



**EXAMINATION REPORT
OF**

**Privilege Underwriters Reciprocal Exchange
Fort Lauderdale, Florida**

NAIC Company Code: 12873

**as of
December 31, 2023**

**By
The Florida Office of Insurance Regulation**

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February 25, 2025

Michael Yaworsky
Commissioner
Office of Insurance Regulation
State of Florida
Tallahassee, Florida 32399-0326

Dear Commissioner:

Pursuant to your instructions, in compliance with Section 624.316, Florida Statutes, Rule 69O-138.005, Florida Administrative Code, and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (“the NAIC”), we have conducted an examination as of December 31, 2023, of the financial condition and corporate affairs of

Privilege Underwriters Reciprocal Exchange

800 Corporate Drive – Suite 420
Fort Lauderdale, Florida 33334

hereinafter referred to as “the Reciprocal.” Such report of examination is herewith respectfully submitted.

SCOPE OF EXAMINATION

This examination covered the period of January 1, 2020 through December 31, 2023, and the fieldwork commenced with planning with the Florida Office of Insurance Regulation (“the Office”) on April 9, 2024. The fieldwork concluded as of February 25, 2025. The Reciprocal’s last full scope exam by representatives of the Office covered the period of January 1, 2015, through December 31, 2019.

The examination was conducted in accordance with the NAIC Financial Condition Examiners Handbook (“the Handbook”). The Handbook requires that the examination be planned and performed to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Reciprocal, and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer’s surplus to be materially misstated both currently and prospectively.

The examination was a multi-state/coordinated process. The lead state for this exam was Florida, and Arizona acted as a participating state. The Reciprocal has business or licenses in multiple states.

All accounts and activities of the Reciprocal were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management’s compliance with the NAIC Statements of Statutory Accounting Principles (“SSAP”).

This examination report includes information obtained from the examination of the records, accounts, files and documents of or relative to the Reciprocal and other information as permitted by Section 624.319, Florida Statutes. There may be other items identified during the examination that, due to their nature (for example, subjective conclusions or proprietary information), are not included within the examination report but separately communicated to other regulators and/or the Reciprocal.

SUMMARY OF SIGNIFICANT FINDINGS

Current Examination Findings

There were no significant findings as a result of this examination.

Previous Examination Findings

The Reciprocal and its affiliates made several investments that were not compliant with Section 625.332(1)(b), Florida Statutes. The non-compliance resulted from the Reciprocal and its affiliates combining their ownership interest a controlling interest without the statutory required consent from the Office. This is a repeat finding from the prior examination.

Subsequent Event: As a result of the subsequent affiliation of the Reciprocal with the Tokio Marine Group, the Reciprocal and its subsequent affiliates no longer had a controlling interest in the investments and therefore, the investments no longer required consent from the Office. As such, the finding was considered subsequently resolved.

COMPANY HISTORY

General

Privilege Underwriters Reciprocal Exchange (“PURE” or “the Reciprocal”) was formed in 2007 to service high net worth individuals through their reciprocal insurance model. PURE is a non-assessable unincorporated aggregation of subscribers. PURE’s Subscribers Advisory Committee (“SAC”) is a committee established to serve on behalf of the subscribers of PURE as the contractual counterparty to the attorney-in-fact of PURE on matters of interest to the subscribers, and pursuant to Section 629.201, Florida Statutes. On February 9, 2023, PURE’s Canadian branch was approved by the Office of the Superintendent of Financial Institution of Canada to operate as a property and casualty insurance company. PURE is managed by its attorney-in-fact (“AIF”), PURE Risk Management, LLC (“PRM”). In February of 2020, the outstanding stock of Privilege Underwriters, Inc. (“PUI”) was acquired by HCC Insurance Holdings, Inc. (“HCC”), a wholly owned subsidiary of Tokio Marine Holdings, Inc (“TMHD”). The acquisition of PUI by HCC

included PRM. Following the acquisition of PUI, TMHD became the ultimate controlling person of PURE. On December 31, 2023, HCC paid a dividend of all its outstanding shares of PUI to Tokio Marine & Nichido Fire Insurance Co, Ltd (“TMNF”), a Japan domiciled wholly owned subsidiary of TMHD. TMHD is the ultimate controlling person for the Tokio Marine Group, which includes PURE, PUI, PRM, and TMNF.

