MedMal Direct Insurance Company

Audited Financial Statements - Statutory Basis

Years ended December 31, 2012 and 2011
with Report of Independent Auditors

MedMal Direct Insurance Company

Audited Financial Statements - Statutory Basis

Years ended December 31, 2012 and 2011

Contents

Report of Independent Auditors

Board of Directors
MedMal Direct Insurance Company

We have audited the accompanying statutory basis financial statements of MedMal Direct Insurance Company ("the Company"), which comprise the statutory statements of admitted assets, liabilities, and capital and surplus as of December 31, 2012 and 2011, and the related statutory statements of income, changes in surplus, and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with the accounting practices prescribed or permitted by the Florida Office of Insurance Regulation ("statutory accounting practices"). Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these statutory basis financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles
As described in Note A to the financial statements, the Company prepared these financial statements using statutory accounting practices, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between these statutory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles
In our opinion, because of the significance of the matter discussed in the previous paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of MedMal Direct Insurance Company as of December 31, 2012 and 2011, or changes in financial position or cash flows for the years then ended.

Opinion on Regulatory Basis of Accounting
In our opinion, the financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities, and capital and surplus of MedMal Direct Insurance Company as of December 31, 2012 and 2011, and the results of its operations and its cash flows for the years then ended, on the basis of accounting described in Note A.

Other Matter
Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Summary Investment Schedule and Supplemental Investment Risk Interrogatories of the Company as of December 31, 2012, are presented for purposes of additional analysis and are not a required part of the financial statements but are supplementary information required by the Florida Office of Insurance Regulation. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the statutory basis financial statements. The information has been subjected to the auditing procedures applied in the audits of the statutory basis financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the statutory basis financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, such schedules are fairly stated in all material respects in relation to the statutory basis financial statements as a whole.

Johnson Lambert LLP

Jacksonville, Florida
May 28, 2013

MedMal Direct Insurance Company

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

	As of December 31, 2012	2011
Admitted assets		
Bonds	$ 9,529,926	$ 4,200,082
Common stocks	1,650,427	815,888
Cash and short term investments	3,476,203	3,281,168
Total cash and invested assets	14,656,556	8,297,138
Accrued interest and dividends	16,874	16,576
Premium receivable	1,883,164	400,400
Net deferred tax asset	879,393	400,200
Guaranty funds on deposit	33,009	-
Total admitted assets	$ 17,468,996	$ 9,114,314
Liabilities:		
Reserve for losses	$ 3,032,863	$ 1,104,647
Reserve for loss adjustment expenses	896,208	293,662
Unearned premiums	3,729,734	2,179,048
Advance premiums	547,660	198,390
Ceded reinsurance premiums payable	(985,998)	(331,250)
Other accrued expenses	144,248	136,987
Taxes, licenses and fees payable	32,622	19,304
Payable for securities	1,150,579	-
Total liabilities	8,547,916	3,600,788
Surplus and other funds:		
Common stock, $1 par value, 10,000,000 shares authorized, 9,500,120 and 7,000,000 shares issued and outstanding at 2012 and 2011 respectively	9,500,120	7,000,000
Gross paid in and contributed surplus	1,199,880	-
Unassigned funds	(1,778,920)	(1,486,474)
Total surplus and other funds	8,921,080	5,513,526
Total liabilities, surplus and other funds	$ 17,468,996	$ 9,114,314

See accompanying notes to the statutory basis financial statements

MedMal Direct Insurance Company

Statements of Income - Statutory Basis

	Years ended December 31, 2012	2011
Underwriting income		
Premiums earned	$ 6,268,820	$ 2,148,063
Deductions:		
Losses incurred	2,821,216	1,000,391
Loss adjustment expenses incurred	1,252,873	444,618
Other underwriting expenses incurred	3,337,012	2,139,615
Total underwriting deductions	7,411,101	3,584,624
Net underwriting loss	(1,142,281)	(1,436,561)
Other income		
Net investment income	235,241	118,140
Net realized capital gains	311,057	-
Net investment gain	546,298	118,140
Other miscellaneous income	18,215	31,226
Total other income	564,513	149,366
Net loss	$ (577,768)	$ (1,287,195)

See accompanying notes to the statutory basis financial statements

MedMal Direct Insurance Company

Statements of Changes in Surplus - Statutory Basis

	Years ended December 31, 2012	2011
Surplus, beginning of year	$ 5,513,526	$ 5,001,205
Net income	(577,768)	(1,287,195)
Change in net deferred tax asset	268,645	438,248
Change in non-admitted assets	(188,143)	(156,536)
Change in unrealized capital gains	(28,515)	17,804
Issuance of common stock	2,500,120	1,500,000
Gross paid in and contributed surplus	1,199,880	-
Effect of new accounting pronouncement	233,335	-
Surplus, end of year	$ 8,921,080	$ 5,513,526

See accompanying notes to the statutory basis financial statements

MedMal Direct Insurance Company

Statements of Cash Flows - Statutory Basis

	Years ended December 31, 2012	2011
Cash flows from operating activities		
Premiums collected	$ 6,031,264	$ 3,112,512
Net investment income	243,620	121,909
Miscellaneous income	18,215	31,227
Benefits and loss related payments, net	(893,000)	-
Commissions, expenses, paid and aggregate write-ins for deductions	(3,966,763)	(2,218,180)
Net cash provided by operating activities	1,433,336	1,047,468
Cash flows from investing activities		
Proceeds from investments sold, matured, or repaid:		
Bonds	9,963,925	-
Stocks	1,792,685	-
Miscellaneous proceeds	1,150,579	-
Total investment proceeds	12,907,189	-
Cost of investments acquired (long-term only):		
Bonds	15,114,102	1,500,000
Stocks	2,568,410	600,263
Total investments acquired	17,682,512	2,100,263
Net cash used in investing activities	(4,775,323)	(2,100,263)
Cash flows from financing activities		
Capital and paid in surplus	3,700,000	1,500,000
Other cash applied	(162,978)	(25,661)
Net cash provided by financing activities	3,537,022	1,474,339
Net change in cash and short term investments	195,035	421,544
Cash and short term investments, beginning of period	3,281,168	2,859,624
Cash and short term investments, end of year	$ 3,476,203	$ 3,281,168

