First Protective Insurance Company
Frontline Insurance Unlimited Company
(collectively, "Frontline Insurance")

Entity: Operating Companies			
Assigned	**Type**	**Rating**	**Outlook**
First Protective Insurance Company (FPIC)	IFSR	BBB+	Stable
Frontline Insurance Unlimited Company (FIUC)	IFSR	BBB+	Stable

Methodology

Insurer & Insurance Holding Company Global Rating Methodology

ESG Global Rating Methodology

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Rating Summary:

First Protective Insurance Company is a property/casualty insurer focused on writing personal homeowners coverage primarily in Florida as well as four other coastal states in the Southeast. Frontline Insurance Unlimited Company is a property-casualty insurer focused on writing predominantly commercial multi-peril as well as allied lines primarily in Florida as well as four other coastal states in the Southeast. The ratings for both entities reflect an experienced management team with a focused strategy, financial flexibility through a holding company/managing general agent (MGA) structure, a solid reinsurance program, and strong local market presence with a well-established distribution network supportive of targeted growth.

While both companies have reported net losses in three of the last five years primarily due to elevated natural catastrophe events, KBRA views near-term financial results positively, driven by strong underwriting and claims handling, which compare favorably to Florida peers.

Balancing these credit strengths are the companies' moderate geographic concentration within Florida and other Southeastern coastal areas that exposes both entities to natural catastrophes and makes them dependent on reinsurance. While favorable in relation to stated targets, risk-based capitalization and premium leverage at each company generally compare unfavorably to Florida peers.

Outlook

The Stable Outlook reflects KBRA's expectation that Frontline Insurance will make prudent risk-based capital decisions while executing on their business plans over the medium term. Additionally, it is KBRA's expectation that strong fee income generated under the holding company structures will continue to support the ability to provide capital to the operating subsidiaries as needed.

Key Credit Considerations	+/−
Experienced Management Team with a Focused Strategy Frontline Insurance has an experienced management team with deep market knowledge in all aspects of the personal and commercial lines' catastrophe exposed property market in Florida and as well as other niche Southeastern coastal areas. The management team continues to execute on a clearly defined business growth strategy.	+
Solid Reinsurance Program Frontline Insurance's catastrophe reinsurance program provides robust coverage when viewed against projected losses from modelled historical events. The majority of the catastrophe program is placed with General Reinsurance Corp. (Gen Re) though concentration risk is mitigated to an extent by the demonstrated long-term nature of the relationship and the credit quality of the reinsurer, in KBRA's opinion.	+
Financial Flexibility Through Holding Co/MGA Frontline Insurance generates significant fee income within its Managing General Agent (MGA) and holding company structure, including claims adjustment and agency operations fees, which allows it to support the operating companies as needed to execute on its growth strategy.	+

Strong Local Market Presence and Well-Established Distribution Through Agents As of end-2021, Frontline Insurance ranked within the top 10 in Florida homeowners premium. Frontline Insurance maintains favorable relationships with its independent agency network.	+
Recent Net losses Driven by Natural Catastrophes Net losses at FPIC and FIUC across 2018 through 2020 were primarily driven by hurricane losses across the same period – Irma in 2017, Michael and Florence in 2018, and Sally in 2020. Tightening of underwriting guidelines, revamped claims procedures, and implemented rate increases which are earning through the in-force book have led to recent year profitability which is favorable relative to Florida peer companies.	–/+
Moderately Weak Risk-Adjusted Capitalization Risk based capitalization (RBC) is adequate and has trended at levels below Florida peers. However, RBC is maintained above targeted levels (300%) at each operating company.	–
Geographic/Earnings Concentration and Dependence on Reinsurance The companies' strategy to operate as a provider of predominantly homeowners insurance in catastrophe exposed geographies, namely Florida, necessitates a heavy reliance on reinsurance. Expansion efforts may diversify exposure and earnings over the medium term.	–
Elevated Premium Leverage Moderately elevated gross and net premium leverage at both companies compared to Florida peers and potential for large reserve leverage changes inherent in catastrophe-exposed property insurance.	–
Exposure to Event Risk Frontline Insurance is exposed to severe weather events and natural catastrophes, most notably hurricanes.	–

Rating Sensitivities	
▪ Sustained operating profitability ▪ Improved underwriting leverage ▪ Organic surplus growth ▪ Successful execution of expansion plan and/or increased geographic diversification ▪ Strengthened risk-adjusted capitalization	+
▪ Deterioration in risk-adjusted capitalization and underwriting leverage ▪ Weather events negatively impacting earnings and/or the balance sheet ▪ Unfavorable change in risk profile, namely inability to obtain reinsurance on acceptable terms and pricing or a decline in credit quality of the reinsurance panel ▪ Sustained material adverse reserve development	–

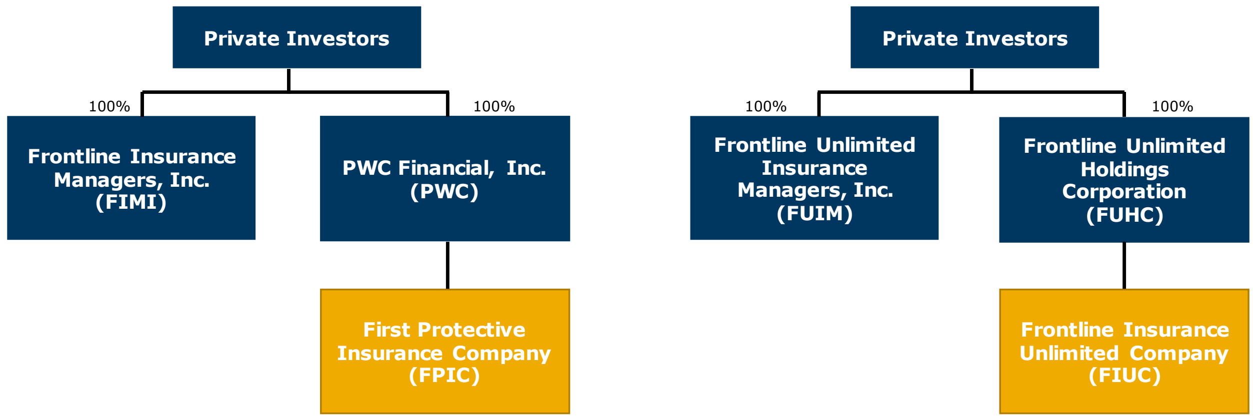
Overview

FPIC was incorporated in 1998 as a personal lines carrier, providing coverage for homeowners (HO-2, HO-3, and DP forms), condominium owners (HO-6), rental property (HO-4) and flood insurance solutions (facilitated through Federal Flood Write-Your-Own policies). FPIC commenced operations with a series of policy takeouts. Direct business was first written in Florida, before expanding to South Carolina (2008), Alabama (2013), North Carolina (2013), and Georgia (2019).

