentages of the reporting entity's total ad	mitted assets for warrants	not attached to other financial inst	ruments, options	, caps and foors:	
		<u>c</u>	<u>Xwned</u>		Wi	ten
		1	2		3	4
	21.01 Hedging	-			\$	
	21.02 Income generation	•			\$	
	21.03 Other	. \$			\$ of the sell incommendation and the selection of the sel	
22.	Amounts and percentages of the reporting entity's total ad	mitted assets of potential a	exposure for collars, swaos, and fo	orwards:		
		ALY	ear-End		At End of Each Quarter	
				1st Ctr	2nd Qtr	3rd Otr
		1	2	3	4	5
	22.01 Hedging	. \$->->->->->->->->->->->->->->->->->->->		#30+##0-00##3+30##-000#530		S
	22.02 Income generation	\$		Managana awas da kawana ana ka wa pi	\$	\$
	22.03 Replications	. \$		'nd three' ande at the bretter block and block	\$	\$
	22.04 Other					
23.	Amounts and percentages of the reporting entity's total ad-	mitted assets of potential e	exposure for futures contracts:			
	, , , , , , , , , , , , , , , , , , , ,	,	'ear-End		At End of Each Quarier	
				1st Qtr	2nd Otr	3rd Qtr
		1	2	3	4	5
	23.01 Hedging	\$.em.ia.eoeus veresaaribare.u.,	\$	\$
	23.02 Income generation				•	•
	23.03 Replications					
	23.04 Other					

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	
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?	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 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 Insurance Company

We have audited the accompanying statements of admitted assets, liabilities, and capital and surplus - statutory basis of HomeWise 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, 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 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.

Thomas Howell

• Ferguson n.

Page Two

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

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

Thomas Howell Farguson &. 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	\$ 12,485,943	\$ 5,687,089
Cash and cash equivalents	2,651,494	8.298,372
Total cash and invested assets	15,137,437	
Accrued investment income	3,232	11,924
Premiums receivable	15,236,676	6,409,016
Reinsurance balances recoverable	5,246,644	365,365
Federal income taxes recoverable	118	118
Net deferred tax asset	1,111,649	708,396
Receivables from parent and affiliates	9,117,855	1,359,469
Capital contribution receivable	, ,	13,000,000
Other assets	2,839,305	296.813
Total admitted assets	\$ 48,692,916	\$ 36,136,562
Liabilities and capital and surplus		
Liabilities:		
Loss and loss adjustment expense reserves	\$ 7,396,674	\$ 574,123
Unearned premiums, net	4,664,895	6,906,109
Reinsurance premiums payable	9,688,931	6,499,800
Provision for reinsurance	-	80,000
Accounts payable and accrued expenses	849,318	453,552
Taxes, licenses, and fees payable	2,038,715	523,116
Return premiums payable	-	504,285
Payable to affiliates	5,254,595	333,407
Total liabilities	29,893,128	15,874,392
Capital and surplus	<u> 18,799,788</u>	20.262.170
Total liabilities and capital and surplus	\$ <u>48,692,916</u>	\$ <u>36.136.562</u>

Statements of Operations - Statutory Basis

		Years ended 2010	Dec	cember 31, 2009
Underwriting income:				
Premiums earned, net of reinsurance ceded	\$	15,363,099	\$	4,555,001
Underwriting expenses:				
Losses and loss adjustment expenses incurred		14,873,129		1,228,091
Underwriting, acquisition, and other expenses	_	2,940,725		5,273,642
Total underwriting expenses	_	17,813,854		6,501.733
Net underwriting loss		(2,450,755)		(1,946,732)
Net investment income		15,502		5,110
Other income		402,846		93,716
Loss before federal income tax expense	•	(2,032,407)		(1,847,906)
Federal income tax expense	_		••••	255.049
Net loss	S_	(2,032,407)	\$_	(2.102.955)

HomeWise Insurance Company

Statements of Changes in Capital and Surplus - Statutory Basis

Years ended December 31, 2010 and 2009

	Сети	Common Stock	Gross Paid-in and Contributed	Unassigned	
•	Shares	Par Value	Surplus	Funds	Total
Balance as of December 31, 2008	650,000	\$ 650,000	\$ 8,850,000	\$ (1,104,186) \$	\$ 8,395,814
Capital contributions	ľ	ì	13,000,000	•	13,000,000
Change in deferred income taxes	ı	ŧ	ı	641,590	641,590
Change in nonadmitted assets	1	ŧ	ı	407,721	407,721
Change in provision for reinsurance		ŧ	•	(80,000)	(80,000)
Net loss		****		(2.102.955)	(2,102,955)
Balance as of December 31, 2009	650,000	650,000	21,850,000	(2,237,830)	20,262,170
Change in deferred income taxes	1	ŧ	ı	672,965	672,965
Change in nonadmitted assets		ŝ	1	(182,940)	(182,940)
Change in provision for reinsurance	•	ŧ	r	80,000	80,000
Net loss		1	The state of the s	(2,032,407)	(2,032,407)
Balance as of December 31, 2010	650,000	s 650,000	S 21,850,000	S (3,700,212) S 18,799,788	S 18,799,788

See accompanying notes.

Statements of Cash Flows - Statutory Basis

	Years ended 2010	December 31, 2009
Operating activities		
Premiums collected, net of reinsurance	\$ 6,977,566	\$ 10,456,308
Net investment income received	24,194	948
Other income received	377,246	81,442
Losses and loss adjustment expenses (paid) recovered	(12,931,857)	176,706
Underwriting, acquisition, and other expenses		
paid	(1,451,828)	(4,602,173)
Federal income taxes recovered	Mar.	<u>1,374,039</u>
Net cash (used in) provided by operating activities	<u>(7.004.679</u>)	<u>7.487.270</u>
Financing activities		
Capital contributions received	13,000,000	-
Other miscellaneous (uses) sources	(4,843,345)	452.017
Net cash provided by financing activities	<u>8,156,655</u>	<u>452.017</u>
Net increase in cash	1,151,976	7,939,287
Cash at beginning of year	13,985,461	6.046.174
Cash at end of year	\$ <u>15,137,437</u>	\$ <u>13.985.461</u>
Cash consists of the following:		
Cash and cash equivalents	\$ 2,651,494	\$ 8,298,372
Short-term investments	12,485,943	5.687.089
	\$ <u>15,137,437</u>	\$ <u>13.985.461</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 Insurance Company (the Company), a wholly-owned subsidiary of HomeWise Holdings, Inc. (HHI), an insurance holding company, is domiciled in the state of Florida. The Company received its Certificate of Authority from the Florida Office of Insurance Regulation (the Office) on December 5, 2005, and commenced operations on January 12, 2006. The Company received a Certificate of Authority from the state of Louisiana on August 6, 2008, and commenced operations on November 25, 2008. The Company is affiliated with HomeWise Management Company (HMC) and HomeWise Preferred Insurance Company (HPIC), which are wholly-owned subsidiaries of HHI.

The Company writes coverage exclusively in the states of Florida and Louisiana, 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 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.

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 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. 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.

Notes to Statutory Basis Financial Statements

1. Summary of Significant Accounting Policies (continued)

Basis of Presentation (continued)

- 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.

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.

Investments

Investments are recorded at admitted asset values as prescribed by the valuation procedures of the NAIC's Securities Valuation Office (SVO). The valuation technique used to measure fair value (market value) is to obtain the published securities' fair value from the SVO publication, *Valuation of Securities*. If the specific security is not listed in this publication, then the fair value is obtained from a registered U.S. exchange.

Notes to Statutory Basis Financial Statements

1. Summary of Significant Accounting Policies (continued)

Investments (continued)

Short-term investments include investments with original maturities of one year or less from the time of acquisition 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, short-term investments, 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.

All investment transactions have credit exposure to the extent that a counterparty may default on an obligation to the Company. Credit risk is a consequence of carrying investment positions. To manage credit risk, the Company focuses primarily on highly liquid debt instruments, reviews the credit strength of all entities in which it invests, limits its exposure in any one investment, and monitors portfolio quality, taking into account credit ratings assigned by recognized credit rating organizations.

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.

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.

Notes to Statutory Basis Financial Statements

1. Summary of Significant Accounting Policies (continued)

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

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.

The Company was assessed \$95,153 by FIGA in 2009 (none in 2010). The FIGA assessment recoverable from policyholders, including amounts acquired from HPIC (see Note 9), was \$945,234 and \$95,153 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 due from policyholders for these assessments were \$248,396 and \$105,999 at December 31, 2010 and 2009, respectively. The liability for assessments collected but not remitted to Citizens and FHCF totaled \$706,972 and \$294,763 at December 31, 2010 and 2009, respectively.

Notes to Statutory Basis Financial Statements

1. Summary of Significant Accounting Policies (continued)

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 other than the proposed merger described in Note 13.

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 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 deposits pursuant to Florida and Louisiana statutes to help secure the payment of claims. Cash on deposit in the amount of \$359,861 and \$348,756 has been assigned to the Office as of December 31, 2010 and 2009, respectively, and a certificate of deposit in the amount of \$100,000 has been assigned to the Louisiana Department of Insurance as of December 31, 2010 and 2009, 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.

Notes to Statutory Basis Financial Statements

3. Investments

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

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

	Years ended December 31,				
		2010		2009	
Investment income:				-	
Cash and cash equivalents	\$	14,902	\$	15,810	
Short-term investments		28,434		16,760	
Total investment income		43,336		32,570	
Investment expense:					
Bank fees		(27,834)		(27,460)	
Net investment income	S	15,502	\$	5.110	

4. Premiums Receivable

Premiums receivable includes 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 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, 2010 and 2009, totaled \$15,236,676 and \$6,409,016, respectively, net of \$1,505 of nonadmitted premiums receivable, as of December 31, 2010 (none in 2009).