MedMal Direct Insurance Company

Notes to Statutory Basis Financial Statements

Years ended December 31, 2012 and 2011

Note A - Organization and Significant Accounting Policies

Organization
MedMal Direct Insurance Company ("the Company") was organized to provide medical professional liability insurance directly to physicians and surgeons of all specialties, corporations of physicians and surgeons and ancillary clinical personnel. The Company received its Certificate of Authority to write in the State of Florida on June 17, 2010. The Company is 100% owned by MedMal Direct Insurance Group, LLC ("Parent").

Basis of Reporting
For regulatory purposes, the Company prepares its statutory financial statements in accordance with accounting practices prescribed or permitted by the Florida Office of Insurance Regulation ("statutory basis"). Prescribed statutory accounting practices include a variety of publications of the National Association of Insurance Commissioners ("NAIC"), as well as state laws, regulations and general administrative rules. Permitted statutory accounting practices encompass all accounting practices not so prescribed. The NAIC Accounting Practices and Procedures Manual ("NAIC Statutory Accounting Practices") has been adopted as a component of prescribed or permitted practices by the Florida Office of Insurance Regulation ("FOIR"). There are no differences between statutory capital and surplus as presented in these financial statements as prescribed or permitted by the FOIR and NAIC Statutory Accounting Practices.

Statutory accounting practices vary from accounting principles generally accepted in the United States of America ("GAAP"). The more significant variances from GAAP are as follows:

- For statutory purposes, bonds are generally recorded at amortized cost pursuant to NAIC instructions. For GAAP, such securities are reported at fair value or amortized cost depending on their designation as trading, available-for-sale or held-to-maturity.
- Policy acquisition costs are charged to operations in the year such costs are incurred, rather than being deferred and amortized as premiums are earned over the terms of the policies as would be required under GAAP.
- Certain assets, including prepaid expenses, furniture and equipment, certain receivables and portions of the deferred income tax asset are non-admitted for statutory purposes. Changes in non-admitted assets are charged directly to surplus.
- Reserves for losses, loss adjustment expenses and unearned premiums ceded to reinsurers have been reported as reductions of the related reserves rather than as assets as would be required under GAAP.

Note A - Organization and Significant Accounting Policies (Continued)

- For statutory purposes, changes in deferred income taxes relating to temporary differences between net income for financial reporting purposes and taxable income are recognized as a separate component of gains and losses in surplus rather than included in income tax expense or benefit as would be required under GAAP.
- The statutory statement of cash flows does not classify cash flow consistent with GAAP, and a reconciliation of net income to net cash provided by operating activities is not included.

Use of Estimates
The preparation of statutory basis financial statements requires the Company to use estimates and assumptions that affect the reported amounts of admitted assets, liabilities, revenue and expenses, and disclosure of contingent assets and liabilities at the date of the statutory financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Investments
Investments are valued in accordance with the requirements of the NAIC. In general, bonds with NAIC designations of 1 or 2 are carried at amortized cost. Bonds with NAIC designations of 3 or greater are carried at the lower of cost or fair value. Common stock is carried at fair value based on quoted market prices with changes in fair value reflected as a direct credit or charge to surplus, net of tax. Interest income on bonds is recognized when earned; dividends are recorded when declared. Realized gains and losses on sales of invested assets are determined on the basis of specific identification.

When, in the opinion of management, a decline in the estimated fair value of an investment is considered to be other-than-temporary, the investment is written down to its estimated fair value as a realized loss. The determination of other-than-temporary declines in value includes, among other things, consideration of the nature of the individual issue and the severity and duration of the impairment. For the years ended December 31, 2012 and 2011, the Company did not determine any investments to be other than temporarily impaired.

Note A - Organization and Significant Accounting Policies (Continued)

Cash and Short Term Investments
Cash includes demand deposits and is carried at cost, which approximates fair value. Short term investments include money market funds and investments with maturities of less than one year at the date of acquisition, and are reported at amortized cost, which approximates fair value. The Federal Deposit Insurance Corporation ("FDIC") insures amounts on deposit with each financial institution up to limits as prescribed by law. The Company may hold funds with financial institutions in excess of the FDIC insured amount, however, the Company has not experienced any losses in such accounts and management believes it is not exposed to any significant credit risk on cash.

Guaranty Fund Assessments
The Company is subject to guaranty fund assessments from the State of Florida. The Company's policy is to recognize its obligations for these assessments when the Company has the information available to reasonably estimate its liabilities. Assessments are generally available for recoupment from policyholders; and as such, amounts assessed have been recorded as a recoverable asset. No assessments were charged to expense for the years ended December 31, 2012 and 2011.

Reinsurance
The Company relies on ceded reinsurance to limit its retained insurance risk as described further in Note B. In entering into reinsurance agreements, management considers a variety of factors including the creditworthiness of reinsurers. In preparing financial statements, management makes estimates of amounts receivable from reinsurers, which includes consideration of amounts, if any, estimated to be uncollectible based on an assessment of factors including an assessment of the creditworthiness of the reinsurers. Management has determined that no provision for uncollectible reinsurance is necessary as of December 31, 2012 and 2011.

Reinsurance contracts do not relieve the Company from its obligations to policyholders. The Company remains obligated for amounts ceded in the event that the reinsurers do not meet their obligations.