A prior subsidiary, Fidelity Fire & Casualty Company, was formed in 2006, initially writing identical lines to FPIC to take advantage of market opportunities at the time. The company was merged into FPIC in 2015 to leverage economies of scale.

FIUC was incorporated in 1994 and is domiciled in Illinois. The ownership of FPIC purchased FIUC in 2014 to write excess and surplus commercial and personal lines coverage. FIUC began writing surplus lines policies in Florida in 2014, followed by South Carolina (2015), North Carolina (2015), Alabama (2021), and Georgia (2021).

Organizational Structure



PWC Financial, Inc. (PWC) is a Florida insurance holding company that was incorporated in 2001 and owns 100% of FPIC. PWC ownership includes Leman Porter (22.5%), Willis King, Jr. (20.7%), Lanier Porter (17.2%), Dwayne Williams (5.6%), and a small number of other investors, none of which have an ownership interest of 5% or greater.

Frontline Insurance Managers, Inc. (FIMI) was incorporated in 1998 and is the MGA of FPIC. In addition, FIMI serves as the reinsurance intermediatory for FPIC and FIUC. The ownership group above also has similar interests in FIMI.

Frontline Unlimited Holdings Corporation (FUHC) owns 100% of FIUC. FUHC was incorporated in 2013. FUHC ownership includes Leman Porter (42.3%), Willis King, Jr. (30.9%), Lanier Porter (20.6%), Dwayne Williams (2.1%), and a small number of other investors, none of which have an ownership interest of 5% or greater.

Frontline Unlimited Insurance Managers, Inc (FUIM) is the MGA of FIUC and was incorporated in 2014. FUIM has identical ownership to FIUC. The ownership group above also has similar interests in FUIM.

Insurance Entity Financials

First Protective Insurance Co.						
(in thousands)	Q3 2022	2021	2020	2019	2018	2017
Gross Written Premiums (GWP)	$ 690,069	$ 702,262	$ 529,271	$ 432,484	$ 414,832	$ 395,652
Net Written Premiums (NWP)	$ 181,900	$ 234,859	$ 250,077	$ 64,559	$ 56,393	$ 73,243
Net Underwriting Gain (Loss)	$ 2,133	$ 3,737	$ (9,555)	$ (18,148)	$ (7,449)	$ 4,000
Net Investment Gain (Loss)	$ 3,562	$ 8,051	$ 4,759	$ 5,226	$ 3,814	$ 3,630
Net Income (Loss)	$ 4,884	$ 9,202	$ (4,695)	$ (11,649)	$ (1,448)	$ 5,017
Loss & LAE Ratio	51.5%	57.2%	51.2%	74.2%	34.0%	44.8%
Expense Ratio	53.0%	40.7%	36.3%	51.4%	88.0%	38.5%
Combined Ratio	104.5%	97.9%	87.5%	125.5%	122.0%	83.3%
GWP/PHS	8.4	6.2	6.5	5.9	6.5	5.8
NWP/PHS	2.2	2.1	3.1	0.9	0.9	1.1
Total Admitted Assets	$ 562,919	$ 394,756	$ 308,047	$ 211,151	$ 188,374	$ 196,924
Policyholders' Surplus (PHS)	$ 109,473	$ 113,909	$ 81,978	$ 73,122	$ 64,080	$ 67,994
Capital & Surplus Contributions	$ -	$ 20,000	$ 21,018	$ 15,000	$ -	$ -
Stockholder Dividends	$ -	$ -	$ -	$ -	$ -	$ -
NAIC RBC (ACL)	na	357.6%	314.0%	397.3%	266.5%	409.6%

Frontline Ins Unlimited Co.						
(in thousands)	Q3 2022	2021	2020	2019	2018	2017
Gross Written Premiums (GWP)	$ 135,216	$ 115,747	$ 70,456	$ 48,100	$ 27,260	$ 18,328
Net Written Premiums (NWP)	$ 45,228	$ 46,405	$ 31,095	$ 23,456	$ 11,007	$ 9,922
Net Underwriting Gain (Loss)	$ 903	$ 2,582	$ (3,930)	$ (758)	$ (2,399)	$ 1,226
Net Investment Gain (Loss)	$ 619	$ 1,235	$ 874	$ 754	$ 478	$ 436
Net Income (Loss)	$ 1,527	$ 3,017	$ (2,577)	$ (241)	$ (1,307)	$ 1,139
Loss & LAE Ratio	28.1%	19.8%	33.1%	26.5%	59.1%	33.2%
Expense Ratio	70.8%	66.7%	73.9%	52.4%	63.6%	47.2%
Combined Ratio	98.9%	86.5%	107.0%	79.0%	122.7%	80.4%
GWP/PHS	5.4	3.5	2.4	1.8	1.0	0.7
NWP/PHS	1.8	1.4	1.1	0.9	0.4	0.4
Total Admitted Assets	$ 127,323	$ 87,703	$ 67,785	$ 54,625	$ 40,039	$ 35,932
Policyholders' Surplus (PHS)	$ 33,304	$ 32,938	$ 29,521	$ 26,453	$ 26,003	$ 27,436
Capital & Surplus Contributions	$ -	$ -	$ 5,000	$ -	$ -	$ -
Stockholder Dividends	$ -	$ -	$ -	$ -	$ -	$ -
NAIC RBC (ACL)	na	308.5%	324.1%	492.6%	517.6%	920.0%

Stress Testing

The greatest risk for Frontline Insurance is a natural catastrophe in the form of a hurricane. Frontline Insurance mitigates this risk with a reinsurance program that provides strong coverage when viewed against projected losses from historical events. Frontline Insurance purchases one tower at the 1-in-130 year return period between its two statutory insurance operating companies. Total net retention of approximately $10 million is split between the two companies based on incurred losses and loss adjustment expense, translating to roughly $7 million for FPIC and $3 million for FIUC. Ceded premiums are based on exposure.