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,			
	2	2010		<u> 2009 </u>
		(in tho	usands	r)
Loss and LAE reserves at beginning of year	\$	574	\$	211
Losses and LAE incurred related to:				
Current year		13,644		1,413
Prior years		1,229		(185)
		14,873		1,228
Losses and LAE paid related to:				
Current year		6,808		841
Prior years		1,242		24
		8,050		865
Loss and LAE reserves at end of year	S	7,397	\$	574

Anticipated reinsurance recoverables on unpaid losses and LAE are approximately \$2,872,000 and \$1,399,000 at December 31, 2010 and 2009, respectively. Reinsurance recoverables on paid losses and LAE are approximately \$5,247,000 and \$365,000 at December 31, 2010 and 2009, respectively.

Net incurred losses and LAE attributable to insured events of prior years have increased (decreased) \$1,229,000 and \$(185,000) in 2010 and 2009, respectively, 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 Preferred 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 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 cede 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 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 the agreements 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 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 \$79,600,000 in excess of \$6,000,000 per occurrence, not to exceed approximately \$159,200,000 for all occurrences. The FHCF provided coverage for 90% of the losses from qualifying catastrophic events in excess of approximately \$88,700,000 up to a maximum of approximately \$375,600,000, plus 100% of qualifying losses in excess of approximately \$6,100,000 (drop down layer) up to a maximum of approximately \$16,100,000. The drop down layer provides for one automatic reinstatement at 100% of its original limit. For the year ended December 31, 2009, the commercial excess of loss treaties generally provide coverage on ultimate net losses of approximately \$26,500,000 in excess of \$2,520,000 per occurrence, not to exceed approximately \$51,200,000 for all occurrences. The FHCF provided coverage for 90% of the losses from qualifying catastrophic events in excess of approximately \$18,600,000 up to a maximum of approximately \$97,200,000.

For 2009, the Company and its affiliated company, HomeWise Preferred 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 agreements.

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, 2010 and 2009, 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.

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 companies do not meet their obligations under these reinsurance agreements. Given the quality of the reinsuring companies, management believes this possibility to be remote. See Note 5 for recoveries due 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 ended December 31,				
	20	2010		09	
	<u>Written</u>	<u>Earned</u>	<u>Written</u>	<u>Earned</u>	
Direct premiums	\$ 146,671,003	\$102,314,483	\$ 38,926,642	\$ 23,728,632	
Ceded premiums	(133,549,118)	(86,951,384)	(28,676.212)	<u>(19.173,631</u>)	
Net premiums	\$ <u>13,121,885</u>	\$ <u>15,363,099</u>	\$ <u>10.250.430</u>	\$ <u>4.555.001</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	\$ 66,764,819	\$ 22,408,299
Ceded unearned premiums	(62,099,924)	(15,502,190)
Unearned premiums, net	\$ <u>4,664,895</u>	\$ <u>6.906.109</u>
Commission equity, net	\$ <u>(17,523,000)</u>	\$ <u>(4.496.000</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	\$ 29,734,856	\$ 4,412,265	
Assumed losses and loss adjustment expenses incurred	**-	(32,063)	
Ceded losses and loss adjustment expenses incurred	(14,861,727)	(3,152.111)	
Losses and loss adjustment expenses incurred, net	\$ <u>14,873,129</u>	\$ <u>1.228.091</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
Florida Hurricane Catastrophe Fund	\$	12,291,000	\$ 1,683,000
Signet Star (Berkley Insurance Co.)		2,922,000	2.935,000

For the years ended December 31, 2010 and 2009, recoveries under reinsurance contracts totaled \$8,507,882 and \$1,684,176, respectively.

Notes to Statutory Basis Financial Statements

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 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	
	<u>Ordinary</u>	<u>Capital</u>	Total
Total gross DTAs	\$ 1,501,104	S -	\$ 1,501,104
Total gross DTLs	-	-	119,743
Net DTA			1,381,361
Nonadmitted DTAs			269,712
Net admitted DTA (see Note 13)			S <u>1.111.649</u>
Increase in nonadmitted DTAs			s <u>269,712</u>
		2009	
	<u>Ordinary</u>	<u>Capital</u>	<u>Total</u>
Total gross DTAs	\$ 796,804	S -	\$ 796,804
Total gross DTLs	-		<u>88.408</u>
Net DTA			708,396
Nonadmitted DTAs			
110mmmma D 12 to			
Net admitted DTAs			\$ <u>708.396</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.

Notes to Statutory Basis Financial Statements

7. Income Taxes (continued)

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

			2010	
	Ordinary		Capital	<u>Total</u>
Can be recovered through loss carrybacks				
(10.a.)	S -	S	-	S -
Lesser of:				
Expected to be recognized within one				
year (10.b.i.)	1,454,109		-	1,454,109
Ten percent of adjusted capital and	1 022 600			1 022 700
surplus (10.b.ii.) Adjusted gross DTAs offset against	1,933,698		**-	1,933,698
existing DTLs (10.c.)	119,743		_	119,743
Risk-based capital level used in paragraph	112,740		_	117,745
10.d.:				
Total adjusted capital				18,799,788
Authorized control level				3,215,330
			2009	
	Ordinary		2009 Capital	Total
Can be recovered through loss carrybacks				
(10.a.)	Ordinary \$ -	- - - - -		Total
(10.a.) Lesser of:				
(10.a.) Lesser of: Expected to be recognized within one	\$ -	S		\$ -
(10.a.) Lesser of: Expected to be recognized within one year (10.b.i.)		\$		
(10.a.) Lesser of: Expected to be recognized within one year (10.b.i.) Ten percent of adjusted capital and	\$ - 791,602	\$		\$ - 791,602
(10.a.) Lesser of: Expected to be recognized within one year (10.b.i.) Ten percent of adjusted capital and surplus (10.b.ii.)	\$ -	\$		\$ -
(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	\$ - 791,602 740,262	\$		\$ - 791,602 740,262
(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.)	\$ - 791,602	\$		\$ - 791,602
(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	\$ - 791,602 740,262	\$		\$ - 791,602 740,262
(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	\$ - 791,602 740,262	\$		\$ - 791,602 740,262

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

	2010	2009
Admitted DTAs	\$ 1,111,649	\$ 708,396
Admitted assets	48,692,916	36,136,562
Statutory surplus	18,799,788	20,262,170
Total adjusted capital	18,799,788	20,262,170

Notes to Statutory Basis Financial Statements

7. 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 is:

	•	2010		2009
Current year income tax expense	\$	-	\$	-
Prior year under accrual			_	255.049
Current income taxes incurred	\$		\$	255,049

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

	Decem	ber 31,	
	<u>2010</u>	2009	<u>Change</u>
Deferred Tax Assets:			· · · - · · · · · · ·
Discount on unpaid losses and LAE	\$ 117,488	\$ 13,003	\$ 104,485
20% of unearned premiums	317,213	469,615	(152,402)
Nonadmitted assets	19,105	48,607	(29,502)
Profit sharing	46,330	46,330	-
Charitable contribution	23,375	23,375	
Net operating loss	<u>977,593</u>	<u>195.874</u>	<u> 781.719</u>
Total DTAs	1,501,104	796,804	704,300
Nonadmitted DTAs	<u>269,712</u>		269.712
Admitted DTAs	1,231,392	<u>796.804</u>	434,588
Deferred Tax Liabilities:			
Depreciation of fixed assets	(96,619)	(71,279)	(25,340)
Other	(23,124)	(17.129)	(5.995)
Total DTLs	(119,743)	(88.408)	(31.335)
Net admitted DTAs	\$ <u>1,111,649</u>	\$ 708.396	\$ <u>403.253</u>

Notes to Statutory Basis Financial Statements

7. Income Taxes (continued)

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

	Decen	ıber 31,	
	2010	2009	<u>Change</u>
Total gross DTAs	\$ 1,501,104	\$ 796,804	\$ 704,300
Total gross DTLs	(119,743)	(88,408)	(31,335)
Net DTA	\$ <u>1,381,361</u>	\$ <u>708,396</u>	672,965
Deferred tax on change in net unrealized			
capital gains			
Change in net deferred income tax			\$ <u>672,965</u>

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

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

		Percentage of Pre-Tax
	2010	Income
Provision computed at statutory rate	\$ (691,018)	(34.00)%
Nondeductible items	15,810	0.78
Change in nonadmitted assets	29,502	1.45
Other	(27,259)	(1.34)
Total	\$ <u>(672,965</u>)	(33.11)%
Federal income tax	\$ -	- %
Change in deferred taxes	<u>(672,965</u>)	(33.11)
Statutory income taxes	\$ <u>(672,965</u>)	(33.11)%

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

- 1. At December 31, 2010 and 2009, the Company had no unused capital losses and approximately \$2,875,000 of net operating loss carryforwards available to offset against future taxable income. This carryforward originated in 2009 and expires in 2029.
- 2. The following is income tax expense that is available for recoupment in the event of future net losses:

<u>Year</u>	A	mount
2010	\$	
2009		_

Notes to Statutory Basis Financial Statements

7. Income Taxes (continued)

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 Preferred 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.

8. Capital and Surplus

The Company has authorized 1,000,000 shares of \$1 par value common stock, of which 650,000 shares are issued and outstanding at December 31, 2010 and 2009. No other classes of common or preferred shares were issued during 2010 or 2009. The parent company, HHI, is the sole shareholder. In February 2010, HHI made a cash contribution of additional paid-in capital totaling \$13,000,000. The Company received authorization from the Office to report the related capital contribution receivable at December 31, 2009, as an admitted asset in accordance with Statement on Statutory Accounting Principles No. 72, Surplus and Quasi-reorganizations.

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, respectively.

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. The Company did not declare or pay any dividends during the years ended December 31, 2010 or 2009.