Dividends

The Reciprocal did not declare or pay any dividends during the period under examination.

Capital Stock and Capital Contributions

PURE is a reciprocal entity and therefore does not have common stock.

The Reciprocal received surplus contributions from its members in the following amounts:

December 31, 2020	\$56,113,818
December 31, 2021	\$59,156,021
December 31, 2022	\$67,615,573
December 31, 2023	\$69,433,264

Surplus Notes

The Reciprocal has the following outstanding Surplus Notes as of December 31, 2023:

Issue Date:	Amount	Holder of Note	Interest rate	Maturity Date
March 31, 2021	\$309,000,000	PUI	3.83%	March 31, 2031
June 16, 2022	\$278,000,000	PUI	5.43%	June 16, 2032
March 29, 2023	\$30,000,000	PUI	5.65%	March 29, 2033
June 30, 2023	\$65,000,000	PUI	5.95%	June 30, 2033

On March 31, 2021, the Reciprocal settled the \$75,000,000 of outstanding principal on surplus notes issued to XL Finance (Ireland) LTD. The Reciprocal paid \$878,688 of interest as of March 31, 2021, and \$3,514,750 of interest as of December 31, 2020 on these notes. Also, on March 31, 2021, the Reciprocal settled \$34,057,611 of outstanding principal on surplus notes issued to Athene Annuity and Life Assurance and PSG PURE Holdings Inc. The Reciprocal paid \$716,688

of interest as of March 31, 2021, and \$2,930,160 of interest as of December 31, 2020 on these notes.

Acquisitions, Mergers, Disposals, Dissolutions

On February 7, 2020, TMHD through its wholly owned subsidiary, HCC acquired all the outstanding shares of PUI. As noted above, on December 31, 2023, HCC paid a dividend of all the outstanding shares of PUI to TMNF a wholly owned subsidiary of TMHD. TMHD is the ultimate controlling person for the Tokio Marine Group, which includes the Exchange, PUI, PRM, and TMNF.

MANAGEMENT AND CONTROL

Corporate Governance

In accordance with 629.201, Florida Statutes, the Reciprocal set forth rules for the SAC as provided by in the “Powers of the Subscriber Advisory Committee”. SAC members were elected annually in accordance with the Reciprocal’s requirements of the governing documents. SAC members serving as of December 31, 2023, are shown below:

Subscribers Advisory Committee		
Name	City, State	Principal Occupation, Company Name
Josephine Cummings ^(a)	New York, NY	CEO/Chief Strategic & Creative Officer, The Joey Company
Douglas Gary Fields	Boca Raton, FL	EVP, Alliant Insurance Services
Richard Andrew Jacobs	Lake Toxaway, NC	Retired Principal and Managing Director, CGA Capital LLC
Agatha Kessler ^(b)	Cherry Hills Village, CO	Chairman, Fentress Architects
James Hugh McLaughlin	Woodbury, CT	Chief Executive Officer, J.H. McLaughlin & Co. LLC

Anne Marie Stonich	Bend, OR	Chief Wealth Strategist, Coldstream Wealth Management
Jodi Gerson Lash (1)	Southlake, TX	Chief Executive Officer, J. Lash & Company

(1) Chairperson

(a) Resigned on January 1, 2024, and was not replaced.

(b) Resigned on May 24, 2024, and was replaced by James Jeffers Cox on December 10, 2024.

