STATE OF ALABAMA
DEPARTMENT OF INSURANCE
MONTGOMERY, ALABAMA

REPORT OF EXAMINATION OF

GULF COAST TITLE INSURANCE COMPANY

FOLEY, ALABAMA

AS OF DECEMBER 31, 2013

TABLE OF CONTENTS

EXAMINER'S AFFIDAVIT i
SALUTATION 1
SCOPE OF EXAMINATION 2
ORGANIZATION AND HISTORY 3
MANAGEMENT AND CONTROL 4
Stockholders 4
Board of Directors 4
Committees 5
Officers 5
Management and Service Agreements 6
Conflicts of Interest 6
CORPORATE RECORDS 7
HOLDING COMPANY AND AFFILIATE MATTERS 7
Dividends to Stockholders 7
Organizational Chart 7
FIDELITY BONDS AND OTHER INSURANCE 8
EMPLOYEE AND AGENT WELFARE 8
Section 1033 of Title 18 of the U.S. Code 8
STATUTORY DEPOSITS 8
FINANCIAL CONDITION/GROWTH OF COMPANY 8
MARKET CONDUCT ACTIVITIES 9
Plan of Operation 9
Territory 9
Policy Forms and Underwriting 9
Advertising and Marketing 9
Claims Review 9
Policyholder Complaints 9
Compliance with Producer Licensing Requirements 9
Privacy Standards 10
REINSURANCE 10
ACCOUNTS AND RECORDS 10
FINANCIAL STATEMENTS 13
NOTES TO FINANCIAL STATEMENTS 17
COMMENTS AND RECOMMENDATIONS 18
CONTINGENT LIABILITIES AND PENDING LITIGATION 21
COMPLIANCE WITH PREVIOUS RECOMMENDATIONS 22
SUBSEQUENT EVENTS 22
CONCLUSION 23

EXAMINER'S AFFIDAVIT

STATE OF ALABAMA
COUNTY OF BALDWIN

Rhonda B. Ball, CFE, being duly sworn, states as follows:

1. I have the authority to represent Alabama in the examination of Gulf Coast Title Insurance Company.
2. Alabama is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
3. I have reviewed the examination workpapers and examination report, and the examination of Gulf Coast Title Insurance Company was performed in a manner consistent with the standards and procedures required by the State of Alabama.

The affiant says nothing further.

Rhonda Ball
Examiner-in-charge

Subscribed and sworn before me by Rhonda Ball on this 18th day of November 2014.

(SEAL)

Marie S Gamble
(Signature of Notary Public)

MARIE S. GAMBLE
Notary Public
State of Alabama
MY COMMISSION EXPIRES: OCT 25, 2016

My commission expires _____.

ROBERT BENTLEY
GOVERNOR

JIM L. RIDLING
COMMISSIONER

STATE OF ALABAMA
DEPARTMENT OF INSURANCE
201 MONROE STREET, SUITE 1700
POST OFFICE BOX 303351
MONTGOMERY, ALABAMA 36130-3351
TELEPHONE: (334) 269-3550
FACSIMILE: (334) 241-4192
INTERNET: www.aldoi.gov

DEPUTY COMMISSIONER
CHARLES M. ANGELL (acting)

CHIEF EXAMINER
RICHARD L. FORD

STATE FIRE MARSHAL
EDWARD S. PAULK

GENERAL COUNSEL
REYN NORMAN

Foley, Alabama
November 18, 2014

Jim L. Ridling, Commissioner
Alabama Department of Insurance
201 Monroe Street, Suite 1700
Montgomery, AL 36104

Dear Commissioner:

Pursuant to your authorizations and in compliance with the statutory requirements of the State of Alabama and the resolutions adopted by the National Association of Insurance Commissioners (NAIC), an examination has been made of the affairs and financial condition of

Gulf Coast Title Insurance Company
Foley, Alabama

at its home office located at 315 East Laurel Avenue, Foley, Alabama 36535 as of December 31, 2013. The report of examination is submitted herewith. Where the description "Company" appears herein without qualification, it will be understood to indicate Gulf Coast Title Insurance Company.

SCOPE OF EXAMINATION

The Company was last examined for the three-year period ended December 31, 2010, by the examiners representing Alabama. The current examination covers the intervening period from the date of the last examination through December 31, 2013, and was conducted by examiners from Alabama. Where deemed appropriate, transactions, activities and similar items subsequent to 2013 were reviewed.

The examination was conducted in accordance with applicable statutory requirements of the *Code of Alabama, 1975*, as amended, the Alabama Insurance Department regulations, bulletins and directives and in accordance with the procedures and guidelines promulgated by the NAIC, as deemed appropriate, and in accordance with generally accepted examination standards and practices.

The examination was conducted in accordance with the NAIC *Financial Condition Examiners Handbook*. The examination was planned and performed to evaluate the financial condition of the Company as of December 31, 2013, and to identify the Company's prospective risks by obtaining information about the Company including corporate governance, by identifying and assessing inherent risks within the Company and by evaluating system controls and procedures used to mitigate those risks. The examination also included assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation and management's compliance with statutory accounting principles and NAIC *Annual Statement Instructions*.