Notes to Statutory Basis Financial Statements

9. Related Party Transactions

The Company is a wholly-owned subsidiary of HomeWise Holdings, Inc. (HHI) and is affiliated with HomeWise Management Company (HMC) and HomeWise Preferred Insurance Company (HPIC), which are also wholly-owned subsidiaries of HHI.

Effective July 1, 2010, the Company executed a Policy Rights Agreement with HPIC whereby HPIC sells all of its rights, title, and interests in policy information developed by HPIC to the Company. The agreement is in furtherance of HPIC's discontinuance plan filed with the OIR and is intended to provide the Company with the information necessary to determine which of HPIC's policies will be offered replacement coverage with the Company. As compensation, the Company will pay a fee equal to 5% of its direct written premium related to the replacement coverage. Additionally, policies were transferred to the Company that were to be offered replacement coverage by the Company and that acknowledged the Company 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 the Company. The total amount of premium transferred from HPIC under this agreement during 2010 is \$40,228,661 and is recorded as direct written premium. Also, in recognition of the disproportionate allocation of FHCF costs associated with the policy transfer and its related activity, HPIC transferred \$3 million of FHCF premiums to the Company.

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

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

Effective January 1, 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 \$28,077,282 and \$10,117,751, respectively. During 2010, HMC forgave \$6,941,000 of these expenses.

Effective December 5, 2005, the Company entered into a service agreement with HHI. Pursuant to the agreement, HHI provides to the Company 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 \$502,379 and \$381,802, respectively.

Notes to Statutory Basis Financial Statements

9. Related Party Transactions (continued)

The Company is also party to a Cost Allocation Agreement with HPIC, 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 payable due to HPIC of \$5,254,595 and \$333,407, at December 31, 2010 and 2009, respectively; a receivable due from HMC of \$9,116,996 and \$641,776 at December 31, 2010 and 2009, respectively; and a receivable due from HHI of \$859 and \$717,693 at December 31, 2010 and 2009, respectively.

The Company reported a capital contribution of \$13,000,000 from HHI in 2009 that was received in February 2010 (see Note 8).

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. HMC has contracted with an unaffiliated service company to provide this function. 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.

		Exclusive	Type of Business	Type of Authority	Direct Premium
Name and Address	FEI Number	<u>Contract</u>	Written	Granted	Written
HomeWise	20-3395152	Yes	Homeowners	Premium	\$ 105,850,595
Management				collection.	
Company, Inc.				claims	
18302 Highwoods				adjustments,	
Preserve Parkway,				binding	
Suite 110				authority, and	
Tampa, FL 33647				underwriting	

11. Leases

On May 1, 2006, the Company entered into an operating lease agreement for office space in Tampa, Florida, which is effective June 1, 2006, through May 31, 2011. The Company has the option to renew the term of the lease for an additional five year period at the prevailing rental rate at that time, provided the Company gives the lessor written notice nine months prior to its intent to renew the lease. On February 1, 2010, the Company entered into a second operating lease for office space in Tampa, Florida under a non-cancelable lease that expires in 2015. Expenses associated with this lease are allocated equally between the Company and HPIC. Through July 1, 2010, expenses associated with the lease in Tampa, Florida were allocated equally between the Company and HPIC. Subsequent to July 1, 2010, expenses were no longer allocated to HPIC in accordance with HPIC's discontinuance plan.

Notes to Statutory Basis Financial Statements

11. Leases (continued)

Approximate future lease payments under this lease are as follows at December 31, 2010:

2011	\$ 254,520
2012	36,511
2013	38,105
2014	39,700
2015	 3,320
	\$ 372,156

Total rent expense for leases was \$420,246 and \$274,845 for the years ended December 31, 2010 and 2009, respectively. The current year rent expense includes \$166,100 of reimbursements received from HPIC for HPIC's share of the lease expense.

12. 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, 2010, due to reclassification of related party receivables. 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)
Total admitted assets	\$ 48,692,916	\$ 43,438,321	\$ 5,254,595
Total liabilities	29,893,128	24,638,533	5,254,595
Total capital and surplus	18,799,788	18,799,788	-
Net loss	2,032,407	2,032,407	-

13. Subsequent Events

On March 22, 2010, HomeWise Insurance Company and First Home Insurance Company announced their intent to merge as a result of a transaction between the two insurance companies' parent companies. The proposed transaction is subject to customary definitive documentation, regulatory approval, and completion of satisfactory due diligence. The projected closing date for the transaction is on or before May 31, 2011. Should the transaction occur, the ability of the Company to realize the deferred tax benefit attributable to net operating loss carryforwards may be significantly limited. Therefore, the recorded net deferred tax asset of approximately \$1.1 million at December 31, 2010, may be eliminated.



Schedule 1

SUMMARY INVESTMENT SCHEDULE

	SUMMARY INVESTMENT SCHEDULE Gross Investment Holdings			Admitted Assets as Reported in the Annual Statement		
	Investment Categories	1 Amount	2 Percentage	3 Amount	4 Percentage	
	errosmon descore	FUIBAR	rescuesce	Alaan	reruestage	
1. Bo						
1.	•	e diedekalentriksintaksinaaniina	0.0	en hitter hitarad tuddad valdad valdad val	0.0	
1.						
	1.21 Issued by U.S. government agencies.			#>> hetrere) hillia-villula-ii.de>	0.0	
	1.22 Issued by U.S. government sponsored agencies		1		0.0	
1.	, , , , , , , , , , , , , , , , , , , ,	***************************************	0.0	érining results a range a samety same	0.0	
1.						
	1.41 States, territories and possessions general obligations.			40-1,e>===#> shree=>huee==hhue	00	
	1.42 Political subdivisions of states, territories & possessions & political subdivisions general obligations.	1			0.0	
	1.43 Revenue and assessment obligations. 1.44 Industrial development and similar obligations.	1				
1.5			0.0	***************************************	0.0	
*,1	1.51 Pass-through securities:					
	1.511 Issued or guaranteed by GNMA.					
	1.512 Issued or guaranteed by FNMA and FHLMC				0.0	
	1.513 All other.				0.0	
	1.52 CMOs and REMICs:		2	***************************************		
	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 coesteraized by mortgage-backed			7		
	securities issued or guaranteed by agencies shown in Line 1.521	/ >0-efverdir)sidee-noemabednened	0.0	\$100mm(\$104 open\$45) = \$1000 (0.0	
	1.523 All other.	2-4++0-42(3-0++)+3++04(40++)+	0.0	***********	0.0	
2. Ot	her debt and other fixed income securities (excluding short-term):					
2.1	Unaffiliated domestic securities (includes credit tenent losns and hybrid securities)		0.0	e v ministra homene m	0.0	
2.	Unaffiliated non-U.S. securities (including Cenada)	3.50 + 7.47 + Gra. 3 + 9 Gra. 3 5 + 4 5 Gra. 3 5 + 4 6 Gra. 3	0.0	v	0.0	
2.3	Afficiated securices	#1844 ******* #7444*** #183 ****	0.0	4	00	
3. Eq	uity interests:				1	
3.1	Investments in mutual funds	planel	0.0	a) adawi olawa oo aawa oo uu maaa	0.0	
3.2	Preferred stocks:				l	
	3.21 Afficiated	: 430v-360C+06v3ppphAp933pp++*a0	0.0	2000-074-berset-commondes	0.0	
	3.22 Unaffärled	etektitikeentematorikkiitikeentii	0.0	** Anne Officials Software interdirection by		
3.3	,					
	3.31 Affiated	***************************************	0.0	6>	0.0	
	3.32 Unaffiliated		0.0	e-bracedoddd cuma unduraen cucu.	0.0	
3.4	Other equity securities:					
	3.41 Affiliated	Į.	0.0	A harmonia de activido em la esta monha monha man historia.	0.0	
	3.42 Unaffikated		0.0	**************************************	0.0	
3.5	, ,					
	3.51 Afficialed	*************************	0.0	4	0.0	
		***********************	0.0	*/-=****/*/***/.hei i=-w.iu i>>w.w/>	0.0	
	rtgage loans:					
4.1			l	Administrative configuration of the configuration o	0.0	
4.2	•	Į.	1	A File of the file of the second of the following of the file of the second of the file of	0.0	
4,3	, , , , , , , , , , , , , , , , , , , ,				0.0	
4.4			0.0	b-belouv-lodal beneards anaendikke	0.0	
4.5		darrodiudi))darro)reediddaiviu	0.0	be bedreve eddd yddrei er eenis bar	0.0	
4.6)-13 p/- 23 r) y/3 y/3 - r0 - (r/3 r 0 - y/3 /- r		*1 000 +	0.0	
	al estate investments:					
5.1		l	0.0	el) ellera ville ())) di meta la meta da)	0.0	
5.2	, , , , , , , , , , , , , , , , , , , ,	1]	A) bilines () de en boda (Conseque mover		
5.3	, , , , , , , , , , , , , , , , , , , ,	1	1	#1, hit that the transition of the deav		
	ntract loans.		0.0	av agna a a a a gåve og prom pytic - (s) we	0.0	
	ceivables for securities.		0.0		0.0	
	sh, cash equivalents and short-term investments		0.0	15,137,437	100.0	
	ner invested assets	71411	0.0	ereservered wealth make put.	0.0	
10. To	tal invested assets.	D	0.0	15,137,437	100.0	



For the year ended December 31, 2010 (To be filed by April 1) Of HomeWise Insurance Company Address (City, State, Zip Code): Tampa FL 33647