The SAC exercises its duties pursuant to Section 629.201, Florida Statutes. The Board of Directors of the Reciprocal's affiliate PUI, appointed and governed the management of the Reciprocal. Directors serving as of December 31, 2023, are shown below:

Directors		
Name	City, State	Principal Occupation, Company Name
Masahiro Koike	New York, NY	Managing Executive Officer of Tokio Marine Holdings, Inc.
Martin William Alan Leitch	Westport, CT	Chief Executive Officer, Privilege Underwriters, Inc.
David Alan Logan	Eagan, MN	President, Privilege Underwriters, Inc.
Jeffrey Alex Paraschac	Scarsdale, NY	Executive Vice President & Chief Financial Officer, Privilege Underwriters, Inc.
Susan Rivera ^(a)	Houston, TX	Chief Executive Officer, Tokio Marine HCC
Michael J. Schell ^(b)	Houston, TX	President, Tokio Marine HCC
Christopher John Bodman Williams (1)	Naples, FL	Vice President, Executive Officer and Co-Head of International Business, Tokio Marine Holdings, Inc.
Kichiichiro Yamamoto	Fujisawa-shi, Japan	Senior Managing Executive Officer and Co-Head of International Business, Tokio Marine Holdings, Inc.

(1) Chairperson

(a) Resigned on May 23, 2024, and was replaced by Kunihiko Higashi as Director on May 23, 2024.

(b) Upon Ross Buchmueller's retirement from President and CEO, Martin Leitch assumed the role of CEO in July 2023. David Logan assumed the role of President at the same time.

(c) Resigned on May 23, 2024, and was replaced by Vincent Kok as Director on May 23, 2024.

In accordance PUI's governance documents, the following Senior Officers were appointed:

Senior Officers		
Name	City, State	Title
David Alan Logan	Eagan, MN	President
Martin William Alan Leitch	Westport, CT	Chief Executive Officer
Jeffrey Alex Paraschac	Scarsdale, NY	Chief Financial Officer
Kirk Joseph Raslowsky	Ringoes, NJ	General Counsel and Corporate Secretary

The PUI Board has appointed several internal committees to oversee the day-to-day operations of PURE. The following were the principal internal board committees and their members as of December 31, 2023. The first person listed for each committee is the chairperson.

PUI Audit Committee		
Susan Rivera	Michael J. Schell	Kichiichiro Yamamoto

Investment Committee		
Michael J. Schell	Jeffrey Paraschac	Christopher Williams
Kichiichiro Yamamoto		

Remuneration and Nomination Committee		
Christopher Williams	Kichiichiro Yamamoto	Susan Rivera
Martin Leitch		