The Company's annual statements for each year under examination were compared with or reconciled to the corresponding general ledger account balances.

An examination of the Company's information technology systems (IT) was conducted concurrently with the financial examination. The IT examination included a review of management and organizational controls, logical and physical security controls, changes in applications controls, system and program development controls, contingency planning controls, service provider controls, operations controls, processing controls, e-commerce controls, and network and internet controls.

A market conduct examination was performed concurrently with the financial examination. The examination included reviews of the Company's territory and plan of operation, management and operations, claims, complaint handling, marketing and sales, policyholder services, producer licensing, underwriting and rating, and privacy standards. See "Market Conduct Activities" on page 9 for further discussion of the market conduct examination.

The Company has an exemption from filing audited financial statements with the Alabama Department of Insurance for each year of the examination period in accordance with ALA. ADMIN. CODE §482-1-141-.02 (2) (2008), which states:

> Every insurer shall be subject to this chapter. Insurers having direct premiums written in this state of less than $1,000,000 in any calendar year and less than 1,000 policyholders or certificateholders of direct written policies nationwide at the end of the calendar year shall be exempt from this chapter for the year (unless the commissioner makes a specific finding that compliance is necessary for the commissioner to carry out

statutory responsibilities) except that insurers having assumed premiums pursuant to contracts and/or treaties of reinsurance of $1,000,000 or more will not be so exempt.

However, Russell, Thompson, Butler & Houston, LLP (RTBH), a certified public accounting firm of Mobile, Alabama, did prepare limited statutory audits for valuation purposes under requirements by the NAIC Securities Valuation Office for the Company's parent, Baldwin Mutual Insurance Company, during the examination period. RTBH's workpapers were used in the examination as deemed appropriate by the examiners.

A signed certificate of representation was obtained during the course of the examination. In this certificate, management attested to having valid title to all assets and to the nonexistence of unrecorded liabilities as of December 31, 2013.

ORGANIZATION AND HISTORY

The Company was organized in Foley, Alabama, on September 22, 1978, under the laws of the State of Alabama. The Certificate of Incorporation was filed for record in the office of the Judge of Probate, Baldwin County, Alabama, on November 16, 1978.

The objects of incorporation, as stated in the Certificate of Incorporation, were to guarantee "to conduct business of a title insurance company as defined and accepted under the statutes and laws of the State of Alabama, including, but not limited to, entering into a contract of title insurance by agreement whereby insurer, for a valuable consideration, agrees to indemnify insured in a specified amount against loss through defects in the title to real estate, wherein insured has an interest, either as a purchaser or otherwise; entering into a contract to indemnify against loss through defects in the title to the real estate or liens or encumbrances thereon; and to enter into a contract of insurance against defects in title, un-marketability, liens and encumbrances."

At the date of incorporation, the authorized capital stock was $200,000, divided into 10,000 shares with a par value of $20 per share. The Company commenced business with paid up capital of $200,000, and paid-in surplus of $200,000. Baldwin Mutual Insurance Company has subsequently made surplus contributions and the Gross paid in and contributed surplus at the examination date was $572,537.

At the December 31, 2013 examination date, the Company's Annual Statement reflected outstanding capital stock totaling $200,000, consisting of 10,000 shares of common capital stock authorized and issued, with 45 shares held as treasury stock; Gross paid in and contributed surplus of $572,537, and $(354,377) reported in the annual statement for Unassigned funds.

The Company was 100% owned by Baldwin Mutual Insurance Company. The Company had a wholly owned subsidiary, Mobile Land Records, Inc., which was dissolved on December 31, 2013.

MANAGEMENT AND CONTROL

Stockholders

The Company was a stock corporation with ultimate control vested in its stockholders. At December 31, 2013, the stockholder was Baldwin Mutual Insurance Company.

Board of Directors

Members elected to the Board of Directors by the Stockholder and serving at December 31, 2013, were as follows.

Director	Residence	Principal Occupation
Arthur Abel Holk	Foley, Alabama	President and Chairman of the Board, Baldwin Mutual Insurance
Clair Dean Hansen	Foley, Alabama	Retired county commissioner, Treasurer
Frances Holk Jones	Foley, Alabama	Agent- State Farm Insurance, Secretary
Kevin Timothy Russell	Birmingham, Alabama	Executive Vice President, Baldwin Mutual Insurance Company
Carl Jackson Jones	Foley, Alabama	Vice President, Baldwin Mutual Insurance Company
Carl Emery Johnson	Foley, Alabama	Certified Public Accountant
Grayson Davis Moore	Gulf Shores, Alabama	Insurance field representative, Baldwin Mutual Insurance Company
Richard Gustav Reimer	Perdido Beach, Alabama	Retired, Alcatel-Lucent and Alabama National Guard

During the years under review, the Company made changes in officers, directors, trustees or other positions as indicated on the Jurat Pages of the 2012 and 2013 Annual Statements.

