

REPORT ON EXAMINATION
OF
AMERICAN COASTAL INSURANCE
COMPANY
DAVIE, FLORIDA

AS OF
DECEMBER 31, 2010

BY THE
FLORIDA OFFICE OF INSURANCE REGULATION

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December 09, 2011

Kevin M. McCarty
Commissioner
Office of Insurance Regulation
State of Florida
Tallahassee, Florida 32399-0326

Dear Sir:

Pursuant to your instructions, in compliance with Section 624.316, Florida Statutes, and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted an examination as of December 31, 2010, of the financial condition and corporate affairs of:

**AMERICAN COASTAL INSURANCE COMPANY
351 SW 136TH AVENUE, SUITE 201
DAVIE, FLORIDA 33325**

Hereinafter referred to as, the "Company". Such report of examination is herewith respectfully submitted.

SCOPE OF EXAMINATION

This examination covered the period of January 1, 2010, through December 31, 2010. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2009. This examination commenced with planning at the Office on October 3, 2011, to October 7, 2011. The fieldwork commenced on October 17, 2011, and concluded as of December 09, 2011.

This financial examination was a statutory financial examination conducted in accordance with the Financial Condition Examiners Handbook, Accounting Practices and Procedures Manual and annual statement instructions promulgated by the NAIC as adopted by Rules 69O-137.001(4) and 69O-138.001, Florida Administrative Code, with due regard to the statutory requirements of the insurance laws and rules of the State of Florida.

The Financial Condition Examiners Handbook requires that the examination be planned and performed to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation and management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations. All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

This report of examination is confined to significant adverse findings, a material change in the financial statements or other information of regulatory significance or requiring regulatory action.

The report comments on matters that involved departures from laws, regulations or rules, or which were deemed to require special explanation or description.

SUMMARY OF SIGNIFICANT FINDINGS

Current Exam Findings

There were no material findings or exceptions noted during the examination as of December 31, 2010.

Prior Exam Findings

There were no findings, exceptions, or corrective action to be taken by the Company for the examination as of December 31, 2009.

SUBSEQUENT EVENTS

On August, 17, 2011, the Company authorized and declared a dividend to their parent company, AmCo Holding Company, in the amount of \$10,800,000.

HISTORY

General

The Company was incorporated in Florida and commenced business on June 01, 2007, as American Coastal Insurance Company.

- The Company was party to Consent Order 89919-07-CO, filed May 23, 2007, regarding the application for the issuance of a Certificate of Authority. The Company was in compliance with the consent order.

The Company was authorized to transact the following insurance coverage in Florida on December 31, 2010:

Homeowners Multi Peril	Fire
Commercial Multi Peril	Allied Lines
	Inland Marine

Subsequent Event: The Company had the Homeowners Multi Peril line removed on July 1, 2011.

The Articles of Incorporation and the Bylaws were not amended during the period covered by this examination.

Dividends to Stockholders

The Company did not declare or pay any dividends during the period of this examination.

Capital Stock and Capital Contributions

As of December 31, 2010, the Company's capitalization was as follows:

Number of authorized common capital shares	100,000
Number of shares issued and outstanding	100
Total common capital stock	\$100
Par value per share	\$1.00

Control of the Company was maintained by its parent, AmCo Holding Company, who owned 100% of the stock issued by the Company, who in turn was 100% owned by BB&T Corporation, a Delaware corporation.

Surplus Debentures

The Company did not have any surplus debentures during the period of this examination.

Acquisitions, Mergers, Disposals, Dissolutions, and Purchase or Sales Through Reinsurance

The Company had no acquisitions, mergers, disposals, and purchase or sales through reinsurance during the period of this examination.

CORPORATE RECORDS

The recorded minutes of the Shareholder, Board of Directors (Board) and certain internal committees were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions and events, in compliance with the NAIC Financial Condition Examiners Handbook adopted by Rule 69O-138.001, Florida Administrative Code, including the authorization of investments as required by Section 625.304, Florida Statutes.

Conflict of Interest

The Company adopted a policy statement requiring annual disclosure of conflicts of interest in accordance with the NAIC Financial Condition Examiners Handbook adopted by Rule 69O-138.001, Florida Administrative Code.

MANAGEMENT AND CONTROL

Management

The annual shareholder meeting for the election of directors was held in accordance with Section 628.231, Florida Statutes. Directors serving as of December 31, 2010, were:

Name and Location	Principal Occupation
Henry W. Reece Raleigh, North Carolina	Chairman & CEO BB&T Insurance Services, Inc.
Robert D. Peed Houston, Texas	President AmRisc, LP
Timothy P. Singletary Houston, Texas	President American Coastal Insurance Company
David M. Pruett Mt. Airy, North Carolina	Chief Administrative Officer BB&T Insurance Services, Inc.
Andrea L. Holder Raleigh, North Carolina	Treasurer & Chief Financial Officer BB&T Insurance Services, Inc.