Liability for Losses and Loss Adjustment Expenses
The liabilities for losses and loss adjustment expenses ("LAE") represent the estimated ultimate cost of all reported and unreported losses that are unpaid as of the balance sheet date. Such amounts are estimated using individual case-basis valuations and statistical analyses, and are not discounted. Although considerable variability is inherent in such estimates, management believes that the recorded liabilities for losses and loss adjustment expenses are adequate. The methods for making such estimates and for establishing the resulting liabilities are continually reviewed and any adjustments are made as necessary. As adjustments to these estimates become necessary, such adjustments are reflected in current operations.

Note A - Organization and Significant Accounting Policies (Continued)

Premiums
Premiums written are earned ratably over the terms of the policies. Premiums written relating to the unexpired portion of policies in force at the balance sheet date are recorded as unearned premiums. Advance premiums represent cash received from policyholders related to policies that are not yet in effect.

If anticipated losses, loss adjustment expenses and maintenance costs exceed the recorded unearned premium reserve, a premium deficiency is recognized by recording an additional liability equal to the deficiency. The Company anticipates investment income as a factor in the assessment of premium deficiency reserves. No premium deficiency reserve has been recorded as of December 31, 2012 or 2011.

Income Taxes
The Company files separate, stand alone federal and state tax returns. Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between financial statement carrying values of existing assets and liabilities and their respective tax basis, as well as for various tax carryforwards. Gross deferred tax assets are reduced by non-admitted amounts, generally those expected to be realized beyond three years from the financial statement date. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. For statutory purposes, the change in the net deferred tax asset is credited or charged directly to surplus.

The Company has analyzed filing positions in the federal and state jurisdictions where it is required to file a tax return. The Company believes that its federal income tax filing positions and deductions will be sustained on audit and does not anticipate any adjustments that will result in a material change to its financial position. Therefore, no reserves for uncertain federal income tax positions have been recorded.

Subsequent Events
The Company has evaluated subsequent events for disclosure and recognition through May 28, 2013, the date on which these financial statements were available to be issued.

Note B - Insurance Activity

All of the premiums written by the Company are related to direct insured risks located within the State of Florida. Premium activity for the period is summarized as follows:

	Direct	Ceded	Net
2012			
Premiums written	$ 8,120,879	$ (301,373)	$ 7,819,506
Change in unearned premiums	(1,550,686)	-	(1,550,686)
Premiums earned	$ 6,570,193	$ (301,373)	$ 6,268,820

	Direct	Ceded	Net
2011			
Premiums written	$ 3,667,475	$ (250,000)	$ 3,417,475
Change in unearned premiums	(1,269,412)	-	(1,269,412)
Net premiums earned	$ 2,398,063	$ (250,000)	$ 2,148,063

Activity in the liability for losses and LAE is summarized as follows:

	2012	2011
Net balance, beginning of year	$ 1,398,309	$ 150,592
Add provision for claims, net of reinsurance		
Incurred related to:		
Current year	4,112,089	1,440,009
Prior years	(38,000)	5,000
Total incurred during the year	4,074,089	1,445,009
Deduct payments for claims, net of reinsurance		
Paid related to:		
Current year	1,300,000	143,000
Prior years	243,327	54,292
Total paid	1,543,327	197,292
Net balance, end of year	$ 3,929,071	$ 1,398,309

The estimate of the liability for losses and loss adjustment expenses is subject to change based on the future dynamics of each individual claim until said claim is closed. As a result of changes in estimates and insured events in prior years, the net loss and loss adjustment expenses incurred decreased by $38,000 and increased $5,000 in 2012 and 2011, respectively, due to refinements to prior years' ultimate loss projections.

Note B - Insurance Activity (Continued)

The components of the liability for losses and LAE are as follows:

	2012	2011
Case-basis reserves	$ 1,245,703	$ 123,244
Supplemental reserves	2,683,368	1,275,065
	$ 3,929,071	$ 1,398,309

During 2011, the Company purchased excess of loss reinsurance coverage from private reinsurers in order to limit its financial exposure to large claims. The treaty period covers claims made from March 1, 2011 through March 1, 2014. Under the per risk coverage, the reinsurers shall pay up to $750,000 per loss, per insured, in excess of $250,000. Under the clash coverage, the reinsurers shall pay up to $500,000 per loss occurrence, in excess of $500,000 per loss occurrence. Each loss occurrence under the clash coverage provision must be comprised of at least three insureds. The reinsurance treaty provides for adjustable premiums based on ceded losses. Management periodically re-evaluates ceded premiums based on ceded incurred losses. Such adjustments are recorded in the period when they become known. There were no ceded incurred losses during the years ended December 31, 2012 and 2011.

Note C - Investments

The amortized cost, gross unrealized gains, gross unrealized losses and fair value of investments as of December 31, are summarized as follows:

2012	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Bonds:				
Political subdivisions of states, territories, and possessions	$ 4,736,026	$ 1,902	$ (67,283)	$ 4,670,645
Bank certificate of deposits	3,496,000	-	-	3,496,000
Industrial and miscellaneous	1,297,900	12,995	(3,508)	1,307,387
Total bonds	$ 9,529,926	$ 14,897	$ (70,791)	$ 9,474,032
Mutual funds	$ 1,671,485	$ 14,950	$ (36,008)	$ 1,650,427
Common stocks	$ 1,671,485	$ 14,950	$ (36,008)	$ 1,650,427

Note C - Investments (Continued)

2011	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Bonds:				
Special revenue	$ 204,082	$ 708	$ -	$ 204,790
Bank certificate of deposits	3,996,000	-	-	3,996,000
Total bonds	$ 4,200,082	$ 708	$ -	$ 4,200,790
Common stocks	$ 780,505	$ 46,440	$ (11,057)	$ 815,888

The summary of the amortized cost and fair value of the Company's investment in bonds at December 31, 2012 by contractual maturity, is shown below:

	Amortized Cost	Fair Value
Maturity:		
In 2014-2017	$ 973,852	$ 979,134
In 2018-2022	2,832,274	2,839,987
Exchange-traded funds	5,723,800	5,654,911
Total bonds	$ 9,529,926	$ 9,474,032

The actual maturities may differ from contractual maturities because certain borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

Proceeds from sales of bonds during 2012 were $9,963,925; gross gains of $195,801 and gross losses $0 were realized on those transactions. No bonds were sold during 2011.