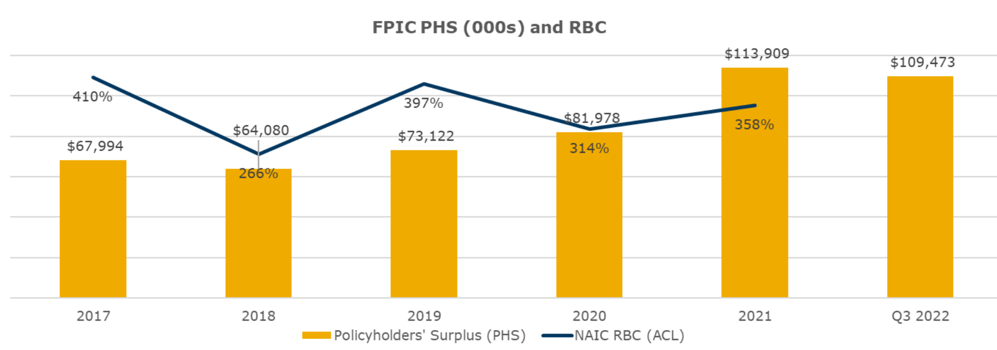
The largest historical modeled loss represents approximately 63.4% of Frontline Insurance's 2022-2023 tower. To protect against a second event, all XOL layers can be fully reinstated, and the company also purchases 3rd event coverage.

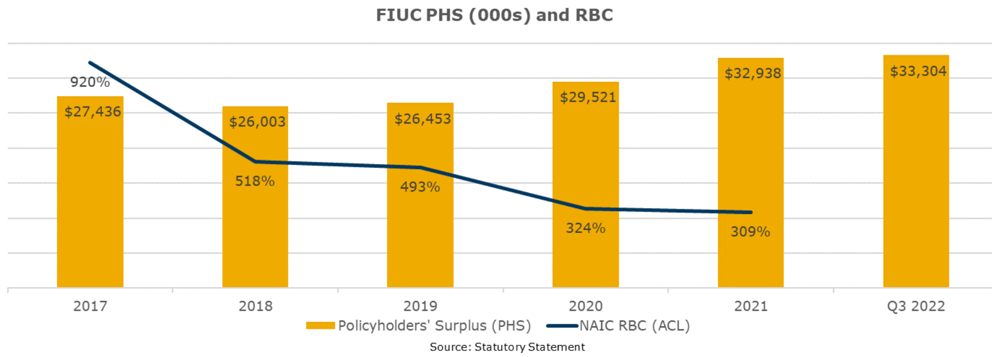
Frontline Insurance's worst loss event in the last 10 years, Hurricane Irma (2017), resulted in $740 million in incurred losses and loss adjustment expenses. Inclusive of a full retention, this event represents approximately 35% of the 2022-2023 tower. The second to worst loss event, Hurricane Michael (2018), resulted in $460 million of incurred losses and loss adjustment expenses.

Given the long-term nature of the relationships with its current reinsurance partners, KBRA believes that Frontline Insurance should be able to place its reinsurance program in the near term with manageable increases in pricing and reasonable changes in terms and conditions.

Given both companies' asset portfolios consist of well-diversified, primarily investment grade fixed income securities, KBRA views the impact of an asset stress scenario as manageable relative to their overall financial position.

Balance Sheet Management





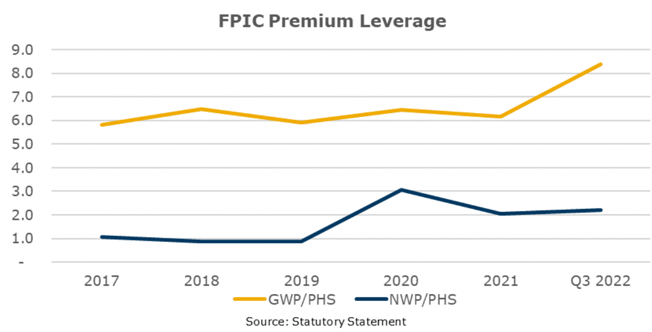
Quality of Capital/Underwriting Leverage

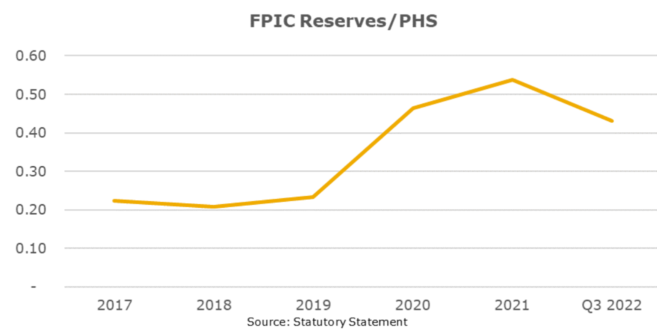
Capital needs are assessed annually. Primary factors contributing to the increase in surplus across the last five years were approximately $61 million in capital contributions and favorable operating results across the last year, offset by losses driven by storm activity and unfavorable underwriting results across the three-year period ending-2020.

Frontline Insurance maintains a minimum RBC target of 300% as well as targets a maximum GWP/PHS ratio of 7.0x.

FPIC:
Policyholders' surplus has grown at a 13.8% CAGR from end-2017 to end-2021. With $109.5 million in policyholders' surplus as of end-Q3 2022, FPIC remains one of the larger companies among its Florida peers. While there have been annual fluctuations in the RBC ratio, risk-based capital remains adequate though generally trends significantly below Florida peers, in KBRA's opinion. FPIC has an end-2021 RBC ratio of 358% and a range for the past five years between 266% and 410%.

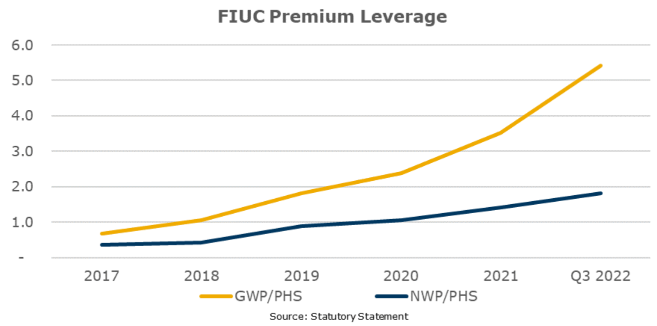
Net written premium to policyholders' surplus has risen steadily across the last three years, nearly doubling since end-2017. Reflective of the company's growth strategy, this ratio is elevated compared to the Florida peers. Reserves to policyholders' surplus has also risen across the last five years but at 0.4x remains below peers. Policyholders' surplus has benefited from approximately $56.0 million of capital contributions across the last three years as direct written premiums ($702.3 million at end-2021) has increased approximately 62.4% across the same period. Further, the increase in premium leverage was not solely a consequence of increasing premium rates as in-force policy count to policyholders' surplus at FPIC has also risen between 2019 and 2021.