NAIC Group Code.....4111

7. Aggregate unhedged foreign currency exposure:

NAIC Company Code.....12438

Employer's ID Number.....20-3395013

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

1.	Repo	orting entity's total admitted assets as reporte	d on Page 2 of this annual statement.			\$43,438,32
2.	Ten i	largest exposures to a single issuer/borrower				
		1	2	3	4	
					Percentage of Tol	Bi
	0.04	<u>Issuer</u>	Description of Exposure	Amount	Admitted Assets	
	2.01	F COCKERS KITCHES COLUMN TO THE TOTAL COLUMN TO THE TAXABLE COLUMN	Money Warket Prime Cash Obligations Fund			
	2.02	I sessed orbit of talguest octated?	Treasury Cash Fund Deposit	\$348,756	0.803 %	
	2.03	Capital One Bank	Certificate of Deposit.	\$100,000	0.230 %	ı
	2.04		# 2 Control of the Co	\$:
	2.05	-0-74-04-0-7-70-70-70-70-70-70-70-70-70-70-70-70	######################################	5	0.000 %	ı
	2.06					
	2.07		44 throughous some this increase and a some a			
	2.08					
	2.09					
	2.10					
				delate Petropolitania de la calculation de la constantia del constantia de la constantia de la constantia de la constantia del constantia del constantia de la constantia del const	. ,,	
3.	Amot	unts and percentages of the reporting entity's Bonds	total admitted assets held in bonds and preferred stocks by NAIC rating.	1	2	
	3.01					
			ementer de marier de la company de la compan			
	3.06		·····································			
		Preferred Stocks		3	4	
	3.08					
	3.09		TO ANNA Branch Address & Martin (grid margin philips are marphisms for parties for his bod and the standard and the standard of a second and a first a market for the standard of the second and a first a market for the second and a market for the second and a first a market for the second and a first a market for the second and a first a market for the second and a first a market for the second and a first a market for the second and a first a market for the second and a first a market for the second and a first a market for the second and a first a market for the second and a first a market for the second and a first a market for the second and a first a market for the second and a market for the second and a market for the second and a market for the second and a market for the second and a market for the second and a market for the second and			
	3.10		er (de grafe) professor de la description de la			
	3.11					
	3.12	P/RP-6	gender) melly a simble of store is have a department to store in both includes an experiencial for the contract of the contra	···· \$	0.000 %	
4.	Asset	ts heid in foreign investments:				
	4.01	Are assets held in foreign investments less	than 2.5% of the reporting entity's total admissed assets?			Yes[X] No[]
	If res	ponse to 4.01 above is yes, responses are ni	ot required for interrogatories 5-10.			
	4.02	Total admitted assets held in foreign invest	ments		\$	0.000
	4.03	Foreign-currency-denominated investments	i		\$	0.000
	4.04	Insurance liabilities denominated in that say	me foreign currency			0000
5.	Aggre	egate foreign investment exposure categoriza	od by NAIC sovereign rating:			
				1	2	
	5.01		etti teksikki kitikusi etti kining metamoru. Mushakat kinin mushamili kinin mashakat kinin mushakat kinin mushakat kinin mushakat kinin kanan kinin ki			
	5.02	Countries rated NAIC-2		\$	0.000 %	
	5,03	Countries rated NAIC-3 or below		\$		
6.	Large	est foreign investment exposures by country,	categorized by the country's NAIC sovereign rating:			
		Countries rated NAIC-1:		1	2	
	6.01	Country 1:	W with the field the field was grown to the specific of any or the field and a specific property or any of the field of th	\$	0.000 %	
	6.02	Country 2:	**************************************	\$		
		Countries rated NAIC-2:				
	6.03	Country 1:		\$	0.000 %	
		Countries rated NAfC-3 or below:				
	6.05			S	0.000 %	
		-				
			TO A CONTROL OF THE STORE A BROWN A STORE A ST	****** ** ****************************		

Supplement for the year 2010 of the HomeWise Insurance Company

B. Ag	ggregate unhedged foreign currency exposure categorized by NAIC sovereign rating:	1	2	
8.0	01 Countries raied NAIC-1	\$	0.000 %	
8.0	62 Countries rated NAIC-2	. \$	0,000 %	
8.6	C3 Countries rated NAIC-3 or below	\$		
). La	argest unhedged foreign currency exposures by country, categorized by the country's NAIC sovereign rating:			
	Countries rated NAIC-1:	1	2	
	01 Country 1:			
9,0	Country 2: Accordance and the control of the contro	. \$		
	Countries rated NAIC-2:			
9.0	03 Courty 1:	. \$		
9.0	04 COUPLY 2:	_ \$.	0.000 %	
	Countries rated NAIC-3 or below:			
9,0	05 Country 1:	» \$	0,000 %	
9.0	06 Country 2'	. \$	0.000 %	
10. Te	en largest non-sovereign (i.e. non-governmental) foreign issues:			
	1 2 Issuer NAIC Rating	3	4	
10	1.01		0.000.90	
	1.05 Complete and the contract of the contract			
	AND			
	1.05 (
	1.07 varran (a) east for the common tributant of the 100 to 100 t			
	100 universal and the contract of the contract			
10	ACCURACY SPEED OF THE PROPERTY	. \$	0.000 %	
10		\$	0.000 %	
	mounts and percentages of the reporting entity's total admitted assets held in Canadian investments and unhedged Canadian			
	mency exposure: 1.01 Are assets held in Canadian investments less than 2.5% of the reporting entity's total admitted assets?			Yes [X] No []
	If response to 11.01 is yes, detail is not required for the remainder of Interrogatory 11.			
11	.02 Total admitted assets held in Canadian Investments		\$	0.000 %
11	.03 Canadian currency-denominated investments			0.000 %
	.04 Canadian-denominated insurance liabilities			0.000 %
	.05 Unhedged Canadian currency exposure			2.000 %
	eport aggregate amounts and percentages of the reporting entity's total admitted assets held in investments with contractual sale 2.01 Are assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total	is restrictions.		
	2.01 Are assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets? If response to 12.01 is yes, responses are not required for the remainder of interrogatory 12.		_	Yes[X] No[]
12	.01 Are assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets? If response to 12.01 is yes, responses are not required for the remainder of interrogatory 12.	2	3	Yes[X] No[]
12	2.01 Are assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets? If response to 12.01 is yes, responses are not required for the remainder of interrogatory 12.	2	3 0.000%	Yes[X] No[]
12	.01 Are assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets? If response to 12.01 is yes, responses are not required for the remainder of interrogatory 12. 1 2.02 Aggregate statement value of investments with contractual sales restrictions:	2	0.000 %	Yes[X] No[]
12	.01 Are assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets? If response to 12.01 is yes, responses are not required for the remainder of interrogatory 12. 1 2.02 Aggregate statement value of investments with contractual sales restrictions: Largest three investments with contractual sales restrictions:	2	0.000 %	Yes{X} No[]
12 12 12	2.01 Are assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets? If response to 12.01 is yes, responses are not required for the remainder of interrogatory 12. 1.02 Aggregate statement value of investments with contractual sales restrictions: Largest three investments with contractual sales restrictions:	2 \$	0.000 % 0.000 %	Yes [X] No[]
12 12 12 12	2.01 Are assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets? If response to 12.01 is yes, responses are not required for the remainder of interrogatory 12. 1 2.02 Aggregate statement value of investments with contractual sales restrictions: Largest three investments with contractual sales restrictions: 2.03 2.04 2.05	2 \$	0.000 % 0.000 %	Yes[X] No[]
12 12 12 12 12	2.01 Are assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets? If response to 12.01 is yes, responses are not required for the remainder of interrogatory 12. 1 2.02 Aggregate statement value of investments with contractual sales restrictions: Largest three investments with contractual sales restrictions: 2.03 2.04 2.05 mounts and percentages of admitted assets held in the ten largest equity interests:	2 \$	0.000 % 0.000 %	Yes[X] No[]
12 12 12 12 12	2.01 Are assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets? If response to 12.01 is yes, responses are not required for the remainder of interrogatory 12. 1 2.02 Aggregate statement value of investments with contractual sales restrictions: Largest three investments with contractual sales restrictions: 2.03 2.04 2.05	2 \$	0.000 % 0.000 %	Yes[X] No[] Yes[X] No[]
12 12 12 12 12	2.01 Are assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets? If response to 12.01 is yes, responses are not required for the remainder of interrogatory 12. 1 2.02 Aggregate statement value of investments with contractual sales restrictions: Largest three investments with contractual sales restrictions: 2.03 2.04 2.05 mounts and percentages of admitted assets held in the ten largest equity interests:	2 \$	0.000 % 0.000 %	
12 12 12 12 12	2.01 Are assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets? If response to 12.01 is yes, responses are not required for the remainder of interrogatory 12. 1.02 Aggregate statement value of investments with contractual sales restrictions: Largest three investments with contractual sales restrictions: 2.03	2 \$	0.000 % 0.000 %	
12 12 12 12 12	2.01 Are assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets? If response to 12.01 is yes, responses are not required for the remainder of interrogatory 12. 1.02 Aggregate statement value of investments with contractual sales restrictions: Largest three investments with contractual sales restrictions: 2.03	\$	0.000 % 0.000 % 0.000 %	
12 12 12 12 12 13. An	2.01 Are assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets? If response to 12.01 is yes, responses are not required for the remainder of interrogatory 12. 1.02 Aggregate statement value of investments with contractual sales restrictions: Largest three investments with contractual sales restrictions: 2.03 2.04 2.05	2 \$	0.000 % 0.000 % 0.000 %	
12 12 12 12 12 13. An 13	2.01 Are assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets? If response to 12.01 is yes, responses are not required for the remainder of interrogatory 12. 1.02 Aggregate statement value of investments with contractual sales restrictions: Largest three investments with contractual sales restrictions: 2.03 2.04 2.05 2.06 2.07 2.08 2.09 2.09 2.09 2.00 2.01 3.01 4.02 4.03 4.04 4.05 5.05 4.06 5.07 6.07 6.07 6.08 6.09 6.0	2 \$\$\$\$\$\$\$\$.	0.000 %0.000 %0.000 %	
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12 12 12 12 12 12 13. An 13 13 13 13 13	2.01 Are assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets? If response to 12.01 is yes, responses are not required for the remainder of interrogatory 12. 1.02 Aggregate statement value of investments with contractual sales restrictions: Largest three investments with contractual sales restrictions: 2.03 2.04 2.05	2 \$ \$ \$ \$ \$	0.000 %0.000 %0.000 %0.000 %0.000 %0.000 %	
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122 122 122 123 13. Arr 13 13 13 13 13 13 13 13 13 13 13 13 13	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. 1.02 Aggregate statement value of investments with contractual sales restrictions: Largest three investments with contractual sales restrictions: 2.03 2.04 2.05 mounts and percentages of admitted assets held in the ten largest equity interests: 1.01 Are assets held in equity interest less than 2.5% of the reporting entity's total admitted assets? If response to 13.01 above is yes, responses are not required for the remainder of interrogatory 13. 1.02 Name of Issuer 1.05 1.06 1.07	2 \$		
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Supplement for the year 2010 of the HomeWise Insurance Company