Proceeds from sales of common stock during 2012 were $1,792,685; gross gains of $115,256 and gross losses $0 were realized on those transactions. No common stocks were sold during 2011.

At December 31, 2012 and 2011, restricted investments held by the Company had carrying values totaling $250,000. Restricted investments represent funds held on deposit with state insurance departments to satisfy regulatory requirements.

Note C - Investments (Continued)

The following table shows the fair value and gross unrealized losses aggregated by investment category and length of time securities have been in a continuous unrealized loss position, as of December 31:

2012	Less than 12 Months		12 Months or More	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Political subdivisions of states, territories, and possessions	$ 3,931,427	$ (67,283)	$ -	$ -
Industrial and miscellaneous	488,679	(3,508)	-	-
Total bonds	$ 4,420,106	$ (70,791)	$ -	$ -
Mutual funds	$ 910,460	$ (36,008)	$ -	$ -
Common stocks	$ 910,460	$ (36,008)	$ -	$ -

2011	Less than 12 Months		12 Months or More	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Common stocks	$ 20,850	$ (11,057)	$ -	$ -

Major categories of the Company's net investment income for the years ended December 31, 2012 and 2011, are summarized as follows:

	2012	2011
Bonds	$ 68,273	$ 1,155
Common stocks	67,126	16,027
Cash and short term investments	99,907	100,958
Gross investment income	235,306	118,140
Investment expenses	(65)	-
Net investment income	$ 235,241	$ 118,140

Note C - Investments (Continued)

The Company's estimates of fair value for financial assets are based on the framework established by SSAP No. 100 - Fair Value Measurements in the Fair Value Measurements and Disclosures accounting guidance. The framework gives the highest ranking to fair values determined using unadjusted quoted prices in active markets for identical assets and liabilities (Level 1) and the lowest ranking to fair values determined using methodologies and models with unobservable inputs (Level 3). An asset's classification is based on the lowest level input that is significant to its measurement. For example, a Level 3 fair value measurement may include inputs that are both observable (Levels 1 and 2) and unobservable (Level 3). The levels of the fair value hierarchy are as follows:

Level 1 – Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities traded in active markets.

Level 2 – Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability and market-corroborated inputs.

Level 3 – Inputs to the valuation methodology are unobservable for the asset or liability and are significant to the fair value measurement.

The Company discloses and consistently follows its policy for determining when transfers between levels are recognized. The policy about the timing of recognizing transfers is the same for transfers into the levels as that for transfers out of the levels. The Company recognizes transfers between levels at the end of the reporting period. There were no transfers between levels during the years ended December 31, 2012 and 2011.

The following shows how the Company's investments are categorized in accordance with SSAP No. 100, as of December 31:

2012	Level 1	Level 2	Level 3	Total
Assets at fair value:				
Cash and short term investments	$ 3,476,203	$ -	$ -	$ 3,476,203
Bonds	9,150,911	323,121	-	9,474,032
Common stocks	1,650,427	-	-	1,650,427
Total assets at fair value	$ 14,277,541	$ 323,121	$ -	$ 14,600,662

Note C - Investments (Continued)

2011	Level 1	Level 2	Level 3	Total
Assets at fair value:				
Cash	$ 3,281,168	$ -	$ -	$ 3,281,168
Bonds	-	4,200,790	-	4,200,790
Common stocks	815,888	-	-	815,888
Total assets at fair value	$ 4,097,056	$ 4,200,790	$ -	$ 8,297,846

Note D - Federal Income Taxes

The Company did not incur any provision for federal income taxes during 2012 or 2011 due to incurring a tax-basis loss. The provision for federal income taxes incurred is different from that which would be obtained by applying the federal income tax rate to statutory income before income taxes. The items causing this difference relate primarily to the change in non-admitted assets and tax exempt interest.

The components of net deferred tax assets ("DTA's") and deferred tax liabilities ("DTL's") by tax character at December 31, are as follows:

	December 31, 2012			December 31, 2011		
	Ordinary	Capital	Total	Ordinary	Capital	Total
Gross deferred tax assets	$ 952,186	$ 10,786	$ 962,972	$ 654,290	$ -	$ 654,290
Deferred tax assets non-admitted	58,173	-	58,173	233,335	-	233,335
Total deferred tax assets admitted	894,013	10,786	904,799	420,955	-	420,955
Deferred tax liabilities	25,406	-	25,406	8,724	12,031	20,755
Net admitted deferred tax asset	$ 868,607	$ 10,786	$ 879,393	$ 412,231	$ (12,031)	$ 400,200

Note D - Federal Income Taxes (Continued)

After the Company calculated the amount of its gross deferred tax assets and deferred tax liabilities, it applied the gross deferred tax admissibility test to determine the amount of deferred tax asset that could be admitted under statutory accounting principles. At December 31, 2011, the Company calculated its admitted deferred tax asset under Statement of Statutory Accounting Principles ("SSAP") No. 10R. At December 31, 2012, the Company calculated its admitted deferred tax asset under SSAP No. 101. The new guidance revises the admissibility requirements for deferred taxes. A cumulative effect adjustment of $233,335 was made to surplus to reflect the cumulative effect change in accounting principle. The amount of each result or component of the Company's admissibility calculation at December 31 is as follows:

	2012	2011
Available for recovery from loss carrybacks	$ -	$ -
The lesser of:		
Expected to be realized following the balance sheet date	879,393	517,035
Allowed per limitation threshold	1,206,253	400,200
Adjusted gross DTA's offset against existing DTL's	25,406	20,755

The ratio and amount of adjusted capital and surplus used to determine the recovery period and threshold limitation are as follows:

	December 31, 2012
Ratio % used to determine recovery period and threshold limitation amount	464 %
Amount of adjusted capital and surplus used to determine recovery period and threshold limitation amount	$ 8,041,687

Note D - Federal Income Taxes (Continued)

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

	2012	2011
Deferred tax assets:		
Discounting of unpaid losses and LAE	$ 123,865	$ 51,229
Unearned premiums	290,863	161,666
Net operating loss carryforward	473,320	441,395
Non-admitted assets	64,138	-
Unrealized capital losses	10,786	-
Total deferred tax assets	962,972	654,290
Non-admitted deferred tax assets	(58,173)	(233,335)
Admitted deferred tax asset	904,799	420,955
Deferred tax liabilities:		
Fixed assets	9,288	-
Unrealized capital gains	-	12,031
Other	16,118	8,724
Total deferred tax liability	25,406	20,755
Net admitted deferred tax asset	$ 879,393	$ 400,200

The change in net deferred income taxes comprises the following, before consideration of non-admitted deferred tax assets:

	2012	2011	Change
Total deferred tax assets	$ 962,972	$ 654,290	$ 308,682
Total deferred tax liabilities	(25,406)	(20,755)	(4,651)
Net deferred tax asset	$ 937,566	$ 633,535	$ 304,031
Tax effect of unrealized gain			(35,386)
Change in net deferred income tax			$ 268,645

As of December 31, 2012, the Company had $1,392,116 of net operating loss available to offset future taxable income that will begin to expire in 2031.

Tax years 2010 through 2012 remain subject to examination by the IRS.

Note E - Related Party Transactions

During 2012 and 2011, the Company received $3,700,000 and $1,500,000, respectively, in capital contributions from its Parent. In addition, the Company and Parent are parties to a service agreement dated June 11, 2010. Under the agreement, the Parent is to provide personnel to perform certain services including, but not limited to, sales and marketing, corporate accounting, and various other operational services on behalf of the Company.

In exchange for the services provided, the Parent is reimbursed for all compensation and personnel related costs incurred. In addition, the Parent receives, as compensation, a percentage of the compensation and personnel costs incurred for the year which are considered service fees.

	2012	2011
Reimbursement of personnel costs	$ 1,932,948	$ 1,289,847
Service fees	269,445	192,592
Total	$ 2,202,393	$ 1,482,439

Note F - Leases

Effective August 1, 2012, the Company entered into a new lease agreement for office space and facilities. Effective July 1, 2010, the Company entered into a lease agreement for office space. Rent expense was $143,512 and $126,621 for the years ended December 31, 2012 and 2011, respectively. The Company's approximate future minimum lease payments under the new agreement are as follows:

2013	$ 143,217
2014	143,217
2015	143,217
2016	143,217
2017	83,544
Total	$ 656,412

The Company subleased office space to an unaffiliated party effective August 1, 2010. Rental income related to the sublease agreement was $18,215 and $31,226 for the years ended December 31, 2012 and 2011, respectively. The sublease agreement held by the Company is no longer in effect.

Note G - Commitments and Contingencies

The Company is subject to claims and lawsuits that arise in the ordinary course of business, consisting principally of claims regarding insurance coverage. It is management's opinion, after consultation with counsel and review of the facts, that it is improbable that the ultimate liability, if any, arising from such contingencies will have a material adverse effect on the Company's financial position, results of operations or cash flows.

The Company is subject to guaranty fund assessments and other assessments by the state in which it writes business. Guaranty fund assessments should be accrued at the time of insolvencies and when sufficient information is available to estimate the Company's liability. Other assessments should be accrued at the time of assessments or in the case of premium based assessments, at the time the premiums were written, or, in the case of loss bases assessments, at the time the losses are incurred. The Company did not have a guaranty fund assessments liability at December 31, 2012 or 2011.

Note H - Capital and Surplus and Other Regulatory Requirements

The maximum amount of dividends which can be paid without prior approval of the FOIR is subject to restrictions relating to statutory surplus. For the years ended December 31, 2012 and 2011, no dividends were declared or paid to shareholders.

Per statute, the Company is required to maintain a minimum surplus of the greater of $4 million or 10% of total liabilities. The Company was in compliance at December 31, 2012 and 2011.

The Company is subject to a risk-based capital ("RBC") requirement as specified by the NAIC. Under this requirement, RBC is calculated by applying factors to various assets, liabilities and premium amounts. The capital requirements are higher for those items with greater underlying risk, and correspondingly lower as the risk level decreases. The adequacy of an insurer's statutory capital and surplus is measured against the RBC as determined by formula. Regulators use the RBC calculations in the monitoring of the Company. At December 31, 2012 and 2011, the Company's RBC ratio was in excess of all action levels.