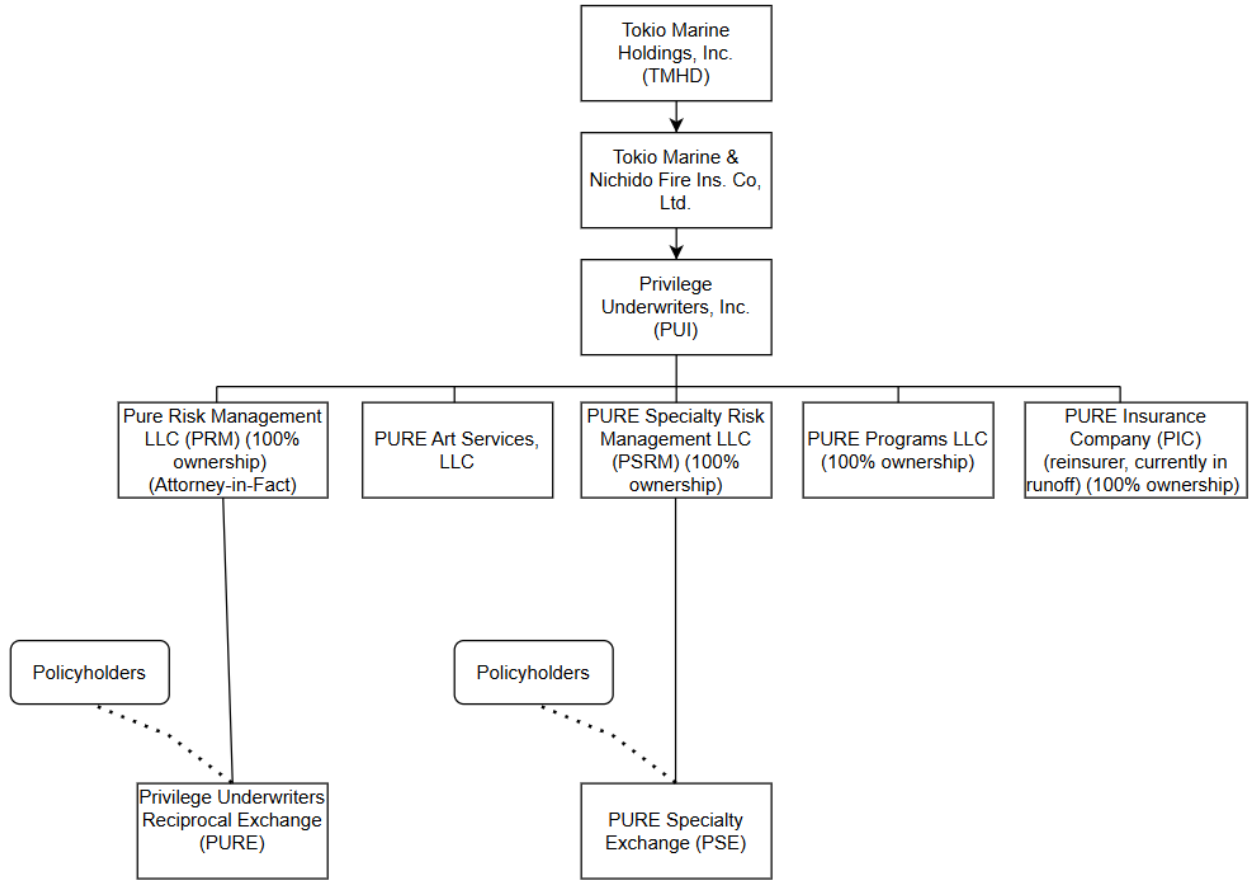
The Reciprocal maintained an audit committee, as required by Section 624.424(8)(c), Florida Statutes.

PURE Audit Committee		
Richard Jacobs	Jodi Lash	James McLaughlin

Holding Company System

A simplified organizational chart as of December 31, 2023, reflecting the holding company system, is shown on the following page. Schedule Y of the Reciprocal's 2023 annual statement provided a list of all related companies of the holding company group.

**Privilege Underwriters Reciprocal Exchange
Simplified Organizational Chart
December 31, 2023**



The following agreements were in effect between the Reciprocal and its affiliates:

Attorney-in-Fact Agreement

Effective January 24, 2007, the Reciprocal entered an AIF agreement with PRM. The agreement was renewed effective May 24, 2018, for a five-year period with renewable one-year terms. Pursuant to the AIF agreement, PRM serves as the Reciprocal's AIF and provides senior management, underwriting, claims, financial, legal, information technology, and administrative services to PURE. On May 11, 2023, PRM requested an amendment to the fee structure for compensation from 17% to 31.5% of gross written premiums for underwriting and marketing services. The 5% of gross earned premium fee for all claims management services remained unchanged. The amendment was approved by the Office on June 10, 2023, with an effective date of July 1, 2023. The Reciprocal also transferred accountability for paying retail brokerage commissions to PRM at this time. Fees incurred under the agreement during 2023 amounted to \$654,373,418 for underwriting and marketing services and \$97,432,710 for claims management services.

Subscribers Agreement and Power of Attorney

Each new subscriber signed a Subscribers Agreement and Power of Attorney which appointed PRM as the AIF and allowed for PRM to conduct the lawful business of the Reciprocal. Each subscriber agreed to make surplus contributions for the first five (5) years of their membership. The surplus contribution was a percentage of the policy premium (ten percent (10%) for Homeowners and Watercraft and four percent (4%) for all other policies).

Broker Agency Agreement

The Reciprocal entered into a Broker Agency Agreement with PUI effective April 25, 2007. The agreement continues in force unless terminated upon written notice. The Reciprocal was not involved in collection of fees between PUI and subscribers.

Intercompany Pooling Agreement

As discussed below in the Reinsurance section, the Reciprocal entered into an affiliated Reinsurance Pooling Agreement with PURE Specialty Exchange ("PSE"), effective July 1, 2023.