The NAIC *Annual Statement Instructions* requires new officers, directors, trustees and any other positions to be listed on the Jurat Page. Those who did not occupy the indicated position in the prior annual statement are to be indicated by the number sign (#).

The Company did not follow the NAIC *Annual Statement Instructions* when completing the Jurat Page in the 2012 Annual Statements, which states:

> The state of domicile regulatory authority may dictate the required officers, directors, trustees and any other positions to be listed on the Jurat Page. Show full name (initials not acceptable) and title (indicate by number sign (#) those officers and directors who did not occupy the indicated position in the prior annual statement).

At December 31, 2013, the Company had only eight (8) elected directors. The vacancy was filled at the Company's Annual Meeting held in February 2014. The Company did not meet the requirements for the number of directors in accordance with their By-laws, Article III, Section 1 (a) which states:

a. The number of the directors of the Corporation shall be nine (9), unless and until otherwise determined by vote of a majority of the stockholders.

The Company did not fill a vacant position on the Board of Directors in 2013 accordance with the By-laws of the Company, Article III, Section 8, which states:

> Any vacancy in the Board of Directors occurring by reason of an increase in the number of directors, or by reason of the death, resignation, disqualification, removal (unless a vacancy created by the removal of a director by the shareholders shall be filled by the shareholders at the meeting at which the removal was effected) or inability to act of any directors, or otherwise, shall be filled for the unexpired portion of the term by a majority vote of the remaining directors, though less than a quorum, at any regular meeting or special meeting of the Board of Directors called for that purpose.

During the examination period, the Company held their annual meetings for 2011, 2012 and 2013 at 2:33 P.M., 3:30 P.M. and 3:33 P.M., respectively. The Company's By-laws, Article II, Section I - Annual meetings states:

> The annual meeting of the shareholders of the Corporation shall be held on the last Thursday of each February at 4:00 P.M., ...

During the examination period, the Company made investment transactions exceeding ten percent of the Company's admitted assets. At December 31, 2013, the Company had $131,788 invested in short term securities. Investment transactions of the Company are not presented for authorization, approval, or ratification by the board of directors or the committee or person as the board of directors expressly authorize. Investment transactions are not recorded in the minutes to the meetings of the board of directors.. The Company has not complied with ALA. CODE § 27-41-5 (1975), which states:

> An insurer shall not make any investments or loans exceeding 10 percent of the admitted assets of the insurer, other than loans on policies or annuity contracts, unless authorized, or ratified by the board of directors of the insurer or by the committee or person as the board of directors shall expressly authorize. The action of the board of directors, the committee, or other persons so authorized shall be recorded and regular reports thereof shall be submitted to the board of directors.

Committees

No committees of the board were appointed during the examination period.

Officers

Officers of the Company elected by the Board of Directors and serving at December 31, 2013 were as follows:

Officer	Title
Arthur Abel Holk	President
Clair Dean Hansen	Treasurer
Frances Claire Holk-Jones	Secretary
Kevin Timothy Russell	Executive Vice President

Management and Service Agreements

Agreements with Affiliates

Lease with Baldwin Mutual Insurance Company for Office Space

At the examination date, the Company had a written agreement with Baldwin Mutual Insurance Company (BMIC), commencing January 1, 2009, to lease 449 square feet in BMIC's home office building located at 315 E. Laurel Avenue, Foley, Alabama. The Company agreed to pay BMIC $5,692.87 annual rent, payable $475.57 monthly, on or before the first day of each month thereafter, during the continuance of the lease. The lease indicated that BMIC had the option to renew the lease for an additional one year period on the same terms and conditions. The lease was renewed each year of the examination.

Lease of Warehouse to Baldwin Mutual Insurance Company

The Company had a lease, commencing November 1, 2006, with Baldwin Mutual Insurance Company (BMIC) in which the Company agreed to lease to BMIC a warehouse located at 6719 Cook Road, Bon, Secour, Alabama for $31,200 annually, payable $2,600 monthly on the first of each month. The agreement provided that BMIC could renew the lease for an annual period under the same terms. The lease was renewed each year of the examination.

Income Tax Allocation Agreement

The Company provided a copy of its Tax Agreement with its parent, Baldwin Mutual Insurance Company (BMIC). The federal income tax liability of the Company is to be calculated on the basis of a stand-alone company. BMIC's income tax liability is calculated at the maximum marginal rate in effect for the consolidated companies with the Company receiving the benefit of the tax brackets. During this examination period, the Company modified the agreement by adding a settlement provision stating any balance would be settled by September 30 of the subsequent year.

The Company did not notify the commissioner in writing of the intention to enter into a modified Tax Agreement in accordance with ALA. CODE §27-29-5 (b) (4) (1975), which states:

> (b) The following transactions involving a domestic insurer and any person in its holding company system may not be entered into unless the insurer has notified the commissioner in writing of its intention to enter into such transaction at least 30 days prior thereto, or such shorter period as the commissioner may permit, and the commissioner has not disapproved it within that period. (4) All management agreements, service contracts, and all cost-sharing arrangements...