Note I - Reconciliation to Annual Statement

There are certain reconciling items between the statutory basis financial statements and the annual statements of the Company for 2011. The differences in the statutory statement of admitted assets, liabilities and capital and surplus, and the statutory statement of income result from adjustments made to record certain reinsurance-related balances in accordance with statutory accounting principles. The following table summarizes the differences for:

2011:	Annual Statement	Difference	As reported herein
Statutory statement of admitted assets, liabilities,and capital and surplus:			
Unearned premiums	$ 1,959,048	$ 220,000	$ 2,179,048
Unassigned funds	(1,266,473)	(220,000)	(1,486,474)
Statutory statement of income:			
Premiums earned	2,368,063	(220,000)	2,148,063
Net loss	(1,067,195)	(220,000)	(1,287,195)

MedMal Direct Insurance Company

Other Financial Information

SUMMARY INVESTMENT SCHEDULE

	Gross Investment Holdings		Admitted Assets as Reported in the Annual Statement			
	1	2	3	4	5	6
Investment Categories	Amount	Percentage	Amount	Securities Lending Reinvested Collateral Amount	Total (Col. 3 + 4) Amount	Percentage
1. Bonds:						
1.1 U.S. treasury securities		0.0			0	0.0
1.2 U.S. government agency obligations (excluding mortgage-backed securities):						
1.21 Issued by U.S. government agencies		0.0			0	0.0
1.22 Issued by U.S. government sponsored agencies		0.0			0	0.0
1.3 Non-U.S. government (including Canada, excluding mortgage-backed securities)		0.0			0	0.0
1.4 Securities issued by states, territories and possessions and political subdivisions in the U.S.:						
1.41 States, territories and possessions general obligations	4,736,026	32.3	4,736,026		4,736,026	32.3
1.42 Political subdivisions of states, territories and possessions and political subdivisions general obligations		0.0			0	0.0
1.43 Revenue and assessment obligations		0.0			0	0.0
1.44 Industrial development and similar obligations		0.0			0	0.0
1.5 Mortgage-backed securities (includes residential and commercial MBS):						
1.51 Pass-through securities:						
1.511 Issued or guaranteed by GNMA		0.0			0	0.0
1.512 Issued or guaranteed by FNMA and FHLMC		0.0			0	0.0
1.513 All other		0.0			0	0.0
1.52 CMOs and REMICs:						
1.521 Issued or guaranteed by GNMA, FNMA, FHLMC or VA		0.0			0	0.0
1.522 Issued by non-U.S. Government issuers and collateralized by mortgage-based securities issued or guaranteed by agencies shown in Line 1.521		0.0			0	0.0
1.523 All other		0.0			0	0.0
2. Other debt and other fixed income securities (excluding short-term):						
2.1 Unaffiliated domestic securities (includes credit tenant loans and hybrid securities)	4,793,900	32.7	4,793,900		4,793,900	32.7
2.2 Unaffiliated non-U.S. securities (including Canada)		0.0			0	0.0
2.3 Affiliated securities		0.0			0	0.0
3. Equity interests:						
3.1 Investments in mutual funds		0.0			0	0.0
3.2 Preferred stocks:						
3.21 Affiliated		0.0			0	0.0
3.22 Unaffiliated	1,650,428	11.3	1,650,428		1,650,428	11.3
3.3 Publicly traded equity securities (excluding preferred stocks):						
3.31 Affiliated		0.0			0	0.0
3.32 Unaffiliated		0.0			0	0.0
3.4 Other equity securities:						
3.41 Affiliated		0.0			0	0.0
3.42 Unaffiliated		0.0			0	0.0
3.5 Other equity interests including tangible personal property under lease:						
3.51 Affiliated		0.0			0	0.0
3.52 Unaffiliated		0.0			0	0.0
4. Mortgage loans:						
4.1 Construction and land development		0.0			0	0.0
4.2 Agricultural		0.0			0	0.0
4.3 Single family residential properties		0.0			0	0.0
4.4 Multifamily residential properties		0.0			0	0.0
4.5 Commercial loans		0.0			0	0.0
4.6 Mezzanine real estate loans		0.0			0	0.0
5. Real estate investments:						
5.1 Property occupied by company		0.0			0	0.0
5.2 Property held for production of income (including $..........0 of property acquired in satisfaction of debt)		0.0			0	0.0
5.3 Property held for sale (including $.........0 property acquired in satisfaction of debt)		0.0			0	0.0
6. Contract loans		0.0			0	0.0
7. Derivatives		0.0			0	0.0
8. Receivables for securities		0.0			0	0.0
9. Securities lending (Line 10, Asset Page reinvested collateral)		0.0		XXX	XXX	XXX
10. Cash, cash equivalents and short-term investments	3,476,204	23.7	3,476,204		3,476,204	23.7
11. Other invested assets		0.0			0	0.0
12. Total invested assets	14,656,558	100.0	14,656,558	0	14,656,558	100.0

SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES

For the year ended December 31, 2012

(To be filed by April 1)

Of MedMal Direct Insurance Company

Address (City, State, Zip Code): Jacksonville FL 32202

NAIC Group Code.....0 NAIC Company Code.....13793 Employer's ID Number.....27-2813188

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

Answer the following interrogatories by reporting the applicable U.S. dollar amounts and percentages of the reporting entity's total admitted assets held in that category of investments.

1. Reporting entity's total admitted assets as reported on Page 2 of this annual statement. $........17,468,994

2. Ten largest exposures to a single issuer/borrower/investment.

	1 Issuer	2 Description of Exposure	3 Amount	4 Percentage of Total Admitted Assets
2.01	SPDR NUVEEN BARCLAYS MUNICIPAL BOND ETF	Bond ETF	$........1,999,992	............11.449 %
2.02	ISHARES S&P NATIONAL AMT-FREE MUNICIPAL BOND FUND	Bond ETF	$........1,998,718	............11.442 %
2.03	Merrill Lynch	Cash	$........1,707,742	..............9.776 %
2.04	FirstAtlantic Bank	Cash	$........1,265,896	..............7.247 %
2.05	SPDR NUVEEN S AND P HIGH YIELD MUNICIPAL BOND FUND	Bond ETF	$...........587,570	..............3.364 %
2.06	ISHARES IBOXX $ INVT GRADE CORP BD FUND	Bond ETF	$...........492,187	..............2.817 %
2.07	POWERSHARES PREFERRED PORTFOLIO	Common Stock	$...........250,793	..............1.436 %
2.08	Florida Bank CD 2.23% matures 08/27/13.	Bond	$...........250,000	..............1.431 %
2.09	EverBank CD 2.71% matures 08/30/15.....	Bond	$...........250,000	..............1.431 %
2.10	Synovus Bank of Jacksonville CD 2.08% matures 08/30/13	Bond	$...........250,000	..............1.431 %

3. Amounts and percentages of the reporting entity's total admitted assets held in bonds and preferred stocks by NAIC rating.