Keep Well Agreement

Effective March 5, 2021, the Reciprocal entered into a Keep-Well agreement with TMNF. Under the terms of the agreement, if the Reciprocal's Risk Based Capital level is below 300% of the Authorized Control Level risk based capital requirements (the "Capital Threshold)", as defined by the National Association of Insurance Commissioners, TMNF will purchase or have other affiliates purchase surplus notes issued by the Reciprocal to restore the Reciprocal's capital level to the Capital Threshold.

ACCOUNTS AND RECORDS

The Reciprocal maintained its principal operational offices in White Plains, New York.

The Reciprocal and non-affiliates had the following agreements:

Custodial Agreements

The Reciprocal maintained a custodial agreement with U.S. Bank National Association executed on September 17, 2014.

The Reciprocal maintained a custodial agreement with Royal Bank of Canada executed on January 3, 2023.

Independent Auditor Agreement

An independent CPA, PwC, LLP, audited Reciprocal's statutory basis financial statements annually for all years under examination.

Reinsurance Intermediary Broker Agreements

The Reciprocal maintained a reinsurance intermediary broker agreement with Guy Carpenter and Company, LLC, ("Guy Carpenter"), effective September 8, 2006. The agreement renews annually with the placement of the new treaty year.

Corporate Records Review

The recorded minutes of the SAC and the Audit Committee were reviewed for the period under examination. The recorded minutes of the SAC documented its meetings and approval/acknowledgement of the Reciprocal's transactions and events.

TERRITORY AND PLAN OF OPERATIONS

The Reciprocal is licensed and writes business in all 50 states and the District of Columbia. The Reciprocal was approved by Canada's Office of the Superintendent of Financial Institutions on February 9, 2023, to operate as a property and casualty company.

The Reciprocal was authorized to transact insurance in Florida on January 23, 2007, and is currently authorized for the following lines of business in Florida as of December 31, 2023:

- Allied Lines
- Homeowners Multi-Peril
- Inland Marine
- Ocean Marine
- Other Liability
- PPA Physical Damage
- Private Passenger Auto Liability
- Worker's Compensation

The Reciprocal primarily writes Homeowners Multi-Peril policies in Florida. Automobile coverages make up the next most-written lines of business. While Florida represents the largest state in terms of premiums written by the Reciprocal, New York, Texas, California, and Massachusetts also make up a significant portion of premiums, each with over \$100 million in direct written premiums.

REINSURANCE

The reinsurance agreements reviewed complied with NAIC standards with respect to the standard insolvency clause, arbitration clause, intermediary clause, transfer of risk, reporting, and settlement information deadlines.

Reinsurance Assumed

Effective July 1, 2023, the Reciprocal entered into an Intercompany Reinsurance Pooling Agreement ("Pooling Agreement") with PSE. Under the terms of the Pooling Agreement, PSE ceded to the Reciprocal 100% of its insurance business, net any reinsurance, and assume from the Reciprocal an amount equal to 10% of the pooled underwriting results, net any other reinsurance.

Reinsurance Ceded

The Reciprocal ceded risks on a quota share and excess of loss basis to participating reinsurers using reinsurance intermediary brokers Guy Carpenter and Lockton Re. In addition to the brokered reinsurance agreements, the Reciprocal entered into reinsurance agreements directly with General Reinsurance Corporation and Swiss Reinsurance American Corporation for which no reinsurance intermediary was utilized. The Reciprocal ceded risk on a quota share basis covering each of the Reciprocal's lines of business. Various quota-share percentages for each line of business were ceded under separate agreements. The Reciprocal ceded risk on a per-risk excess of loss basis for homeowners' property and collections coverages under separate per-risk excess of loss agreements. Additionally, the Reciprocal ceded under property catastrophe excess of loss agreements which provided for multiple loss layers and events. The Reciprocal also maintained coverage through the Florida Hurricane Catastrophe Fund.