Conflicts of Interest

The conflict of interest statements filed by the officers and directors of the Company were reviewed for the period covered by this examination. No material disclosures were noted.

CORPORATE RECORDS

The Company's Articles of Incorporation, By-Laws, and amendments thereto, were inspected and found to provide for the operation of the Company in accordance with Alabama statutes and regulations and with accepted corporate practices.

Minutes of the meetings of the stockholder and Board of Directors meetings from December 31, 2010, through the most recent meetings held at the conclusion of the examination were reviewed. The minutes appeared to be complete and to adequately document the actions of the respective governing bodies.

HOLDING COMPANY AND AFFILIATE MATTERS

The Company was subject to the Alabama Insurance Holding Company Regulatory Act, as defined in ALA CODE §27-29-1(1975). The Company's parent company, Baldwin Mutual Insurance Company was registered with the Alabama Department of Insurance as registrant of an Insurance Holding Company System.

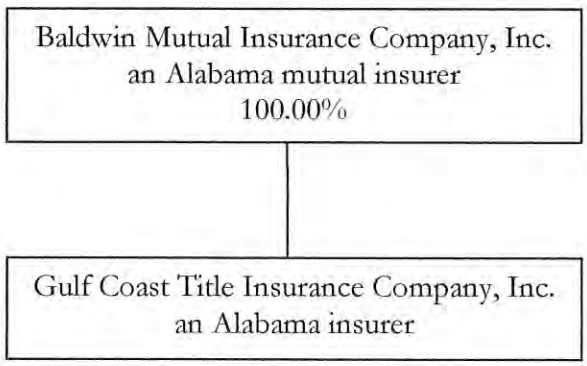
Appropriate filings required under the Holding Company Act were made from time to time by the registrant.

Dividends to Stockholders

The Company paid no stockholder dividends during the examination period.

Organizational Chart

The following chart presents the identities and interrelationships among all affiliated persons within the Insurance Holding Company System at December 31, 2013.



FIDELITY BONDS AND OTHER INSURANCE

At December 31, 2013, the Company did not maintain fidelity bond coverage or any other insurance coverage. According to the NAIC *Financial Condition Examiners Handbook*, the minimum amount of suggested fidelity bond coverage should be $25,000 to $50,000.

EMPLOYEE AND AGENT WELFARE

The Company did not have any employees at December 31, 2013. Its accounting functions were performed by an independent accounting firm. Because the Company's business is in run-off, the Company has very few transactions. The limited amount of transactions was performed by Baldwin Mutual Insurance Company's employees. The Company did not have agents at December 31, 2013.

Section 1033 of Title 18 of the U.S. CODE (ALA. ADMIN. CODE 482-1-146-.11 (2009))

According to 482-1-146-.11 (2009), "(1) A Section 1033 insurer subject to the Commissioner's examination authority shall have and apply the following: (a) An internal procedure for determining, by means of background checks or investigations or otherwise, whether applicants for employment or individuals with whom the insurer intends to contract for activities in the business of insurance, whether or not in a capacity requiring a license, have a felony conviction for a Section 1033 offense. (b) An internal procedure after initial employment or contracting, applied on a periodic basis, to ascertain the existence of a felony conviction for a Section 1033 offense. (c) An internal procedure for assuring that affected employees or individual contractors have obtained and hold any required Section 1033 consent during the period of employment or contracting." The Company was determined to be in compliance.

STATUTORY DEPOSITS

At December 31, 2013, as required or permitted by law, the Company maintained deposits with the respective statutory authorities as follows:

State	Book/Adjusted Carrying Value	Fair Value
Alabama	$100,000	$100,000

FINANCIAL CONDITION/GROWTH OF COMPANY

The following information presents significant items that reflect the growth of the Company for the years indicated the following:

	2010*	2011	2012	2013*
Admitted Assets	$682,495	$500,440	$445,421	$450,672
Liabilities	58,467	45,490	39,985	38,311
Gross Written Premium	59,846	0	0	0
Net Loss and Loss Adjustment Expenses Incurred	0	0	0	2,500
Surplus as regards policyholders	624,028	454,950	405,436	412,361

*Per Examinations

MARKET CONDUCT ACTIVITIES

Plan of Operation

The Company discontinued writing business on June 18, 2010. The Company does not have any plans to write business in the future.

Territory

At the examination date, the Company was licensed to transact title insurance business in the state of Alabama. The Certificate of Authority was inspected for the period under review, and no exceptions were noted.

Policy Forms and Underwriting

The Company's book of business is in run-off. No new business was written during the examination period.

Advertising and Marketing

The Company did not have a formal advertising program during the examination period.

Claims Review

The Company had no paid, denied or litigated claims during the examination period.

Policyholder Complaints

No complaints were filed with the Company or the Alabama Department of Insurance during the examination period.