	Bonds	1	2
3.01	NAIC-1	$........7,854,582	............44.963 %
3.02	NAIC-2	$...........592,187	..............3.390 %
3.03	NAIC-3	$...........587,570	..............3.364 %
3.04	NAIC-4	$...........495,587	..............2.837 %
3.05	NAIC-5	$........................	..............0.000 %
3.06	NAIC-6	$........................	..............0.000 %
	Preferred Stocks	3	4
3.07	P/RP-1	$........................	..............0.000 %
3.08	P/RP-2	$........................	..............0.000 %
3.09	P/RP-3	$........................	..............0.000 %
3.10	P/RP-4	$........................	..............0.000 %
3.11	P/RP-5	$........................	..............0.000 %
3.12	P/RP-6	$........................	..............0.000 %

4. Assets held in foreign investments:

4.01 Are assets held in foreign investments less than 2.5% of the reporting entity's total admitted assets? Yes [X] No [ ]

If response to 4.01 above is yes, responses are not required for interrogatories 5-10.

4.02	Total admitted assets held in foreign investments	$........................	..............0.000 %
4.03	Foreign-currency-denominated investments	$........................	..............0.000 %
4.04	Insurance liabilities denominated in that same foreign currency	$........................	..............0.000 %

5. Aggregate foreign investment exposure categorized by NAIC sovereign rating:

		1	2
5.01	Countries rated NAIC-1	$........................	..............0.000 %
5.02	Countries rated NAIC-2	$........................	..............0.000 %
5.03	Countries rated NAIC-3 or below	$........................	..............0.000 %

6. Largest foreign investment exposures by country, categorized by the country's NAIC sovereign rating:

		1	2
	Countries rated NAIC-1:		
6.01	Country 1:	$........................	..............0.000 %
6.02	Country 2:	$........................	..............0.000 %
	Countries rated NAIC-2:		
6.03	Country 1:	$........................	..............0.000 %
6.04	Country 2:	$........................	..............0.000 %
	Countries rated NAIC-3 or below:		
6.05	Country 1:	$........................	..............0.000 %
6.06	Country 2:	$........................	..............0.000 %

		1	2
7.	Aggregate unhedged foreign currency exposure	$........................	..............0.000 %

8. Aggregate unhedged foreign currency exposure categorized by NAIC sovereign rating:

		1	2
8.01	Countries rated NAIC-1	$........................	..............0.000 %
8.02	Countries rated NAIC-2	$........................	..............0.000 %
8.03	Countries rated NAIC-3 or below	$........................	..............0.000 %

9. Largest unhedged foreign currency exposures by country, categorized by the country's NAIC sovereign rating:

		1	2
	Countries rated NAIC-1:		
9.01	Country 1:	$	0.000 %
9.02	Country 2:	$	0.000 %
	Countries rated NAIC-2:		
9.03	Country 1:	$	0.000 %
9.04	Country 2:	$	0.000 %
	Countries rated NAIC-3 or below:		
9.05	Country 1:	$	0.000 %
9.06	Country 2:	$	0.000 %

10. Ten largest non-sovereign (i.e. non-governmental) foreign issues:

	1 Issuer	2 NAIC Rating	3	4
10.01			$	0.000 %
10.02			$	0.000 %
10.03			$	0.000 %
10.04			$	0.000 %
10.05			$	0.000 %
10.06			$	0.000 %
10.07			$	0.000 %
10.08			$	0.000 %
10.09			$	0.000 %
10.10			$	0.000 %

11. Amounts and percentages of the reporting entity's total admitted assets held in Canadian investments and unhedged Canadian currency exposure:

11.01 Are assets held in Canadian investments less than 2.5% of the reporting entity's total admitted assets? Yes [X] No [ ]

If response to 11.01 is yes, detail is not required for the remainder of Interrogatory 11.

11.02	Total admitted assets held in Canadian Investments	$	0.000 %
11.03	Canadian currency-denominated investments	$	0.000 %
11.04	Canadian-denominated insurance liabilities	$	0.000 %
11.05	Unhedged Canadian currency exposure	$	0.000 %

12. Report aggregate amounts and percentages of the reporting entity's total admitted assets held in investments with contractual sales restrictions.

12.01 Are assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets? Yes [X] No [ ]

If response to 12.01 is yes, responses are not required for the remainder of Interrogatory 12.

	1	2	3
12.02	Aggregate statement value of investments with contractual sales restrictions	$	0.000 %
	Largest three investments with contractual sales restrictions:		
12.03		$	0.000 %
12.04		$	0.000 %
12.05		$	0.000 %

13. Amounts and percentages of admitted assets held in the ten largest equity interests:

13.01 Are assets held in equity interest less than 2.5% of the reporting entity's total admitted assets? Yes [ ] No [X]

If response to 13.01 above is yes, responses are not required for the remainder of Interrogatory 13.