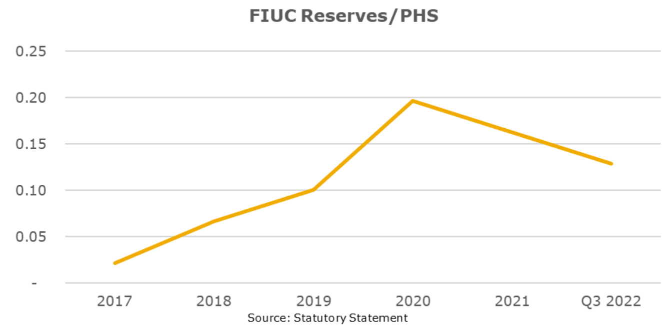




FIUC:
Policyholders' surplus has grown at a 4.7% CAGR from end-2017 to end-2021, albeit from a small base. With $33.3 million in policyholders' surplus as of end-Q3 2022, FIUC remains one of the smaller companies among its Florida peers. Coinciding with premium writings, RBC ratios have trended downwards across the last five years to 309% at end-2021. Though at a level which generally trends significantly below Florida peers, risk-based capital remains adequate, in KBRA's opinion.

Net written premium to policyholders' surplus has risen steadily, nearly doubling since end-2017, but at 1.8x at end-Q3 2022, is slightly elevated compared to Florida peers. Reserves to policyholders' surplus has also risen across the last five years but at 0.1x remains well below peers. Policyholders' surplus has benefited from approximately $5.0 million of capital contributions across the last five years as direct written premiums ($115.7 million at end-2021) has increased approximately 532% across the same period, albeit from a small base.





Asset Quality and Investment Risk

Both companies utilize Cardinal Investment Advisors to manage their third-party investment managers. Investment managers primarily include (by asset class allocation) Raymond James Financial Services, Inc. (equities), BlackRock Investment Management (fixed income), and Advisors Asset Management, Inc. (fixed income), as well as smaller allocations to a handful of additional managers. The companies' investment strategy incorporates conservative objectives, namely the maintenance of liquidity, the preservation of capital, and the growth of surplus. Targeted allocations across asset classes (majority of which is fixed income) remain conservative, in KBRA's opinion. Allocations are more diverse at FPIC, reflective of its larger invested asset base.

Management indicates investment advisor relationships are constantly evaluated and relationships over time have evolved given realized investment results. Investment yields at both companies compared favorably to Florida peers.

FPIC:

FPIC has a well-diversified, high credit quality portfolio. The portfolio is relatively conservative. Below investment grade (BIG) holdings to PHS (7.8% at end-Q3 2022) has trended up and remains adequate, in KBRA's opinion, but elevated compared to Florida peers.

The portfolio is highly liquid and nearly half of total invested assets are cash or cash equivalents. Unaffiliated common stock to policyholders' surplus exceeded 30% at end-2021, a level which is elevated compared to Florida peers. Elevated equity leverage is offset by the strong liquidity profile, in KBRA's opinion.

FPIC Investment Portfolio by Asset Class ($000)

Asset Class	2020 BV	Percent	2021 BV	Percent	Q3 2022 BV	Percent
Bonds	$ 102,172	40.0%	$ 124,687	40.9%	$ 176,786	40.5%
Preferred Stocks	$ -	0.0%	$ 288	0.1%	$ 1,468	0.3%
Unaffiliated Common Stocks	$ 26,873	10.5%	$ 34,376	11.3%	$ 32,434	7.4%
Affiliated Common Stocks	$ -	0.0%	$ -	0.0%	$ -	0.0%
Mortgage Loans	$ 2,808	1.1%	$ 2,506	0.8%	$ 2,270	0.5%
Cash & Cash Equivalents	$ 115,147	45.1%	$ 125,335	41.1%	$ 204,229	46.8%
Other Invested Assets	$ 8,533	3.3%	$ 17,598	5.8%	$ 18,960	4.3%
Receivables for Securities	$ -	0.0%	$ -	0.0%	$ 4	0.0%
Total	**$ 255,533**	**100.0%**	**$ 304,789**	**100.0%**	**$ 436,150**	**100.0%**

Source: Statutory Filing

FPIC Fixed Income Portfolio Quality ($000)

Class	2020	Percent	2021	Percent	Q3 2022	Percent
NAIC 1	$ 86,692	84.8%	$ 91,073	73.0%	$ 131,248	74.2%
NAIC 2	$ 12,499	12.2%	$ 21,774	17.5%	$ 37,217	21.0%
NAIC 3	$ 2,981	2.9%	$ 9,562	7.7%	$ 8,265	4.7%
NAIC 4	$ -	0.0%	$ 1,967	1.6%	$ 271	0.2%
NAIC 5	$ -	0.0%	$ 312	0.2%	$ -	0.0%
NAIC 6	$ -	0.0%	$ -	0.0%	$ -	0.0%
Total NAIC 3-6	$ 2,981	2.9%	$ 11,840	9.5%	$ 8,536	4.8%
Total	**$ 102,172**	**100.0%**	**$ 124,687**	**100.0%**	**$ 177,001**	**100.0%**

Source: Investment Schedule

FIUC:
FIUC has a well-diversified, very high credit quality portfolio. The portfolio is highly conservative as there is no BIG exposure. The portfolio is also very liquid as FIUC maintains a large allocation to cash or cash equivalents.

Unaffiliated common stock to policyholders' surplus exceeded 16% at end-2021, a level which is elevated compared to Florida peers. Elevated equity leverage is offset by the company's strong liquidity position, in KBRA's opinion.