Compliance with Producer Licensing Requirements

The Company wrote no new business during the examination period. The Company had no agents.

Privacy Standards

The previous three examination reports recommended that the Company have procedures for the collection, use and disclosure of information to limit access to personal information as defined by Standard 10 of the General Examination Standards of the Operations/Management section of the NAIC *Market Regulation Handbook*. Without specific procedures, the Company could not evidence that improper intrusion into the privacy of its applicants and policyholders was minimized. The Company had not established the procedures.

Compliance with ALA. ADMIN. CODE 482-1-122 (2002)

It was determined the Company did not send its existing policyholders annual privacy notices in accordance with ALA. ADMIN. CODE 482-1-122-.06 A(1), which states:

> A licensee shall provide a clear and conspicuous notice to customers that accurately reflects its privacy policies and practices not less than annually during the continuation of the customer relationship.

REINSURANCE

Reinsurance Assumed

The Company had no assumed reinsurance at December 31, 2013.

Reinsurance Ceded

The Company had no ceded reinsurance at December 31, 2013.

ACCOUNTS AND RECORDS

The Company maintained its accounting, premiums and losses data electronically. The Company maintained other workpapers, reconciliations and statements in electronic format. The policy and claim files were retained in hard copy format.

OPERATIONS AND INVESTMENT EXHIBIT PART 3-EXPENSES

The Company recorded engineering and survey costs incurred for a property dispute as legal expenses in their 2013 Annual Statement- Operations and Investment Exhibit Part 3 - Expenses, in Line 18, Legal and auditing. These expenses should have been recorded in Line 3.2 Production services: surveys in accordance with the NAIC *Annual Statement Instructions,* which states

> Surveys Line 3.2: This account classification shall include the net charges of outside surveyors or other title companies for all survey work including possession surveys; enclosure surveys; location surveys; surveying and locating building and showing same on map; survey, map, and descriptions; staking plot; furnishing tracings and prints; redating surveys; survey prints purchased.

Management Discussion and Analysis

Reporting entities are required to file a supplement to the annual statement titled "Management Discussion and Analysis" (MD&A).. The MD&A is intended to provide material historical and prospective textual disclosure.

Each MD&A filed for the years of this examination were reviewed. The Company included a short, non-detail narrative on the following topics:

- Financial Position
- Assets
- Liabilities
- Capital and Surplus Accounts
- Results of Operations
- Cash Flow and Liquidity

The NAIC *Annual Statement Instructions - Title* states management should ensure that disclosures in the MD&A are balanced and fully responsive. To enhance understanding of the financial statements, entities are encouraged to explain in the MD&A the effects of the critical accounting policies applied, the judgment made in their application, and any subsequent changes in assumptions or conditions which would have resulted in materially different reported results. Topics for discussion include:

- Introduction
- Results of Operations
- Prospective Information
- Material Changes
- Liquidity, Assets/Liability Matching and capital Resources
- Loss reserves
- Off-balance sheet arrangements
- Participation in high yield, highly leveraged transactions or non-investment grade loans or investments
- Preliminary merger/acquisition negotiations
- Conclusion

It was determined the Company did not complete the Management Discussion and Analysis in accordance with the NAIC *Annual Statement Instructions - Title*, which states:

> MD&A Requirements: Discuss the reporting entity's financial condition, changes in financial condition and results of operations. The discussion shall provide information as specified in paragraphs that follow and also shall provide such other information that the reporting entity believes to be necessary for an understanding of its financial condition, changes in financial condition and results of operations. Discussions of liquidity and capital resources may be combined whenever the two topics are interrelated.

Examination Requests

The Company did not always provide requested information within ten working days, as is required by ALA. ADMIN. CODE 482-1-118-.06 (1999), which states:

> The insurer shall provide, within ten (10) working days, any record or response requested in writing by any duly appointed deputy, assistant, employee or examiner of the commissioner. ...

FINANCIAL STATEMENTS

The financial statements included in this report were reported on the basis of the Company's records, and the valuations and determinations made during the examination for the year 2013. Amounts shown in the comparative years 2011 and 2012 were compiled from the Company's copies of the filed Annual Statements. The statements were presented in the following order.

Statement of Assets, Liabilities, Surplus and Other Funds	Page 14
Summary of Operations	Page 15
Capital and Surplus Account	Page 16

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART THEREOF.

Gulf Coast Title Insurance Company
Statement of Assets, Liabilities, Surplus and Other Funds
for the Year Ended December 31, 2013

Assets

	Assets	Non-admitted Assets	Admitted Assets
Common Stocks **(Note 1)**	$ 38,813	$ 0	$ 38,813
Real estate: Properties held for the production of income **(Note 2)**	145,342	12,128	133,214
Cash and short-term investments	278,636		278,636
Investment income due and accrued	9	0	9
Total Assets	$462,800	$12,128	$450,672

Liabilities, Surplus and Other Funds

Known claims reserve **(Note 3)**	$ 2,500
Statutory premium reserve	25,059
Aggregate of other reserves required by law	0
Supplemental reserve	6,426
Other expenses **(Note 4)**	4,326
Total Liabilities	$ 38,311
Common capital stock	200,000
Gross paid in and contributed surplus	572,537
Unassigned funds **(Note 5)**	-357,752
Less treasury stock at cost	2,424
Surplus as regards policyholders	$412,361
Totals	$450,672

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART THEREOF.