Effective April 1, 2021, the participation percentages of the Intercompany Reinsurance Agreement between PURE and PIC originally effective August 5, 2008, were modified from 50% to 100% for PURE and from 50% to 0% for PIC. Effective January 6, 2022, the Intercompany Reinsurance Pooling agreement between PURE and PIC was terminated.

FINANCIAL STATEMENTS

The following includes the Reciprocal's statutory Statement of Assets, Liabilities, Surplus and Other Funds; statutory Statement of Income; and the statutory Analysis of Changes in Surplus for the year ended December 31, 2023. The financial statements are based on the statutory financial statements filed by the Reciprocal with the Florida Office of Insurance Regulation and present the financial condition of the Reciprocal for the period ending December 31, 2023. (Note: Failure of the columns to add to the totals reflected in this Report is due to rounding.)

Privilege Underwriters Reciprocal Exchange
Assets
December 31, 2023

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$ 1,076,898,786		\$ 1,076,898,786
Stocks			
Preferred stocks	969,323		969,323
Common stocks	40,435,071		40,435,071
Cash and short-term investments	119,785,666		119,785,666
Other invested assets	139,281,383		139,281,383
Subtotals, cash and invested assets	1,377,370,229		1,377,370,229
Investment income due and accrued	8,725,499		8,725,499
Premiums and considerations			
Uncollected premiums and agents' balances	16,525,721	2,658,440	13,867,281
Deferred premiums, agents' balances and installments	460,727,208		460,727,208
Reinsurance			
Amounts recoverable from reinsurers	111,112,513		111,112,513
Current federal and foreign income taxes recoverable and interest thereon	92,926,410		92,926,410
Receivable from parent, subsidiaries and affiliates	948,168		948,168
Aggregate write-in for other than invested assets	813,423	724,884	88,539
Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts	2,069,149,171	3,383,324	2,065,765,847
Total	\$ 2,069,149,171	\$ 3,383,324	\$ 2,065,765,847

Privilege Underwriters Reciprocal Exchange
Liabilities, Surplus and Other Funds
December 31, 2023

	Per Reciprocal
Losses	\$ 494,581,394
Reinsurance payable on paid losses and loss adjustment expenses	39,623
Loss adjustment expenses	27,926,953
Commissions payable, contingent commissions and other similar charges	46,995,646
Other expenses	10,301,595
Taxes, licenses and fees	13,326,587
Net deferred tax liability	18,492,524
Unearned premiums	430,421,466
Advance premiums	14,837,295
Ceded reinsurance premiums payable	136,639,861
Funds held by company under reinsurance treaties	66,437,994
Provision for reinsurance	50,000
Payable to parent, subsidiaries and affiliates	144,729,146
Total liabilities excluding protected cell liabilities	1,404,780,084
Total liabilities	1,404,780,084
Surplus notes	682,000,000
Gross paid-in and contributed surplus	550,199,581
Unassigned funds (surplus)	(571,213,818)
Surplus as regards policyholders	660,985,763
Totals	\$ 2,065,765,847

Privilege Underwriters Reciprocal Exchange
Statement of Income
December 31, 2023

	Per Reciprocal
Underwriting Income	
Premiums earned	\$ 1,371,576,328
Deductions	
Losses Incurred	834,444,136
Loss adjustment expenses incurred	100,033,929
Other underwriting expenses incurred	543,484,947
Total Underwriting deductions	1,477,963,012
Net underwriting gain (loss)	(106,386,684)
Investment Income	
Net investment income earned	29,199,481
Net realized capital gains or (losses)	(885,141)
Net investment gain or (loss)	28,314,340
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	(78,072,344)
Dividends to policyholders	
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	(78,072,344)
Federal & foreign income taxes incurred	(48,338,598)
Net Income	(29,733,746)
Capital and Surplus Account	
Surplus as regards policyholders, December 31 prior year	547,574,682
Net Income	(29,733,746)
Change in net unrealized capital gains or losses less capital gains tax	11,245,061
Change in net unrealized foreign exchange capital gain (loss)	83,725
Change in net deferred income taxes	(31,124,829)
Change in non-admitted assets	(37,118)
Change in provision for reinsurance	1,377,000
Change in surplus notes	95,000,000
Surplus adjustments:	
Paid in	69,433,264
Aggregate write-ins for gains and losses in surplus	(2,832,276)
Change in surplus as regards policyholders for the year	113,411,081
Surplus as regards policyholders, December 31, current year	\$ 660,985,763

**Privilege Underwriters Reciprocal Exchange
Reconciliation of Capital and Surplus
December 31, 2023**

No adjustments were made to surplus as regards policyholders as a result of this examination.