	1 Name of Issuer	2	3
13.02	POWERSHARES PREFERRED PORTFOLIO	$ 250,793	1.436 %
13.03	MARKET VECTORS ETF TR GOLD MINERS ETF	$ 236,682	1.355 %
13.04	ISHARES DOW JONES INDUSTRIAL SELECT DIVIDEND INDEX FUND	$ 207,407	1.187 %
13.05	ISHARES FTSE NAREIT REAL ESTATE FUND	$ 198,941	1.139 %
13.06	VANGUARD DIVIDEND APPRECIATION ETF	$ 198,905	1.139 %
13.07	WISDOMTREE L/C DIVIDEND FD	$ 196,966	1.128 %
13.08	ISHARES S&P GLOBAL TELECOMMUNICATIONS SECTOR INDEX FUND	$ 191,119	1.094 %
13.09	MAINSTAY MARKETFIELD	$ 169,615	0.971 %
13.10		$	0.000 %
13.11		$	0.000 %

14. Amounts and percentages of the reporting entity's total admitted assets held in nonaffiliated, privately placed equities:

14.01 Are assets held in nonaffiliated, privately placed equities less than 2.5% of the reporting entity's total admitted assets? Yes [X] No [ ]

If response to 14.01 above is yes, responses are not required for the remainder of Interrogatory 14.

	1	2	3
14.02	Aggregate statement value of investments held in nonaffiliated, privately placed equities	$	0.000 %
	Largest three investments held in nonaffiliated, privately placed equities:		
14.03		$	0.000 %
14.04		$	0.000 %
14.05		$	0.000 %

15. Amounts and percentages of the reporting entity's total admitted assets held in general partnership interests:

15.01 Are assets held in general partnership interests less than 2.5% of the reporting entity's total admitted assets? Yes [X] No [ ]

If response to 15.01 above is yes, responses are not required for the remainder of Interrogatory 15.

	1	2	3
15.02	Aggregate statement value of investments held in general partnership interests	$	0.000 %
	Largest three investments in general partnership interests:		
15.03		$	0.000 %
15.04		$	0.000 %
15.05		$	0.000 %

16. Amounts and percentages of the reporting entity's total admitted assets held in mortgage loans:

16.01 Are mortgage loans reported in Schedule B less than 2.5% of the reporting entity's total admitted assets? Yes [X] No [ ]

If response to 16.01 above is yes, responses are not required for the remainder of Interrogatory 16 and Interrogatory 17.

	1 Type (Residential, Commercial, Agricultural)	2	3
16.02		$	0.000 %
16.03		$	0.000 %
16.04		$	0.000 %
16.05		$	0.000 %
16.06		$	0.000 %
16.07		$	0.000 %
16.08		$	0.000 %
16.09		$	0.000 %
16.10		$	0.000 %
16.11		$	0.000 %

Amount and percentage of the reporting entity's total admitted assets held in the following categories of mortgage loans:

	Loans	
16.12 Construction loans	$	0.000 %
16.13 Mortgage loans over 90 days past due	$	0.000 %
16.14 Mortgage loans in the process of foreclosure	$	0.000 %
16.15 Mortgage loans foreclosed	$	0.000 %
16.16 Restructured mortgage loans	$	0.000 %

17. Aggregate mortgage loans having the following loan-to-value ratios as determined from the most current appraisal as of the annual statement date:

Loan-to-Value	Residential 1	2	Commercial 3	4	Agricultural 5	6
17.01 above 95%	$	0.000 %	$	0.000 %	$	0.000 %
17.02 91% to 95%	$	0.000 %	$	0.000 %	$	0.000 %
17.03 81% to 90%	$	0.000 %	$	0.000 %	$	0.000 %
17.04 71% to 80%	$	0.000 %	$	0.000 %	$	0.000 %
17.05 below 70%	$	0.000 %	$	0.000 %	$	0.000 %

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

18.01 Are assets held in real estate reported less than 2.5% of the reporting entity's total admitted assets? Yes [X] No [ ]

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

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

	Description	2	3
18.02		$	0.000 %
18.03		$	0.000 %
18.04		$	0.000 %
18.05		$	0.000 %
18.06		$	0.000 %

19. Report aggregate amounts and percentages of the reporting entity's total admitted assets held in investments held in mezzanine real estate loans.

19.01 Are assets held in investments held in mezzanine real estate loans less than 2.5% of the reporting entity's admitted assets? Yes [X] No [ ]

If response to 19.01 is yes, responses are not required for the remainder of Interrogatory 19.

1	2	3
19.02 Aggregate statement value of investments held in mezzanine real estate loans	$	0.000 %
Largest three investments held in mezzanine real estate loans:		
19.03	$	0.000 %
19.04	$	0.000 %
19.05	$	0.000 %

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

	At Year-End 1	2	At End of Each Quarter 1st Qtr 3	2nd Qtr 4	3rd Qtr 5
20.01 Securities lending agreements (do not include assets held as collateral for such transactions)	$	0.000 %	$	$	$
20.02 Repurchase agreements	$	0.000 %	$	$	$
20.03 Reverse repurchase agreements	$	0.000 %	$	$	$
20.04 Dollar repurchase agreements	$	0.000 %	$	$	$
20.05 Dollar reverse repurchase agreements	$	0.000 %	$	$	$

21. Amounts and percentages of the reporting entity's total admitted assets for warrants not attached to other financial instruments, options, caps and floors:

	Owned 1	2	Written 3	4
21.01 Hedging	$	0.000 %	$	0.000 %
21.02 Income generation	$	0.000 %	$	0.000 %
21.03 Other	$	0.000 %	$	0.000 %

22. Amounts and percentages of the reporting entity's total admitted assets of potential exposure for collars, swaps, and forwards:

	At Year-End 1	2	At End of Each Quarter 1st Qtr 3	2nd Qtr 4	3rd Qtr 5
22.01 Hedging	$	0.000 %	$	$	$
22.02 Income generation	$	0.000 %	$	$	$
22.03 Replications	$	0.000 %	$	$	$
22.04 Other	$	0.000 %	$	$	$

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

	At Year-End		At End of Each Quarter		
			1st Qtr	2nd Qtr	3rd Qtr
	1	2	3	4	5
23.01 Hedging	$	0.000 %	$	$	$
23.02 Income generation	$	0.000 %	$	$	$
23.03 Replications	$	0.000 %	$	$	$
23.04 Other	$	0.000 %	$	$	$