Gulf Coast Title Insurance Company
Summary of Operations
for the Years Ended December 31, 2011, 2012 and 2013

	2011	2012	2013
Operating Income			
Title insurance premiums earned	$ 2,860	$ 2,727	$ 2,609
Other title fees and service charges	55	0	0
Other operating income	0	0	20,091
Total Operating Income	$ 2,915	$ 2,727	$ 22,700
Expenses:			
Losses and loss adjustment expenses incurred	$ 0	$ 0	$ 2,500
Operating expenses incurred	41,186	84,306	50,065
Total Operating Deductions	$ 41,186	$ 84,306	$ 52,565
Net operating gain or (loss)	$ -26,490	$-81,579	$-29,865
Investment Income			
Net investment income earned	$ 32,873	$ 31,144	$ 30,687
Net realized capital gains or (losses) less capital gains tax	0	0	0
Net investment gain (loss)	$ 32,873	$ 31,144	$ 30,687
Other Income			
Write-in for Miscellaneous income or other deductions:			
Write Off of Uncollectible Receivable from Subsidiaries and Affiliates	-329,500	0	0
Loss on Impairment of Title Plant	-798,042	0	0
Loss on Sale of Title Plant	0	-5,000	0
Net income, after capital gains tax and before all other federal and foreign income taxes	$-1,132,940	$-55,435	$ 822
Federal and foreign income taxes incurred	0	0	0
Net income	$-1,132,940	$-55,435	$ 822

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART THEREOF.

Gulf Coast Title Insurance Company
Capital and Surplus
for the Years Ended December 31, 2011, 2012 and 2013

	2011	2012	2013
Surplus as regards policyholders, December 31 prior year	$ 558,035	$454,950	$405,436
Net income	-1,132,940	-55,435	822
Change in net unrealized capital gains or (losses)	-668	45	-1,142
Change in net deferred income tax	-6,937		
Change in nonadmitted assets	1,050,312	2,663	4,032
Change in supplemental reserves	-12,852	3,213	3,213
Change in surplus as regards policyholders	$ -103,085	$ -49,514	$ 6,925
Surplus as regards policyholders, December 31 current year	$ 454,950	$405,436	$412,361

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART THEREOF.

NOTES TO FINANCIAL STATEMENTS

Note 1 – Bonds	**$ 0**
Cash and short-term investments	**$278,636**

The captioned amounts are the same as reported by the Company in its 2013 Annual Statement.

On December 2, 2013, the Company renewed their Certificate of Deposit in the amount of $100,000 for a period of 13 months to mature January 2, 2015. Since the renewal period is thirteen months, the Company has not complied with the NAIC *Annual Statement Instructions,* for Schedule E-Part 1-Cash, which states:

> Certificates of deposit in banks or other similar financial institutions with maturity dates of one year or less from the acquisition date and other instruments defined as cash in accordance with SSAP No. 2, Cash, Drafts, and Short-term Investments, should be reported in this schedule. Long-term certificates of deposit are to be reported in Schedule D.

No change was made for the purposes of this examination due to no effect on the Company's surplus.

Note 2 - Real estate: Properties held for the production of income	**$133,214**

The captioned amount is the same as reported by the Company in its 2013 Annual Statement.

The Company combined three individual properties located in Bon Secour, Alabama with purchase dates of January 1, 2000, May 31, 2003 and March 9, 2007 in its 2011, 2012 and 2013 Schedule A- Part 1 into one property and with the acquired date of May 31, 2003. The Company has not complied with the NAIC *Annual Statement Instructions*, Schedule A- Part 1, Real Estate Owned, which states:

> The purpose for this schedule is to report individually each property owned, classified into categories that separately identify properties occupied by the reporting entity, properties held for the production of income, and properties held for sale.

The Company changed the actual cost of real estate owned for the production of income in their 2011 and 2012 Annual Statements, Schedule A, Part 1. Column 7, to the appraised value. The Company has not complied with SSAP No. 40, Real Estate Investments, Paragraph 7, Actual Cost, which states:

> The cost of real estate represents the fair value of the consideration exchanged plus any costs incurred to place the real estate asset in usable condition...

Note 3- Known claims reserves	**$2,500**

The captioned amount is the same as recorded by the Company in its 2013 Annual Statement.

The Company recorded a claim for policy year 2013 within its Company's Schedule P, which was not in accordance with the NAIC *Annual Statement Instructions.* According to a Company official, the amount had been recorded in the wrong policy year and was actually related to a

policy issued in 1989. The report year in which the claim was recorded had no bearing on the reasonableness of overall reserves.