FIUC Investment Portfolio by Asset Class ($000)						
Asset Class	**2020 BV**	**Percent**	**2021 BV**	**Percent**	**Q3 2022 BV**	**Percent**
Bonds	$ 20,684	45.8%	$ 20,677	29.5%	$ 21,648	23.4%
Unaffiliated Common Stocks	$ 3,952	8.8%	$ 5,316	7.6%	$ 4,220	4.6%
Cash & Cash Equivalents	$ 20,481	45.4%	$ 44,012	62.9%	$ 66,771	72.1%
Total	**$ 45,116**	**100.0%**	**$ 70,005**	**100.0%**	**$ 92,639**	**100.0%**

Source: Statutory Filing

FIUC Fixed Income Portfolio Quality ($000)						
Class	**2020**	**Percent**	**2021**	**Percent**	**Q3 2022**	**Percent**
NAIC 1	$ 17,616	85.2%	$ 17,125	82.8%	$ 17,536	81.0%
NAIC 2	$ 3,068	14.8%	$ 3,552	17.2%	$ 4,113	19.0%
NAIC 3	$ -	0.0%	$ -	0.0%	$ -	0.0%
NAIC 4	$ -	0.0%	$ -	0.0%	$ -	0.0%
NAIC 5	$ -	0.0%	$ -	0.0%	$ -	0.0%
NAIC 6	$ -	0.0%	$ -	0.0%	$ -	0.0%
Total NAIC 3-6	$ -	0.0%	$ -	0.0%	$ -	0.0%
Total	**$ 20,684**	**100.0%**	**$ 20,677**	**100.0%**	**$ 21,648**	**100.0%**

Source: Investment Schedule

Financial Flexibility and Access to Capital

Each statutory insurance operating entity is part of a traditional insurance holding company structure. Access to capital has been evident over the past five years with significant capital contributions relative to surplus for each company. Further, fees generated at the holding company further enhance financial and operational flexibility. Frontline Insurance has a relationship with Fifth Third Bank, which enhances their access to capital.

FPIC:
FPIC became a member of the Federal Home Loan Bank (FHLB) of Atlanta in 2016. At end-Q3 2022, FPIC has borrowing capacity of $55.2 million, though has not accessed funding. The company views FHLB borrowing capacity as an option for additional/back up liquidity in the aftermath of a catastrophe event.

FIUC:
FIUC is not a member of the FLHB system.

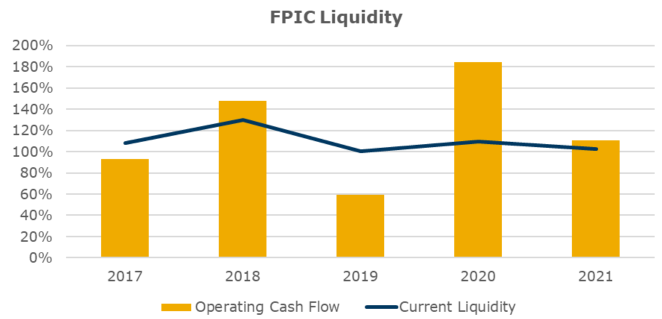
Liquidity and Asset/Liability Management

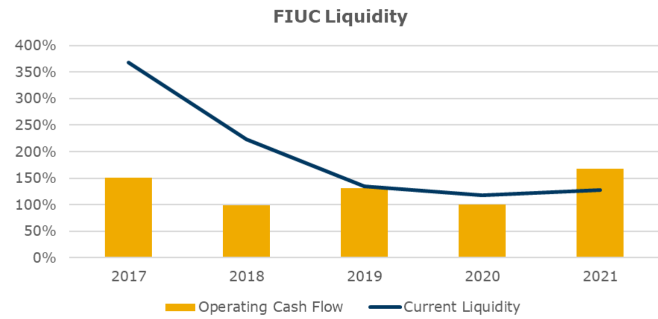
Strong liquidity and operating cash flow metrics are in line with Florida peers. Though both asset portfolios effective maturities are longer than typical for a property writer, in KBRA's opinion, both companies actively manage their liquidity positions, as well as keep a significant portion of assets in cash and cash equivalents to ensure sufficient coverage for both claims and operational needs. Further, across both statutory operating companies, approximately 90% of invested assets mature within the next five years.

FPIC:
At end-2021, the company has sound current liquidity of 102.3%, which compares favorably to Florida peers. Current liquidity has ranged from 100% to 130% over the past five years, though remaining relatively unchanged despite elevated loss payments from natural catastrophes.

FIUC:
At end-2021, the company has strong current liquidity of 128%, which also compares favorably to Florida peers. Prior to 2019, current liquidity dropped significantly as the company grew; however, current liquidity has since stabilized and is largely unchanged since 2019.

Operating Fundamentals





Source: Statutory Statement

Operating Fundamentals

Drivers of Profitability

Frontline Insurance's overall profitability has been impacted by recent catastrophe activity. Since 2015, the company has consistently increased rates on its Florida business, as well as its other in-force business. Specifically, with the most recently approved rate filings through March 2022, the overall cumulative rate increases in its Florida homeowners business since 2015 approximates 115% (primarily for its HO3 product). The company's Florida business is now viewed as rate adequate, in management's view. Despite the significant rate increases, a hardening Florida residential insurance market has contributed to policy retention rates which remain above 90%.

Frontline Rate History			
State	**Product**	**% of Change**	**NB Effective Date**
FL	DP	15%	3/15/2016
FL	DP	2.9%	5/15/2016
FL	HO	2.5%	4/15/2017
FL	DP3	9.6%	9/1/2017
SC	HO	0.3%	11/1/2018
SC	HO	-10%	11/1/2018
FL	DP	8.7%	11/15/2019
FL	DP3	8.7%	2/1/2020
FL	HO	5.7%	2/1/2020
FL	HO	0.8%	2/1/2020
FL	HO	15%	7/31/2020
FL	DP	15%	8/15/2020
FL	MH3	14.7%	12/1/2020
SC	HO	5%	12/26/2020
NC	HOW/HO3	HO3 = 9% and HOW = 9%	12/31/2020
FL	HO	HO3 =9.9% HO4 = 0 HO6 = 0	1/23/2021
FL	DP	14%	8/1/2021
AL	HO	0.4%	3/13/2022
FL	HO	HO3=+7.1% HO6= -18.2% HO4=0	5/21/2022
NC	HO3	12.08%	7/23/2022

Recent underwriting enhancements or limits have been implemented pertaining to ages of roofs and structures. Frontline Insurance has also targeted second time home buyers. Underwriting guidelines remain dynamic as market conditions evolve. Further, all homes over five-years old are physically inspected. In response to excessive litigation trends within the Florida market, Frontline Insurance has implemented a team focused on early settlements as well as established teams focused on fraud. With respect to Assignment of Benefits (AOB) within the Florida market, implemented claims strategies include specific staff training as well as revised policy language and form (e.g., includes right to repair language even if insured retains a third-party to make repairs). The company utilizes an inflation guard which is updated quarterly.