	If response to 15.01 above is yes, responses are not required for	he remainder of Inten	rogetory 15.				
		** *			2	3	
	Aggregate statement value of investments held in general partner. Largest three investments in general partnership interests:	ship interests:			\$	0.000 %	
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	ts and percentages of the reporting entity's total admitted assets t						
	Are mortgage loans reported in Schedule B less than 2.5% of the if response to 16.01 above is yes, responses are not required for I			omnostre: 47			Yes[X] No[]
	response to 10.01 more is yes, responses are not required to 1	are restantantan di maeti	offerth to seen as	endami ii-	2	3	
	Type (Residential, Commercial, Ag	ricultural)			-	•	
16.02				····	\$	0.000 %	
16.03					\$	0.000 %	
	######################################						
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	en en pretiste (1) to 17 pertenda e presida e volt est independa año a ribar para de persona per persona a possibilita en comunicado en comuni						
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	t and percentage of the reporting entity's total admitted assets hel				•		
MINOUR	i and percentage of the reporting entry's total admissed assets her	a m ane rosowang case	gones or mongage	KOSAS:		ans	
16.12	Construction loans						
	Mortgage loans over 90 days past due						
	Mortgage loans in the process of foreclosure						
16.15	Worlgage loans foreclosed	bbennesd de beste en de bestevere en besseer b	e construence de la compansa de la librar con construence un construence de la const		\$	0.000 %	
16.16	Restructured mortgage loans				\$	0.000 %	
	and a company of the first According to the first and the						
	ate mortgage loans having the following loan-to-value ratios as de ent date:	termined from the mo	ist current appraist	as of the annual			
Stassille	Loan-to-Value	Resid	landist	Come	nerdal	Amie	e officienci
	200,110-1835	1	2	3	4	5 ASS	vitural 6
17.01	above 95%		_	_		-	
						2	
17.02	91% to 95%,						
17.03	91% to 95%	. \$	0.000 %	\$ \$	0.000 %	\$ \$	0.000 %
17.03 17.04	91% to 95%	\$ \$	0.000 % 0.000 %	\$	0.000 % 0.000 % 0.000 %	\$ \$ \$	0.000 9 0.000 9
17.03 17.04	91% to 95%	\$ \$	0.000 % 0.000 %	\$	0.000 % 0.000 % 0.000 %	\$ \$ \$	0.000 9 0.000 9
17.03 (17.04 (17.05 (91% to 95%	\$	0.000 % 0.000 % 0.000 %	\$	0.000 % 0.000 % 0.000 %	\$ \$ \$	0.000 9 0.000 9
17.03 (17.04) 17.05 (Amoun	91% to 95%	\$		\$	0.000 % 0.000 % 0.000 %	\$ \$ \$	0.000 %
17.03 (17.04) 17.05 (Amoun 18.01 /	91% to 95%	\$		\$	0.000 % 0.000 % 0.000 %	\$ \$ \$	0.000 9 0.000 9
17.03 (17.04) 17.05 (Amoun 18.01 /	91% to 95%	\$\$\$\$\$\$		\$	0.000 % 0.000 % 0.000 %	\$ \$ \$	0.000 %
17.03 (17.04) 17.05 (Amoun 18.01 /	31% to 95%	\$\$\$\$\$\$		\$	0.000 % 0.000 %	\$ \$ \$	0.000 %
17.03 (17.04) 17.05 (17.05) Amount 18.01 /	31% to 95%	\$		\$	0.000 %	\$	0.000 %
17.03 (17.04 (17.05 (17	31% to 95%	\$		\$	0.000 %	\$	0.000 %
17.04 17.05 17.05 18.01 Amount 18.01 Amount 18.01 Amount 18.02 18.03 18.04	31% to 95%	\$		\$	0.000 % 0.000 % 0.000 %	\$	0.000 %
17.04 17.05 17.05 18.01 Amount 18.01 Amount 18.01 Amount 18.02 18.03 18.04 18.05	31% to 95%	ss.s.s.s.s.s.s.s.s.s.s.s.s.s.s.s.s		\$	0.000 % 0.000 % 0.000 %	\$	0.000 %
17.04 17.05 17.05 18.01 Amount 18.01 Amount 18.01 Amount 18.02 18.03 18.04 18.05	31% to 95%	ss.s.s.s.s.s.s.s.s.s.s.s.s.s.s.s.s		\$	0.000 % 0.000 % 0.000 %	\$	0.000 %
17.03 : 17.04 : 17.05 : Amount 18.01 :	31% to 95%	sssssssssssss		\$	0.000 %0.000 %0.000 %	\$	0.000 %
17.03 i 17.04 i 17.05 i Amount 18.01 i Largesi 18.02 18.03 18.04 18.05 18.06 Report	31% to 95%	sssssssssssss		\$	0.000 %0.000 %0.000 %	\$	
17.03 (17.04) 17.05 (17.05) 17.05 (17.05) 18.01 / 18.02 (18.03) 18.04 (18.05) 18.06 (Report 19.01 / 19.01	31% to 95%	sssssssssssss		\$	0.000 %0.000 %0.000 %	\$	0.000 %
17.03 (17.04) 17.05 (17.05) 17.05 (17.05) 18.01 / 18.02 (18.03) 18.04 (18.05) 18.06 (Report 19.01 / 19.01	31% to 95%	sssssssssssss		\$	0.000 %0.000 %0.000 %	\$	
17.03 i 17.04 17.05 i 17.05 i 18.01 / Larges 18.02 18.03 18.04 18.05 18.06 Report	31% to 95%	ssssssssssss		\$		\$	
17.03 (17.04 17.05 17.04 17.05 18.01 18.01 18.02 18.03 18.04 18.05 18.06 Report 19.01 19.02 19.02 19.02 18.03 19.02 18.05 19.05 18.05 19.05 18.05 19.05 19.05 18.05 19.05 18.05 19.05 18.05 19.0	31% to 95%	ssssssssssss		\$		\$	
17.03 / 17.04 17.05 Amoun 18.01 / 18.02 18.02 18.03 18.04 18.05 Report 19.01 / 19.02 / 19.02	31% to 95%	ssssssssssss		\$		\$	
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17.03 a 17.04 17.05 l Amoun 18.01 / Largesi 18.02 18.03 18.04 18.06 Report 19.01 / i 19.03 19.04 19.05 Amoun 20.01 \$ 2	31% to 95%	ss.s.s.s.s.s.s.s.s.s.s.s.s.s.s.s.		\$	2 S. S. S. S. S. S. S. S. S. S. S. S. S.	\$	
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Supplement for the year 2010 of the HomeWise Insurance Company

 Amounts and percentages of the reporting entity's total admitted assets for warrants not attached to other financial instruments, options, caps and floors: 						
		<u>Ov</u>	med		Wr	ten
		1	2		3	4
	21.01 Hedging	\$	0.000 %		\$	0.000 %
	21.02 Income generation		0.000 %		\$	0.000 9
	21.03 Other	\$	0.000 %		\$	
22.	Amounts and percentages of the reporting entity's total admitted assets of potential exposure	e for collars, swaps,	and forwards:			
		<u>At Ye</u>	ar-End		At End of Each Quar	<u>ter</u>
				1st Qtr	2nd Otr	3nd Otr
		1	2	3	4	5
	22.01 Hedging	\$	0.000 %	\$	\$	\$
	22.02 Income generation	_ \$		\$	\$	\$
	22.03 Replications	\$	0.000 %	\$	\$	\$
	22.04 Other	<u> </u>	0.000 %	\$	\$.,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,	\$
23.	Amounts and percentages of the reporting entity's total admitted assets of potential exposure	e for futures contract	s:			
		At Ye	ar-End		At End of Each Quar	ler
				1st Otr	2nd Qtr	3rd Otr
		1	2	3	4	5
	23.01 Hedging					•
	23.02 Income generation	\$	0.000 %	\$	\$	\$
	23.03 Repsecations					
	23.04 Other	., \$	0.000 %	\$	\$	\$

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 🗌
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?	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
 - (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.

Thomas Howell Ferguson P.A.

Certified Public Accountants 2615 Centennial Blvd., Suite 280 (32308) P. O. Drawer 14569 Tallahassee, FL 32317-4569

Phone. (850) 668-8100 Fax: (850) 668-8199 www.thi-cpa.com

Report of Independent Auditors

The Board of Directors
HomeWise Insurance Company

We were engaged to audit the accompanying statement of admitted assets, liabilities, and capital and surplus (deficit) - statutory basis of HomeWise Insurance Company (the Company) as of June 30, 2011, and the related statutory basis statements of operations, changes in capital and surplus (deficit), and cash flows for the six months then ended. These financial statements are the responsibility of the Company's management.

Due to significant executive management turnover, new management at October 21, 2011, was unable to provide written representations as to its responsibility for the fair presentation of the financial statements and other matters which could materially affect the amounts and classification of items included in the financial statements. Such representations are required under generally accepted auditing standards. Additionally, the Company's internal controls over financial reporting were not adequate to reasonably assure the proper recording of transactions. Accordingly, we were unable to extend our auditing procedures sufficiently to determine the extent to which the financial statements may have been affected by these conditions.