Capital/Surplus Change during Examination Period			
Surplus at December 31, 2019, per Reciprocal			\$ 314,987,370
	Increase	Decrease	
Net Income (loss)		(467,635,775)	
Aggregate write-ins for gains and losses in surplus	97,077		
Change in net unrealized capital gain (loss)	6,899,061		
Change in net deferred income tax		(12,681,810)	
Change in non-admitted assets		(2,756,049)	
Change in surplus notes	569,703,489		
Change in paid in surplus	252,338,676		
Change in Provision for reinsurance		(50,000)	
Change in unrealized foreign exchange capital gain (loss)	83,725		
Net increase (or decrease)			345,998,394
Surplus at December 31, 2023 per Reciprocal			\$ 660,985,763

COMMENTS ON FINANCIAL STATEMENT ITEMS

Liabilities

Losses and Loss Adjustment Expenses

The appointed actuary, Gareth Simons, appointed by the Board, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2023, made a reasonable provision for all unpaid loss and loss expense obligations of the Reciprocal under the terms of its policies and agreements.

The Office consulting actuary, Kirk Braunius, of Examination Resources, reviewed the loss and loss adjustment expense work papers provided by the Reciprocal and he was in concurrence with this opinion.

Capital and Surplus

The amount of capital and surplus reported by the Reciprocal of \$660,985,763 exceeded the minimum of \$100,000,000 as required by Section 624.408(3), Florida Statutes.

SUBSEQUENT EVENTS

On June 26, 2024, the Reciprocal issued a surplus note for \$75,000,000 to PUI. The surplus note bears interest at 6.34% and matures on June 26, 2034. The surplus note was approved by the Office, and proceeds were received on June 26, 2024.

The Reciprocal was impacted by the Los Angeles wildfires that began on January 7, 2025. This event attached to the Property Catastrophe Reinsurance Excess of Loss program. Based on the reinsurance coverage, the anticipated net impact is expected to be approximately \$200-250 million. The Reciprocal indicated they ended 2024 with favorable results and in a strong capital position. When including previously anticipated surplus note issuances in 2025, they do not expect a material impact on the capital position of the Reciprocal.

On March 31, 2025, the Reciprocal issued a surplus note for \$50,000,000 to PUI. The surplus note bears interest at 6.38% and matures on March 31, 2035. The surplus note was approved by the Office, and proceeds were received on March 31, 2025.

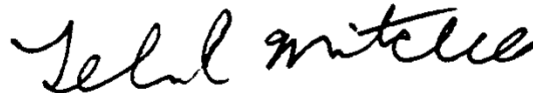
CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of Privilege Underwriters Reciprocal Exchange as of December 31, 2023, consistent with the insurance laws of the State of Florida.

In addition to the undersigned, the following individuals from the Office and Examination Resources also participated in the examination:

Trevor Eaton	Participating Examiner	Office
Bobby Jackson, CPA, APIR	Exam Manager	Office
James Gowins, CISA, AES, AFE, MCM	IT Supervisor	Examination Resources
Kirk Braunius, FAA, MAAA	Actuary	Examination Resources
Robby Kalna	Examiner	Examination Resources
Rachelle Gowins, CFE, MCM	Managing Director	Examination Resources

Respectfully submitted,



Leland Mitchell, CFE
Examiner-in-Charge
Examination Resources
Representing the Florida Office of Insurance Regulation



Chad Mason, PIR
Chief Financial Examiner
Property & Casualty Financial Oversight
Florida Office of Insurance Regulation