FPIC						
Year	**Inforce Policy Count**	**Inforce Premium**	**TIV**	**TIV/Inforce Policy Count**	**PHS**	**PHS/TIV**
2019	164,500	$ 424,877,505	$ 100,509,304,075	610,999	$ 73,122,311	0.07%
2020	194,319	$ 518,764,270	$ 121,538,469,222	625,458	$ 81,977,632	0.07%
2021	243,055	$ 692,695,668	$ 155,486,200,742	639,716	$ 113,909,158	0.07%

FIUC						
Year	**Inforce Policy Count**	**Inforce Premium**	**TIV**	**TIV/Inforce Policy Count**	**PHS**	**PHS/TIV**
2019	110,903	$ 47,684,162	$ 7,127,214,130	64,265	$ 26,452,615	0.4%
2020	119,494	$ 69,443,871	$ 10,398,139,699	87,018	$ 29,520,705	0.3%
2021	130,893	$ 114,633,914	$ 17,946,824,893	137,111	$ 32,938,301	0.2%

Frontline Total						
Year	**Inforce Policy Count**	**Inforce Premium**	**TIV**	**TIV/Inforce Policy Count**	**PHS**	**PHS/TIV**
2019	275,403	$ 472,561,667	$ 107,636,518,205	390,833	$ 99,574,926	0.09%
2020	313,813	$ 588,208,141	$ 131,936,608,921	420,431	$ 111,498,337	0.08%
2021	373,948	$ 807,329,582	$ 173,433,025,635	463,789	$ 146,847,459	0.08%

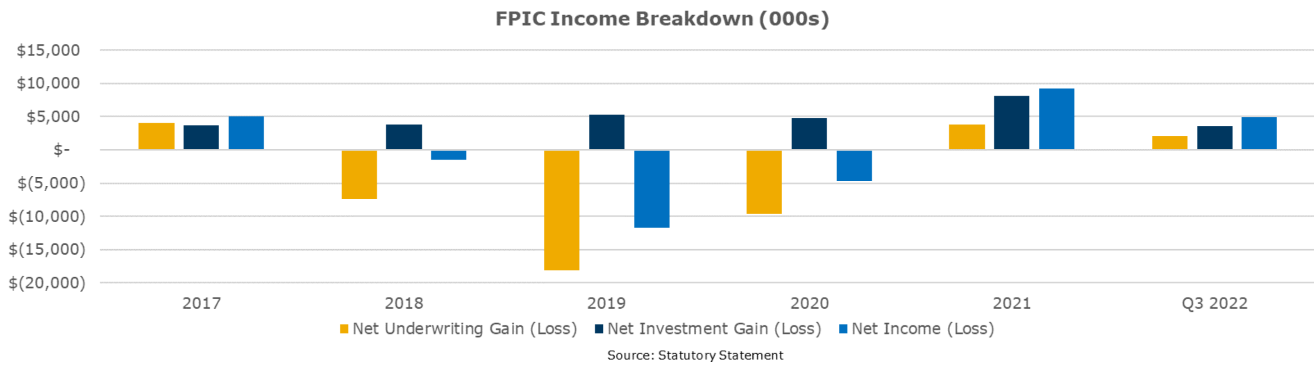
Source: Frontline Insurance and Statutory Statement

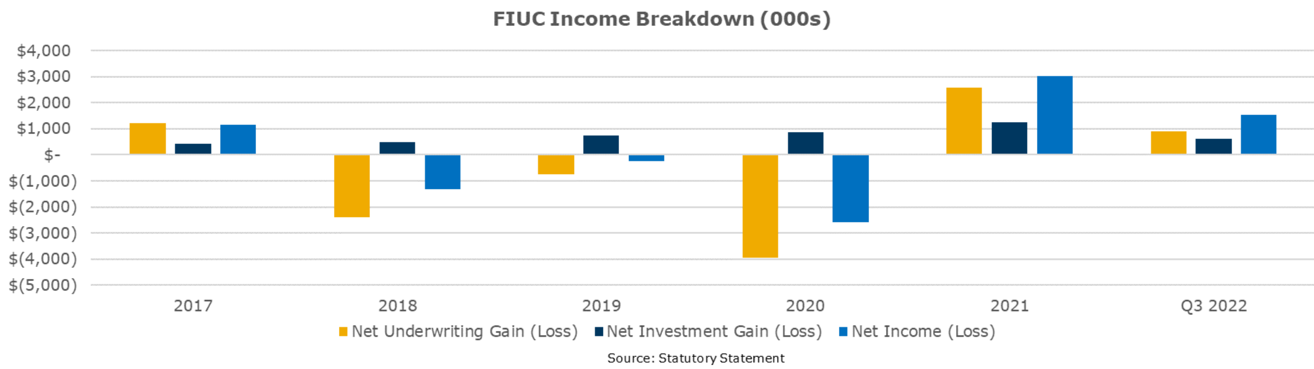
Across both companies, consistent with its growth strategy and what is seen as market opportunities, policies in force (PIF), total insured value (TIV), and premiums have consistently grown across the last three years, though primarily due to rate increases the rate of growth in premiums is proportionately larger.

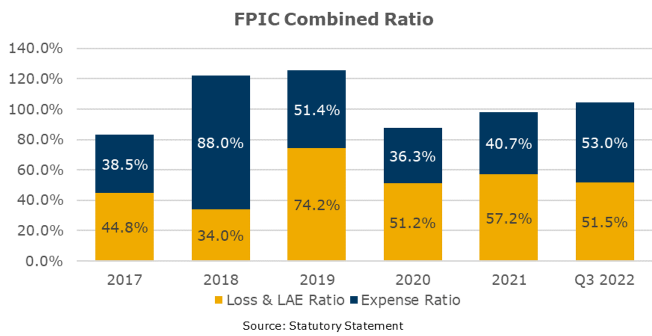
Consistency of Profitability

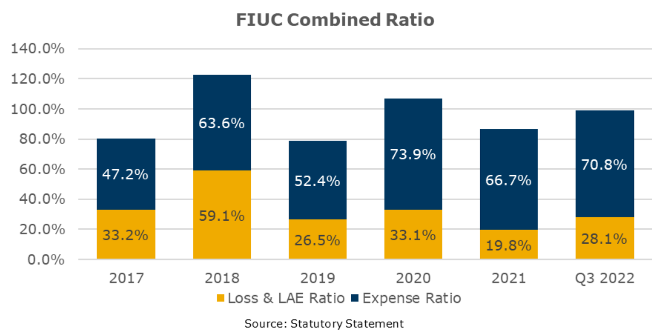
Consistent with Florida peer companies exposed to natural catastrophe risk, operating earnings have been unfavorable and volatile across the last five years. AOB and the resultant litigious environment in Florida also contributed to poor underwriting performance and has further exacerbated reinsurance costs in a hardening market.