As a result of the scope limitations described in the preceding paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial statements.

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

As discussed in Note 2 to the financial statements, the Company changed its method of allocating ceded losses recovered under multi-cedent quota share reinsurance agreements between the Company and HomeWise Preferred Insurance Company. Additionally, as a result of the subsequent discovery of facts after the issuance of the independent auditors' report dated April 3, 2011, on the Company's December 31, 2010 statutory financial statements, beginning surplus has been restated.

Thomas Howell

Ferguson r.A.

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The accompanying statutory basis financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 4 to the financial statements, the Company has incurred a net loss of approximately \$13,422,000 for the six months ended June 30, 2011, its total liabilities exceeded its total admitted assets at June 30, 2011, and it has lost its independent rating subsequent to June 30, 2011, that is generally required for writing new business. This raises substantial doubt about the Company's ability to continue as a going concern. The statutory basis financial statements do not include any adjustments that might result from the outcome of these uncertainties.

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

Thomas Howell Ferguen D. a.

October 21, 2011

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

June 30, 2011

Admitted assets	
Cash and invested assets:	
Bonds	\$ 1,809,936
Short-term investments	11,894,300
Cash and cash equivalents	30.225,716
Total cash and invested assets	43,929,952
Accrued investment income	26,535
Premiums receivable	14,871,351
Reinsurance balances recoverable	8,464,631
Receivables from parent and affiliates	174,792
Other assets	<u>1.800.651</u>
Total admitted assets	\$ <u>69.267.912</u>
Liabilities and capital and surplus (deficit)	
Liabilities:	
Loss and loss adjustment expense reserves	\$ 19,899,633
Unearned premiums, net	(13,109,243)
Reinsurance premiums payable	58,486,762
Advance premiums	4,311,912
Accounts payable and accrued expenses	557,822
Taxes, licenses, and fees payable	463,775
Payable to affiliates	141,331
Premium deficiency reserve	<u>600</u> .000
Total liabilities	71,351,992
Capital and surplus (deficit)	(2.084.080)
Total liabilities and capital and surplus (deficit)	\$ <u>69.267.912</u>

Statement of Operations - Statutory Basis

For the six months ended June 30, 2011

Underwriting income:	
Premiums earned, net of reinsurance ceded	\$ 3,300,326
Underwriting expenses:	
Losses and loss adjustment expenses incurred	15,195,007
Underwriting, acquisition, and other expenses	1.167.951
Total underwriting expenses	16,362,958
Net underwriting loss	(13,062,632)
Net investment income	32,265
Other income	208,345
Change in premium deficiency reserve	(600.000)
Loss before federal income tax expense	(13,422,022)
Federal income tax expense	118
Net loss	\$ <u>(13.422.140)</u>

HomeWise Insurance Company

Statement of Changes in Capital and Surplus (Deficit) - Statutory Basis

For the six months ended June 30, 2011

			Gross Paid-in		
	Сошто	Common Stock	- Contributed	Unassigned	
	Shares	Par Value	Surplus	Funds	Total
Balance as of January 1, 2011, as reported	650,100 \$	\$ 650,100	\$ 62,849,900	\$ 62,849,900 \$ (34,988,870) \$ 28,511,130	\$ 28,511,130
Restatement of surplus (see Note 2)		And the second state of th		(10,417.843)	(10,417,843)
Balance as of January 1, 2011, restated	650,100	650,100	62,849,900	(45,406,713)	18,093,287
Issuance of common stock	649,900	649,900	(649,900)	1	ì
Cancellation of common stock	(650,000)	(650,000)	650,000	ı	i
Change in deferred income taxes		į	ı	(1,381,361)	(1,381,361)
Change in nonadmitted assets	ı	ı	ı	(5,373,866)	(5,373,866)
Net ioss	- Indiana - Indi		- Art - Art	(13,422,140)	(13,422,140)
Balance as of June 30, 2011	650,000	\$ 650,000	650,000 \$ 650,000 \$ 62,850,000	\$ (65,584,080) \$ (2,084,080)	\$ (2,084,080)

See accompanying notes.

Statement of Cash Flows - Statutory Basis

For the six months ended June 30, 2011

Operating activities	
Premiums collected, net of reinsurance	\$ 24,395,838
Net investment income received	47,459
Other income received	223,019
Losses and loss adjustment expenses paid	(14,835,652)
Underwriting, acquisition, and other expenses paid	(3,705,991)
Federal income taxes recovered	348.061
Net cash provided by operating activities	6.472.734
Financing activities	
Other miscellaneous uses	<u>(2,186,147)</u>
Net cash used in financing activities	(2.186.147)
Net increase in cash	4,286,587
Cash at beginning of period	37.833.429
Cash at end of period	\$ <u>42.120.016</u>
Cash consists of the following:	
Cash and cash equivalents	\$ 30,225,716
Short-term investments	11.894.300
	\$ <u>42.120.016</u>

Notes to Statutory Basis Financial Statements

For the six months ended June 30, 2011

1. Summary of Significant Accounting Policies

Organization and Description of Company

First Home Insurance Company (FHIC) was formed on April 5, 2005, as a Florida-domiciled property and casualty insurance company. On May 31, 2011, FHIC merged with HomeWise Insurance Company (HWIC) (see Note 3), a Florida-domiciled property and casualty insurance company and changed its name to HomeWise Insurance Company (merged entities referred throughout as "the Company").

The Company is a wholly-owned subsidiary of First Home Financial Corporation (FHFC), an insurance holding company incorporated in the state of Delaware. FHFC and First Home Insurance Agency, LLC (FHIA), a licensed managing general agent in the state of Florida, are wholly-owned subsidiaries of First Home Acquisition Corporation (FHAC), a Delaware corporation. FHAC is a wholly-owned subsidiary of Glencoe Acquisition, Inc. (Glencoe), a Delaware corporation.

The Company is affiliated through common ownership with HomeWise Management Company (HMC), a licensed managing general agent in the state of Florida, and HomeWise Preferred Insurance Company (HPIC), a Florida-domiciled property and casualty insurance company. HMC and HPIC are wholly-owned subsidiaries of HomeWise Holdings, Inc. (HWH), an insurance holding company incorporated in the state of Florida. HWH is a wholly-owned subsidiary of Glencoe.

The Company writes coverage exclusively in the states of Florida and Louisiana, 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 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:

Notes to Statutory Basis Financial Statements

1. Summary of Significant Accounting Policies (continued)

Basis of Presentation (continued)

- Investments in bonds or debt securities are reported at amortized cost or market value based on their NAIC rating; for GAAP, such fixed maturity investments would be designated at purchase as held-to-maturity, trading, or available-for-sale. Held-to-maturity fixed maturity investments would be reported at amortized cost, and the remaining fixed maturity investments would be reported at fair value with unrealized holding gains and losses reported in operations for those designated as trading and as a component of other comprehensive income for those designated as available-for-sale.
- Fair values of certain investments in bonds are based on actual or estimated market values as quoted in a registered U.S. exchange. Changes between amortized cost and admitted asset investment amounts are credited or charged directly to unassigned surplus rather than to other comprehensive income as would be required under GAAP.
- 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 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.

Notes to Statutory Basis Financial Statements

1. Summary of Significant Accounting Policies (continued)

Basis of Presentation (continued)

- 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. 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.
- 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 period 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.

Investments

Investments are recorded at admitted asset values as prescribed by the valuation procedures of the NAIC's Securities Valuation Office (SVO). The valuation technique used to measure fair value (market value) is to obtain the published securities' fair value from the SVO publication, Valuation of Securities. If the specific security is not listed in this publication, then the fair value is obtained from a registered U.S. exchange.

Short-term investments include investments with original maturities of one year or less from the time of acquisition 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 investments, cash and cash equivalents, short-term investments, 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.

All investment transactions have credit exposure to the extent that a counterparty may default on an obligation to the Company. Credit risk is a consequence of carrying investment positions. To manage credit risk, the Company focuses primarily on highly liquid debt instruments, reviews the credit strength of all entities in which it invests, limits its exposure in any one investment, and monitors portfolio quality, taking into account credit ratings assigned by recognized credit rating organizations.

Notes to Statutory Basis Financial Statements

1. Summary of Significant Accounting Policies (continued)

Reinsurance

The accompanying statutory basis financial statements reflect reserves for premiums and losses and loss adjustment expenses (LAE), net of reinsurance ceded (see Note 9). 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.

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.

Premium Deficiency Reserves

Premium deficiency reserves are established for the estimated amount of the anticipated losses, loss adjustment expenses, commissions and other acquisition costs, and maintenance costs that have not previously been expensed in excess of the recorded unearned premium reserve and future installment premiums on existing policies. The Company does not use anticipated investment income as a factor in the premium deficiency calculation.

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 not assessed in 2011. The FIGA assessment recoverable from policyholders for past assessments was \$1,365,890 at June 30, 2011.

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 \$396,805 at June 30, 2011. The liability for assessments collected and due to Citizens and FHCF totaled \$1,161,917 at June 30, 2011.

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 October 21, 2011, the date the financial statements were available to be issued.

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. Restatement of Surplus

Change in Accounting Method

The Company has changed its method of accounting for ceded losses under its multi-cedent quota share reinsurance contracts. Both HWIC and HPIC are named insureds (cedents) in the 2009-2010 quota share agreement with Hannover Re, Greenlight Re, and Signet Star Re. HWIC and HPIC are also cedents under the 2010-2011 quota share agreement with Greenlight Re.

In June 2011, the accounting for allowable ceded incurred losses under the quota share agreements was changed. Previously, for contracts in which losses exceeded the loss corridor, allowable ceded incurred losses were allocated to HPIC and HWIC in proportion to each cedent's ceded incurred losses. The new method of allocating allowable ceded incurred losses to each cedent is in proportion to each entity's ceded earned premium.