Note 4 - Other expenses	**$4,326**
Payable to parent, subsidiaries and affiliates	**$ 0**

The captioned amounts are $3,375 more than the $951 and the same as, respectively, reported by the Company in its 2013 Annual Statement.

At December 31, 2013, the Company recorded a liability of $951 for Other expenses, which consisted of 2013 rental expenses owed by the Company to its parent, Baldwin Mutual Insurance Company. This amount should have been classified as a Payable to parent, subsidiaries and affiliates in accordance with the NAIC *Annual Statement Instructions*. No change was made to the Company's financials due to no effect on the Company's surplus. After a review of disbursements paid in 2014, the examiner determined that the Company understated this liability by $3,375. The Company has not complied with the NAIC *Annual Statement Instructions* for Other Expenses, which states:

> Include: Incurred but unpaid other underwriting and investment expenses, excluding taxes, licenses and fees.

Note 5 – Unassigned funds **$(357,752)**

The captioned amount is $3,375 less than the $(354,377) reported by the Company in its 2013 Annual Statement. The following is a reconciliation of Unassigned funds per the examination.

Unassigned funds per Company	$(354,377)
Examination increase/(decrease) to assets:	-0-
Examination decrease/(increase) to liabilities:	-0-
Other expenses	(3,375)
Total Unassigned funds per examination	$(357,752)

COMMENTS AND RECOMMENDATIONS

Board of Directors – Page 4

It is recommended the Company complete the annual statement Jurat Page in accordance with the NAIC *Annual Statement Instructions,* which states:

> The state of domicile regulatory authority may dictate the required officers, directors, trustees and any other positions to be listed on the Jurat Page. Show full name (initials not acceptable) and title (indicate by number sign (#) those officers and directors who did not occupy the indicated position in the prior annual statement).

It is recommended that the Company meet the requirements for the number of elected directors in accordance with the Company's By-laws, Article III, Section 1 (a), which states:

a. The number of the directors of the Corporation shall be nine (9), unless and until otherwise determined by vote of a majority of the stockholders.

It is recommended the Company fill vacant positions of the Board of Directors in accordance with the By-laws of the Company, Article III, Section 8, which states:

> Any vacancy in the Board of Directors occurring by reason of an increase in the number of directors, or by reason of the death, resignation, disqualification, removal (unless a vacancy created by the removal of a director by the shareholders shall be filled by the shareholders at the meeting at which the removal was effected) or inability to act of any directors, or otherwise, shall be filled for the unexpired portion of the term by a majority vote of the remaining directors, though less than a quorum, at any regular meeting or special meeting of the Board of Directors called for that purpose.

It is recommended the Company comply with ALA. CODE § 27-27-24 (b) (1975), which states:

> Vacancies in the board of directors may be filled by the remaining members of the board, and each person so elected shall be a director until his successor is elected by the stockholders or members at the next annual meeting of stockholders or members or at any special meeting of stockholders or members called for that purpose and held prior thereto.

It is recommended the Company hold their annual meetings at the time designated in accordance with the Company's By-laws, Article II, Section 3-Annual Meetings which states:

> The annual meeting of the shareholders of the Corporation shall be held on the last Thursday of each February at 4:00 P.M., ...

It is recommended that the Company comply with ALA. CODE § 27-41-5 (1975), which states:

> An insurer shall not make any investments or loans exceeding 10 percent of the admitted assets of the insurer, other than loans on policies or annuity contracts, unless authorized, or ratified by the board of directors of the insurer or by the committee or person as the board of directors shall expressly authorize. The action of the board of directors, the committee, or other persons so authorized shall be recorded and regular reports thereof shall be submitted to the board of directors.

<u>Management and Service Agreements</u> – Page 6

It is recommended that the Company notify the commissioner in writing of its intention to enter into an agreement with an affiliated company, which is required by ALA. CODE §27-29-5 (b) (4) (1975). This statute states:

> (b) The following transactions involving a domestic insurer and any person in its holding company system may not be entered into unless the insurer has notified the commissioner in writing of its intention to enter into such transaction at least 30 days prior thereto, or such shorter period as the commissioner may permit, and the commissioner has not disapproved it within that period. (4) All management agreements, service contracts, and all cost-sharing arrangements...

Fidelity Bond and Other Coverage - Page 8

It is recommended that the Company maintain fidelity bond coverage in accordance with the minimum amount suggested by the NAIC *Financial Condition Examiners Handbook.*

Privacy Standards – Page 10

It is again recommended that the Company establish procedures "for the collection, use and disclosure of information" to limit access to personal information.

It is recommended that the Company provide the existing policyholders annual privacy notices in accordance with ALA. ADMIN. CODE 482-1-122-.06 A(1), which states:

> A licensee shall provide a clear and conspicuous notice to customers that accurately reflects its privacy policies and practices not less than annually during the continuation of the customer relationship.