Both FPIC and FIUC have reported combined ratios over 100% in two of the past five years. Net underwriting losses in three of the past five years (for end-2018 through end-2020) have contributed to net losses across the same period. Results for end-2021 and end-Q3 2022 favorably show both underwriting and bottom-line profitability. Recent year and historical results across the past five years for Frontline Insurance, despite losses, generally compare favorably to Florida peers across the same period. Further, despite the period of underwriting losses at the operating companies, Frontline Insurance has generated substantial net income at both holding companies.



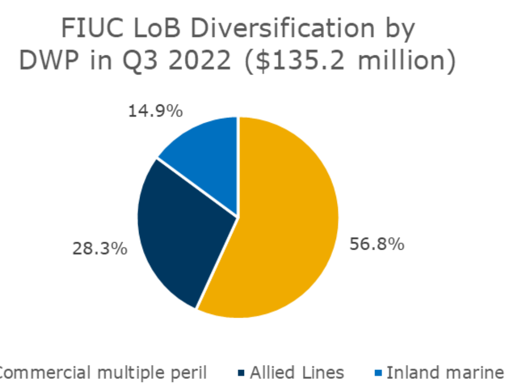


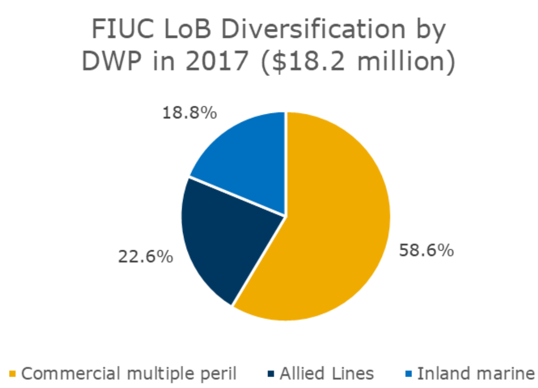




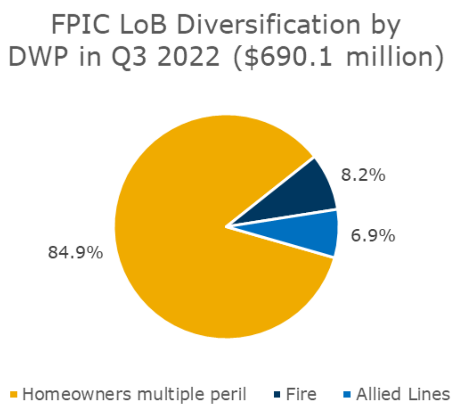
Earnings Diversification: Product/Geography

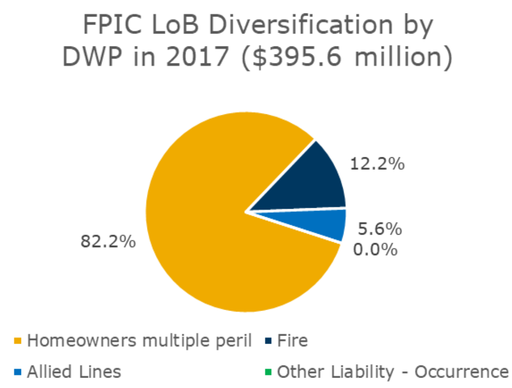
At end-Q3 2022, Frontline Insurance's business was predominantly homeowners and commercial multiple peril, with small amounts of fire, allied lines (personal and commercial), and inland marine. Commercial business has grown significantly since 2017.





Source: Statutory Statement

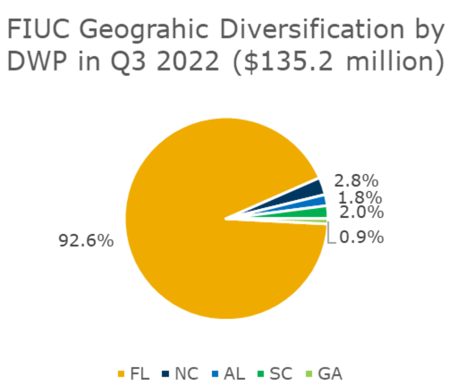


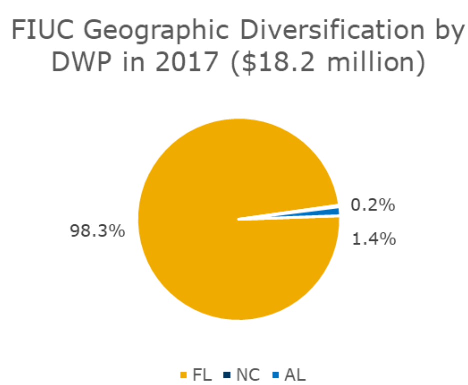


Source: Statutory Statement

Both companies write business in five states – all around the Southeast region – with the majority in Florida. KBRA expects geographic diversification to improve slightly over the medium term as Frontline Insurance continues to expand organically in states outside of Florida. Overall, KBRA views earnings diversification unfavorably as the majority of Frontline Insurance's revenues are from Florida homeowners business.

Management expressed a target to write approximately $20 million across the next year in a non-hurricane exposed state.





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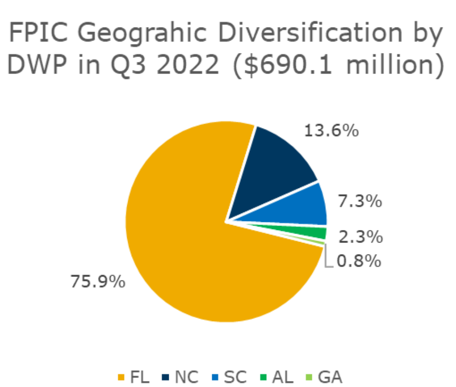

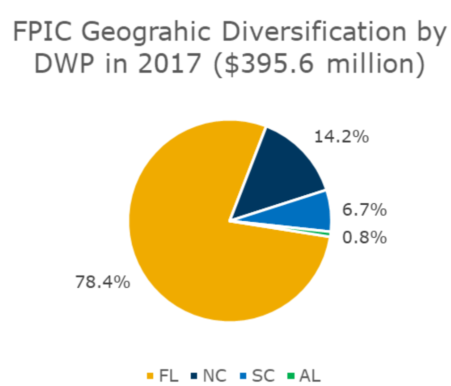

Source: Statutory Statement

Exposure to Event Risk

As a predominantly Florida homeowners writer, Frontline Insurance is exposed to event risk from natural catastrophe, specifically hurricanes, and other weather events. Strategically, Frontline Insurance's exposure to southern Florida is minimal, though all insured risks are predominantly coastal. While KBRA views exposure to event risk unfavorably, this view is partially mitigated by its confidence in the company's stress testing and the strength and credit quality of its reinsurance program.