Under the new allocation method, HWIC receives the benefit of ceded incurred losses that had previously been allocated to HPIC on an inception to date basis. Approximately \$3.9 million in ceded incurred losses were transferred from HPIC to HWIC at June 30, 2011, when the adjustment was recorded. Of the \$3.9 million in additional ceded incurred losses, \$3.4 million was a transfer of ceded paid losses that had previously been recorded in HPIC's accounts. These amounts represent an amount that is recoverable from HPIC. Because these amounts are deemed to be not collectible from HPIC, the \$3.4 million due from HPIC has been recorded as a non-admitted asset in the statement of admitted assets, liabilities, and capital and surplus – statutory basis at June 30, 2011.

Of the \$3.9 million in additional ceded incurred losses allocated to HWIC, approximately \$500,000 is due to a transfer of ceded loss reserves from HPIC to HWIC. Because ceded losses are recovered from the quota share reinsurers when the related losses are paid and not when incurred, this amount represents a recoverable from the reinsurer. This amount is included in loss and loss adjustment expense reserves in the statement of admitted assets, liabilities, and capital and surplus – statutory basis at June 30, 2011.

The cumulative effect of the change in accounting increased surplus \$3,891,514 as of January 1, 2011. Additionally, as a result of this accounting change, loss and loss adjustment expenses incurred decreased by \$105,000 for the six months ended June 30, 2011.

Adjustments Relating to Subsequently Discovered Facts

As a result of subsequently discovered facts after the issuance of the independent auditors' report dated April 3, 2011, in the Company's December 31, 2010 statutory financial statements, certain admitted assets and liabilities have been restated and are reported as an adjustment to beginning surplus.

Notes to Statutory Basis Financial Statements

2. Restatement of Surplus (continued)

Adjustments Relating to Subsequently Discovered Facts (continued)

As discussed in Note 12, HMC began withdrawing advances from the premium trust accounts established for the benefit of the Company in September 2010. These withdrawals were relating to advance premiums that had been deposited in the trust accounts. Florida Statute 626.883 states that premiums received by an administrator on behalf of an insured are deemed to be received by the insurer; therefore, the amount of advance premiums collected by the managing general agent, HMC, of \$3,951,300 as of January 1, 2011, represents a liability of the Company to its policyholders and should have been recorded as such. Advance premium withdrawals by HMC totaled \$3,500,000 at January 1, 2011, and are reported as a nonadmitted asset in accordance with Florida Statute 625.012.

Also discussed in Note 12, certain bank fees have been charged to the premium trust accounts and recorded as an expense by HMC and have not been repaid to the premium trust accounts. At January 1, 2011, the accumulated balance of bank fees, net of interest income, is \$580,712. This balance is also reported as a nonadmitted asset in accordance with Florida Statute 625.012.

Beginning surplus as of January 1, 2011, has been decreased by \$4,080,712 relating to the advances made to HMC from the premium trust accounts.

The subsequent discovery of the inappropriate use of the premium trust accounts by HMC creates substantial uncertainties as to the net realizable value of other admitted assets reported by the Company on its December 31, 2010, statutory financial statements. Accordingly, the amounts reported for receivables from parent and affiliates (\$9,116,996) and net deferred tax asset (\$1,111,649) have been reported as nonadmitted and with a 100% valuation allowance, respectively, as of January 1, 2011.

The restatement of beginning surplus as of January 1, 2011, consists of the following:

Cumulative effect of change in accounting method	\$	3,891,514
Nonadmitted premium trust account advances		(4,080,712)
Nonadmitted receivable from parent and affiliates		(9,116,996)
Deferred tax asset valuation allowance		(1.111.649)
	\$_	(10.417.843)

Notes to Statutory Basis Financial Statements

3. Business Combinations

On May 31, 2011, Glencoe Acquisition, Inc. (Glencoe), the ultimate parent company of First Home Insurance Company (NAIC# 10149) (FHIC), acquired all of the outstanding stock of HomeWise Holdings, Inc. (HWH), the parent company of HomeWise Insurance Company (NAIC# 12438) (HWIC). Both FHIC and HWIC were licensed property and casualty insurers in the state of Florida prior to the merger.

Concurrent with the purchase of HWH, FHIC and HWIC merged into one company, with FHIC as the surviving entity. This transaction was accounted for as a statutory merger. No goodwill was recorded as a result of this merger, and no shares of stock were issued as part of this transaction as Glencoe was the ultimate parent of both insurance companies; however, subsequent to the merger, all of the outstanding shares of stock of HWIC were cancelled and FHIC changed its name to HomeWise Insurance Company (NAIC# 10149) (the Company).

The results of operations of the previously separate entities for the period January 1, 2011 through May 31, 2011, prior to the combination that are included in the current combined net loss are as follows:

January 1, 2011 through May 31, 2011	 HWIC	 FHIC _
Net earned premiums	\$ 298,404	\$ 858,554
Losses and loss adjustment expenses incurred	6,508,108	2,719,826
Underwriting, acquisition, and other expenses	(648,468)	1,315,745

4. Going Concern

The Company incurred a net loss of approximately \$13,422,000 for the six months ended June 30, 2011. At June 30, 2011, its total liabilities exceed its total admitted assets by approximately \$2,084,000. Additionally, as discussed in Note 14, the Company has lost its independent rating subsequent to June 30, 2011, which severely limits its ability to write new or renewal business. The Company's surplus (deficit) position at June 30, 2011, is not in compliance with the minimum requirements under Florida Statute 624.408. As a result of these factors, there is considerable doubt about the ability of the Company to continue as a going concern. The statutory basis financial statements do not include any adjustments that might result from the outcome of this uncertainty.

5. Regulatory Requirements and Restrictions

Florida Statute 624.408 requires the Company to maintain capital and surplus of \$5 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 11. 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 not in compliance with these requirements (see Note 4).

Notes to Statutory Basis Financial Statements

5. Regulatory Requirements and Restrictions (continued)

Additionally, the Company is required to maintain deposits pursuant to Florida and Louisiana statutes to help secure the payment of claims. Cash on deposit in the amount of \$363,689 and a long-term note of \$305,700 have been assigned to the Office as of June 30, 2011, and certificates of deposit in the amount of \$200,000 have been assigned to the Louisiana Department of Insurance as of June 30, 2011, to satisfy this requirement. These amounts are included in total cash and invested assets in the accompanying statements of admitted assets, liabilities, and capital and surplus at June 30, 2011.

6. Investments

The aggregate carrying value (amortized cost) and SVO market value of bonds at June 30, 2011, are as follows:

	Amortized <u>Cost</u>	Gross Unrealized <u>Gains</u>	Gross Unrealized Losses	SVO Market Value
Bonds:			,	
U.S. Government and				
government agencies	\$ <u>1,809,936</u>	\$ <u>21,444</u>	\$	\$ <u>1,831,380</u>

A summary of the aggregate carrying value (amortized cost) and SVO market value of bonds at June 30, 2011, by contractual maturity, is as follows:

	Amortized		SVO Marke			
	Cost			<u>Value</u>		
Due in one year or less	\$	1,504,236	\$	1,516,755		
Due after one year through five years		305,700	_	314,625		
Total	\$_	1.809,936	\$_	1.831.380		

The expected maturities in the foregoing table may differ from the contractual maturities because certain borrowers have the right to call or prepay obligations with or without call or prepayment penalties. The Company is exposed to certain risks and uncertainties as a result of the current credit crisis and resulting impact on the larger U.S. economy. The nature of those risks and uncertainties may effect changes in cash flows as a result of changes in the liquidity of financial markets.

The Company had no sales or maturities of investments in bonds during the six months ended June 30, 2011.

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.

Notes to Statutory Basis Financial Statements

6. Investments (continued)

Major categories of the Company's net investment income for the six months ended June 30, 2011, are summarized as follows:

Investment income:	
Bonds	\$ 29,781
Short-term investments and cash	 <u>15,345</u>
Total investment income	45,126
Investment expenses	 (12,861)
Net investment income	\$ 32,265

7. Premiums Receivable

Premiums receivable includes amounts due from HMC and FHIA, the Company's managing general agents (MGA), who collect all premiums and remit 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 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 totaled \$14,871,351, net of \$729,542 of nonadmitted premiums receivable, as of June 30, 2011.

8. 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 June 30, 2011.

	(in thousands)
Loss and LAE reserves at beginning of period	\$ 17,906
Cumulative effect of change in accounting method	(584)
Losses and LAE incurred related to:	
Current year	10,902
Prior years	<u>4,293</u>
	15,195
Losses and LAE paid related to:	
Current year	3,972
Prior years	<u>8,645</u>
	12.617
Loss and LAE reserves at end of period	\$ <u>19.900</u>

Notes to Statutory Basis Financial Statements

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

Anticipated reinsurance recoverables on unpaid losses and LAE are approximately \$11,661,000 at June 30, 2011. Reinsurance recoverables on paid losses and LAE are approximately \$8,465,000 at June 30, 2011.

Net incurred losses and LAE attributable to insured events of prior years have increased \$4,293,000 in the six months ended June 30, 2011, 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.

9. 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 June 30, 2011, the Company's reinsurance program consisted of catastrophe excess of loss reinsurance and quota share treaties. Following is a summary of the reinsurance coverage.

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 six months ended June 30, 2011, the commercial excess of loss treaties generally provide coverage on ultimate net losses of approximately \$91,900,000 in excess of \$8,300,000 per occurrence, not to exceed approximately \$183,800,000 for all occurrences. The FHCF provided coverage for 90% of the losses from qualifying catastrophic events in excess of approximately \$60,800,000 up to a maximum of approximately \$271,700,000, plus 100% of qualifying losses in excess of approximately \$2,900,000 (drop down layer) up to a maximum of approximately \$12,900,000. The drop down layer provides for one automatic reinstatement at 100% of its original limit.