Accounts and Records – Page 10

It is recommended the Company correctly classify engineering and survey costs in Line 3.2 when completing their Operations and Investment Exhibit-Part 3 comply with the NAIC *Annual Statement Instructions - Title,* which states:

> Surveys Line 3.2: This account classification shall include the net charges of outside surveyors or other title companies for all survey work including possession surveys; enclosure surveys; location surveys; surveying and locating building and showing same on map; survey, map, and descriptions; staking plot; furnishing tracings and prints; rating surveys; survey prints purchased.

It is recommended the Company complete the Management Discussion and Analysis in accordance with the NAIC *Annual Statement Instructions – Title*, which states:

> MD&A Requirements: Discuss the reporting entity's financial condition, changes in financial condition and results of operations. The discussion shall provide information as specified in paragraphs that follow and also shall provide such other information that the reporting entity believes to be necessary for an understanding of its financial condition, changes in financial condition and results of operations. Discussions of liquidity and capital resources may be combined whenever the two topics are interrelated. …

Management should ensure the disclosures in the MD&A are balanced and fully responsive.

It is recommended that the Company provide requested information within ten working days in accordance with ALA. ADMIN. CODE 482-1-118-.06 (1999), which states:

> The insurer shall provide, within ten (10) working days, any record or response requested in writing by any duly appointed deputy, assistant, employee or examiner of the commissioner. …

Bonds and Cash and short-term investments – Page 17

It is recommended that the Company include Certificates of Deposit with maturity dates longer than one year from the date of purchase as Bonds in Schedule D in accordance the NAIC *Annual Statement instructions, Property & Casualty*, Schedule E - Part 1- Cash, which states:

> Certificates of deposit in banks or other similar financial institutions with maturity dates of one year or less from the acquisition date and other instruments defined as cash in accordance with SSAP No. 2, Cash, Drafts, and Short-term Investments, should be reported in this schedule. Long-term certificates of deposit are to be reported in Schedule D.

Real estate: Properties held for the production of income – Page 17

It is recommended that the Company complete their Schedule A- Part 1, Real Estate Owned, in accordance with the NAIC *Annual Statement Instructions*, which states:

> The purpose for this schedule is to report individually each property owned, classified into categories that separately identify properties occupied by the reporting entity, properties held for the production of income, and properties held for sale.

It is recommended that the Company complete Schedule A, Part 1, Column 7, Actual Cost in accordance with SSAP No. 40, Real Estate Investments, paragraph 7, which states:

> The cost of real estate represents the fair value of the consideration exchanged plus any costs incurred to place the real estate asset in usable condition...

Known claims reserves- Page 17

It is recommended that the Company report claims in the correct policy year within its Schedule P in accordance with the NAIC *Annual Statement Instructions.*

Other expenses and Payable to parent, subsidiaries and affiliates - Page 18

It is recommended that the Company classify expenses owed to its parent within the Payable to parent, subsidiaries and affiliates liability in accordance with the NAIC *Annual Statement Instructions.*

It is recommended the Company properly accrue all incurred and unpaid expenses within the Other expenses liability in accordance with the NAIC *Annual Statement Instructions.*

CONTINGENT LIABILITIES AND PENDING LITIGATION

The examination for contingent liabilities and pending litigation included the review of the Company's Annual Statement disclosures, holding company documents and agreements with affiliates, minutes of the corporate governing bodies, pending claims, and the usual examination of accounts for unrecorded items. No material contingencies or pending litigation against the Company were identified.

COMPLIANCE WITH PREVIOUS RECOMMENDATIONS

A review was performed to determine if the Company had complied with the recommendations made in the last examination report. The review indicated that the Company had complied with the recommendations contained in the most recent Report of Examination with the exception of the items noted below.

Privacy Standards

The prior examination recommended that the Company establish procedures "for the collection, use and disclosure of information" and maintain evidence of its implementation.

SUBSEQUENT EVENTS

The review of the events subsequent to December 31, 2013 noted a change to the Company's financial statements for $3,375. See the "Other expenses" on page 18 for further commentary. The Company ceased issuing policies in the third quarter of 2010. The Company continues to be in run-off.

CONCLUSION

Acknowledgement is hereby made of the courtesy and cooperation extended by all persons representing Gulf Coast Title Insurance Company during the examination.

The customary insurance examination procedures, as recommended by the National Association of Insurance Commissioners, have been followed in connection with the verification and valuation of assets and the determination of liabilities set forth in this report.

In addition to the undersigned, Blase Abreo, CFE, Jerry Hyche, AIE, FLMI, IR, MCM, Mora Perkins-Taylor, MCM, Charles Turner, CISA, Examiners; and Brent Sallay, FCAS, MAAA, and Solomon Frazier, ASA, ACAS, MAAA, Actuarial Examiners with Taylor-Walker & Associates, Inc.; all representing the Alabama Department of Insurance and participated in the examination of Gulf Coast Title Insurance Company.

Respectfully submitted,

Rhonda B. Ball, CFE
Examiner-in-charge
Alabama Department of Insurance