Company Profile and Risk Management

Management Profile and Strategy

The Board of Directors and senior management are nearly identical at FPIC and FIUC. The company maintains a deep and experienced leadership team with extensive exposure to the Florida personal residential and commercial insurance markets as well as an understanding of other coastal exposure. Across its operating companies, Frontline Insurance targets niche property markets across the Southeast, namely Alabama, Florida, Georgia, North Carolina, and South Carolina. Future expansion efforts entail measured growth in Arizona and Virginia– primarily non-catastrophe exposed areas. Management invests heavily in technology and the growth of the business. The organization has staffed an analytics team in Belfast, Ireland comprised of several data scientists to leverage technology and artificial intelligence efforts and support strategic business decision-making.

The company is employing a measured growth strategy to take advantage of what it sees as advantageous market conditions within Florida. Employee headcount across the last decade has more than quadrupled to almost 450 today. KBRA views management and its strategy favorably but observes that earnings remain susceptible to volatility due to the unpredictable nature of catastrophes and the regulatory and legislative operating environment within Florida. An overhaul of the claims department, including emphasis on settlements and fraud prevention, as well as tightening underwriting guidelines and policy forms have improved recent underwriting results.

Market Position

Frontline Insurance is one of the largest Florida homeowners insurers, by gross written premiums, with an increasing market share. While fragmented, given the current capacity constraints within the private Florida homeowners market, Frontline Insurance should be able to increase market share if management desires and do so profitably. Both statutory insurance operating entities benefit from Frontline Insurance's overall brand and position.

Distribution

Frontline Insurance underwrites voluntary personal and commercial insurance business through a network of independent agents. The company also has a captive agency known as OpenHouse that was recently launched to advance a direct-to-consumer effort. Frontline Insurance seeks to be the top carrier with each agency.

The company actively manages its agent relationships and has been active in terminating unfavorable relationships.

Risk Management

Senior management of Frontline Insurance is involved in all aspects of risk and capital management. The company has established an Enterprise Risk Management (ERM) Policy and Procedures document and ERM Framework to address non-weather-related risks. Within its ERM Framework, Risk Governance is maintained by the Board of Directors and executive management. Additional pillars within the framework include ERM Infrastructure, including policies and procedures and a key risk matrix, Risk Management Process, including assessment, analysis, and action, and ERM Integration, including planning and compliance, among other action items within each pillar. ERM Culture/Foundation is the remaining component of the organization's ERM framework. Identified key risks include claims, data security, and underwriting. Further, the organization maintains an incident response plan, as well as a disaster recovery plan. Frontline Insurance is working towards the completion of its first Own Risk and Solvency Assessment (ORSA).

Frontline Insurance has a dedicated catastrophe modeling team to run catastrophe models licensed from RMS that it runs monthly in-house, which KBRA views favorably.

Reinsurance

The company has established, long-term relationships with reinsurers and works collaboratively with them to develop a program to obtain sufficient coverage at optimal pricing. Frontline Insurance has historically placed one catastrophe reinsurance program between the insurance operating companies, allocated on exposure. The overall $10 million retention is split proportionately based on incurred claims between the companies. The program is designed to adequately cover both severe and frequent events.

While the company's reinsurance covers are concentrated with its largest provider (Gen Re), counterparty risk is mitigated to an extent by the strong credit quality of the reinsurer.

Both FPIC and FIUC also have quota share agreements with GenRe (40% and 10%, respectively) and maintain facultative reinsurance for policies with larger TIVs. Further, FIUC has a per risk excess of loss agreement with GenRe.

FPIC and FIUC also maintain aggregate stop loss reinsurance that covers both catastrophe and non-catastrophe ultimate net losses for accident years prior to 2022.

ESG Management

KBRA's ratings incorporate all material credit factors including those that relate to Environmental, Social and Governance (ESG) factors. KBRA captures the impact of ESG factors in the same manner as all other credit-relevant factors. KBRA does not deploy ESG scores, but instead analyzes ESG factors through the lens of how company management plans for and manages relevant ESG risks and opportunities. More information on KBRA's approach to ESG can be found here. KBRA believes stakeholder perspectives and emerging disclosure requirements will remain prominent components of (re)insurer approaches to ESG.

Environmental Factors

Frontline Insurance provides residential property insurance in coastal and inland communities across the state of Florida as well as other select coastal areas, which are significantly exposed to climate change through natural catastrophe risk.

Social Factors

Management expressed that they are mindful of stakeholder demands with respect to social factors, particularly diversity, equity, and inclusion initiatives. Further, within its communities, Frontline Insurance is an activity participant in Habitat For Humanity, blood drives, and a care for the elderly program.

Governance Factors

Frontline Insurance utilizes encryption and authentication, anti-virus and patches, third party tools, and training/testing, and generally other best practices. The company also makes use of vulnerability management technologies, identity access management controls to ensure appropriate access and authority on applicable systems, phishing tools, cybersecurity awareness campaigns that are mandatory for new hires, annual employee cybersecurity training, the incorporation of cyber into its incident response plan and procedures as well as its disaster recovery plan, and advanced endpoint managed detection and response technology. The company also leverages various external security service providers as needed.

External Considerations

Both from operational and access to capital standpoints, FPIC and FIUC benefit from their respective holding companies and being part of Frontline Insurance.

Each insurance operating company maintains an MGA agreement with their respective MGA. The MGAs provide policy, commission, and claims (catastrophe and non-catastrophe) adjusting administration. Fees are earned on direct premiums and losses. The holding companies provide all other management services for their respective insurance operating company under a separate management agreement.

Transfer Risk

Both entities are domiciled in the United States (AAA/Stable), and only write business in the United States. As such, there is no currency transfer risk.