Effective June 1, 2010, HWIC and its affiliated company, HomeWise Preferred 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, 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 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 above. The agreement is effective through May 31, 2012.

Notes to Statutory Basis Financial Statements

9. Reinsurance (continued)

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 year ceding commissions have been recorded as a reduction of underwriting, acquisition, and other expenses in the accompanying statements of operations.

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, 2011, 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.

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 companies do not meet their obligations under these reinsurance agreements. Given the quality of the reinsuring companies, management believes this possibility to be remote. See Note 8 for recoveries due from reinsurers relating to paid and unpaid losses and LAE.

The effects of reinsurance on premiums written and earned for the six months ended June 30, 2011, are as follows:

	<u>Written</u>	<u>Earned</u>
Direct premiums	\$ 77,081,616	\$ 77,188,438
Ceded premiums	<u>(96.810.930</u>)	(73.888.112)
Net premiums	\$ <u>(19.729.314</u>)	\$ <u>3,300.326</u>

Notes to Statutory Basis Financial Statements

9. Reinsurance (continued)

The following table summarizes the effect of ceded unearned premiums on the direct unearned premiums reserve and provides the related commission equity at June 30, 2011:

Direct unearned premiums Ceded unearned premiums	\$ 78,815,931 _(91,925,174)
Unearned premiums, net	\$ <u>(13.109.243</u>)
Commission equity, net	\$ <u>20.562.680</u>

The following table shows the effect of reinsurance on loss and loss adjustment expenses incurred during the six months ended June 30, 2011:

Direct losses and loss adjustment expenses incurred	\$ 35,266,954
Assumed losses and loss adjustment expenses incurred	656,262
Ceded losses and loss adjustment expenses incurred	(20.728.209)
Losses and loss adjustment expenses incurred, net	\$ <u>15.195.007</u>

At June 30, 2011, 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:

Greenlight Reinsurance	\$ 22,081,000
Florida Hurricane Catastrophe Fund	2,859,000

For the six months ended June 30, 2011, recoveries under reinsurance contracts totaled \$16,777,419.

Notes to Statutory Basis Financial Statements

10. 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 statement of operations.

A. The components of net deferred tax assets (DTAs) and deferred tax liabilities (DTLs) at June 30, 2011, are as follows:

	<u>Ordinary</u>	<u>Capital</u>	Total
Total gross DTAs Statutory valuation allowance adjustment Adjusted gross DTAs Total gross DTLs Net DTA Nonadmitted DTAs Net admitted DTA	\$15,841,031 15.744.412 96,619	\$ - - -	\$15,841,031 15,744,412 96,619 96,619 - - \$
Increase in nonadmitted DTAs			S

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:

Ordinary		<u>Capital</u>		-	Total		
\$	+	\$	-	\$	-		
	_		-		-		
	-		-		-		
	-		-		-		
					-		

Notes to Statutory Basis Financial Statements

10. Income Taxes (continued)

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

Admitted DTAs	\$ -
Admitted assets	-
Statutory surplus	18,799,788
Total adjusted capital	18,799,788

B. Unrecognized DTLs:

Not applicable.

C. Current tax and change in deferred tax:

The provision for income taxes incurred on earnings for the six months ended June 30 is:

Current year income tax expense	\$ -
Prior year underaccrual	118
Current income taxes incurred	\$ 118

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

Deferred Tax Assets:

Discount on unpaid losses and LAE	\$	458,701
Nonadmitted assets		237,027
Profit sharing		46,330
Charitable contribution		34,000
Net operating loss	1	5 <u>.064.973</u>
Total DTAs	1	5,841,031
Statutory valuation allowance	<u>] :</u>	5,744,412
Admitted DTAs		96.619

Deferred Tax Liabilities:

Depreciation of fixed assets	<u>96.619</u>
Total DTLs	<u>96.619</u>

Net admitted DTAs \$___

Notes to Statutory Basis Financial Statements

10. 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
		Income
Provision computed at statutory rate	\$ (4,483,175)	34.00 %
Pre-merger excluded statutory income	1,863,532	(14.13)
Change in nonadmitted assets	(8,902,301)	67.51
Prior period adjustment	<u> 198,920</u>	(1.51)
Total	\$ <u>(11.323.024</u>)	<u>85.87</u> %
Federal income tax	\$ 118	0.00 %
Change in deferred taxes	<u>(11.323,142</u>)	85.87
Statutory income taxes	\$ <u>(11.323.024</u>)	<u>85.87</u> %

- E. Operating loss and tax credit carryforwards, and protective tax deposits:
 - 1. At June 30, 2011, the Company had no unused capital losses and approximately \$39,817,000 of net operating loss carryforwards available to offset against future taxable income expiring between 2025 and 2030. Of this amount, approximately \$5,261,000 is subject to limitations under Sec. 382 of the Internal Revenue Code. The limitation caps the net operating loss carryforwards to approximately \$310,000 annually.
 - 2. There is no income tax expense that is available for recoupment in the event of future net losses.
 - 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:

Glencoe Acquisition, Inc.
First Home Acquisition Company, LLC
HomeWise Holdings, Inc.
First Home Insurance Agency, LLC
HomeWise Preferred Insurance Company
HomeWise Management Company

Notes to Statutory Basis Financial Statements

10. Income Taxes (continued)

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.

11. Capital and Surplus

The Company has authorized 1,000,000 shares of \$1 par value common stock, of which 650,000 shares are issued and outstanding at June 30, 2011. By Board of Directors' resolution on May 31, 2011, 649,900 shares of stock were issued to FHFC in a non-cash transaction. In conjunction with the merger of FHIC and HWIC (see Note 3), HWIC cancelled all 650,000 of its issued and outstanding shares on May 31, 2011, and reclassified the common capital stock to paid-in capital. No other classes of common or preferred shares were issued during 2011. The parent company, FHFC, is the sole shareholder.

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. RBC requirements are not calculated for interim reporting periods.

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, during the three years following the entry of Consent Order No. 117706-11 on May 23, 2011, the Company may only pay dividends that are approved in advance and in writing by the Office. The Company did not declare or pay any dividends during the six months ended June 30, 2011.

12. Related Party Transactions

The Company's related parties and affiliations are described in Note 1, Organization and Description of the Company.

Effective January 1, 2010, the Company entered into a Technology Services Agreement with an insurance services company that holds an ownership interest in Glencoe. Fees incurred under this agreement totaled \$6,300 for the six months ended June 30, 2011.

Effective May 4, 2005, the Company entered into a service agreement with FHFC. Pursuant to the agreement, FHFC provides to the Company capital management services and investor management and relations and assists with overall general management of the Company. Expenses incurred related to this agreement totaled \$64,666 for the six months ended June 30, 2011. At June 30, 2011, the Company has a net receivable due from FHFC in the amount of \$63,766.

Notes to Statutory Basis Financial Statements

12. Related Party Transactions (continued)

Effective May 3, 2005, the Company entered into a managing general agency contract with FHIA. Pursuant to the agreement, FHIA provides to the Company premium billing, claims management and underwriting functions. Expenses incurred related to this agreement totaled \$1,106,683 for the six months ended June 30, 2011. At June 30, 2011, the Company has a net receivable due from FHIA in the amount of \$520,641.

The following describes related party agreements executed by HWIC prior to the merger with FHIC that were still in effect subsequent to the merger.

Effective January 1, 2006, HWIC entered into a managing general agency agreement with HMC. Pursuant to the agreement, HMC provides to HWIC premium billing, claims management and underwriting functions. Expenses incurred related to this agreement totaled \$15,686,790 during the six months ended June 30, 2011. During the first quarter of 2011, HWIC and HMC agreed to a reduced compensation rate, which resulted in a \$4,752,850 reduction in fees. Under the terms of this agreement, HMC collects all premiums and deposits them into premium trust accounts for holding until the companies settle at the end of the month. Beginning in September 2010, HMC withdrew amounts relating to advance premium that had been deposited in the provider trust accounts. At June 30, 2011, the total amount of advances withdrawn from the premium trust accounts was \$5,700,000. Additionally, bank fees charged to the premium trust accounts and expensed by the MGA totaling \$600,987 have not been repaid to the premium trust accounts. The Company has recorded a receivable from HMC in the amount of 6,300,987 at June 30, 2011, all of which has been nonadmitted in accordance with Florida Statute 625.012.

HWIC is also party to a Cost Allocation Agreement with HPIC, 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 net receivable due from HPIC of \$812,328 at June 30, 2011, and a receivable due from HMC of \$8,807,436 at June 30, 2011. Amounts receivable from HPIC and HMC of \$707,156 and \$8,807,436, respectively, have been nonadmitted at June 30, 2011.

Notes to Statutory Basis Financial Statements

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

The Company uses managing general agents, HMC and FHIA, to write and administer insurance products. HMC has contracted with an unaffiliated service company and FHIA has contracted with an affiliated service company to provide this function. The total premium produced and serviced through the contracts during 2011 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 Management Company 4042 Park Oaks Boulevard, Suite 400 Tampa, FL 33610	20-3395152	No	Homeowners	Premium collection, claims adjustments, binding authority, and underwriting	\$ 72,325,713
First Home Insurance Agency, LLC 4042 Park Oaks Boulevard, Suite 400 Tampa, FL 33610	20-2634733	No	Homeowners	Premium collection, claims adjustments, binding authority, and underwriting	\$ 4,755,903

14. Subsequent Events

During August 2011, the Company's chief executive officer and chief financial officer departed. The operations of the Company are being overseen by one of the directors of FHFC, the Company's parent, while the Company searches for suitable replacements.

On August 25, 2011, Demotech, Inc. withdrew its Financial Stability Rating® of A, Exceptional, assigned to the Company. As a result, the Company's quota share reinsurer has the right to cancel the Company's quota share reinsurance agreement with 60 days written notice.