The Board in accordance with the Company's bylaws appointed the following senior officers:

Name	Title
Henry W. Reece	Chairman
Robert D. Peed	Chief Executive Officer
David M. Pruett	Vice Chairman/Secretary
Timothy P. Singletary	President
Andrea L. Holder	Vice President/Chief Financial Officer

The officers spend limited time onsite at the Davie, Florida location. The average amount of time spent at the Davie, Florida location by all of the officers is estimated by the Company as 25%.

The Company's officers operate the Company from other affiliated company locations and travel to the Davie, Florida location only on a limited, as needed basis.

The Company's Board appointed several internal committees in accordance with Section 607.0825, Florida Statutes. Following were the principal internal board committees and their members as of December 31, 2010:

Steering Committee

Tim Singletary
Gray Nester
Kathy Curran
Kim McElhinney
Allison Masquelier

Audit Committee

Henry W. Reece ¹
Robert D. Peed
David M. Pruett

Investment Committee

Andrea L. Holder ¹
Timothy P. Singletary
Robert D. Peed

¹Chairman

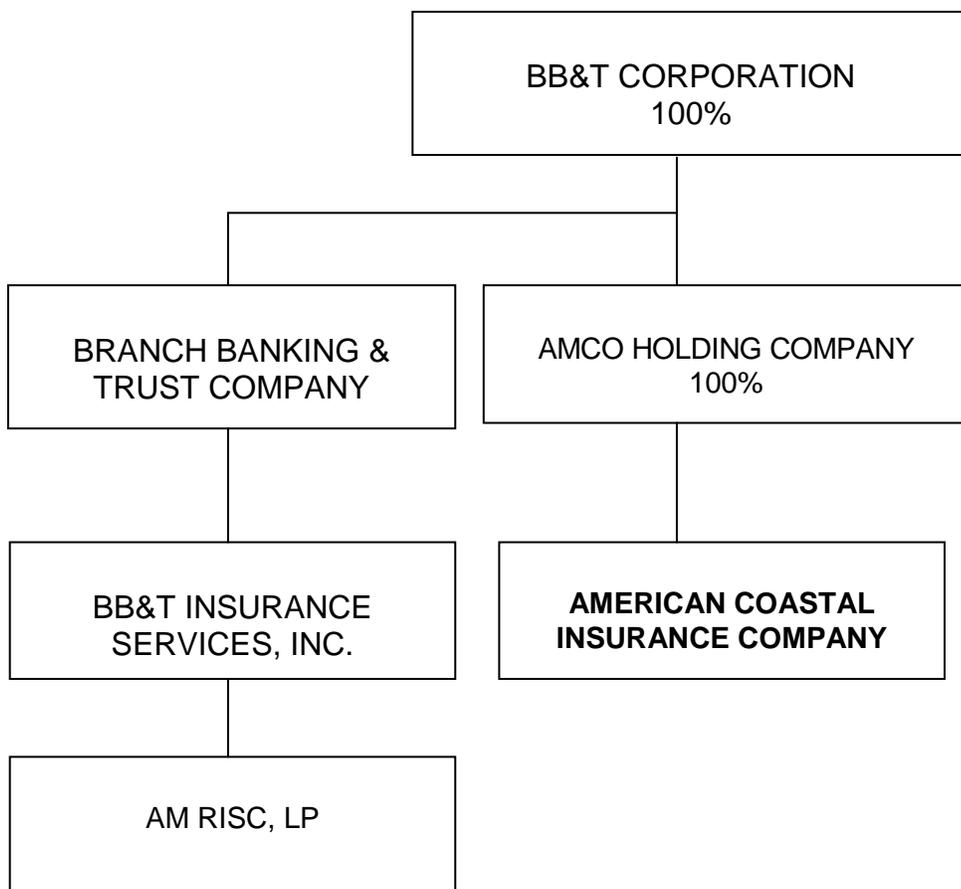
Affiliated Companies

The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code. The latest holding company registration statement was filed with the State of Florida on February 25, 2011, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

A simplified organizational chart as of December 31, 2010, reflecting the holding company system, is shown on the following page. Schedule Y of the Company's 2010 annual statement provided a list of all related companies of the holding company group.

**AMERICAN COASTAL INSURANCE COMPANY
ORGANIZATIONAL CHART**

DECEMBER 31, 2010



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

Managing General Agent (MGA) Agreement

The Company had a managing general agent agreement with AmRisc, LP (AmRisc) that provided the Company with comprehensive management and administration of the Company's insurance business including underwriting, claims management, premium collection, sales, marketing, agent relations, and reinsurance advice. AmRisc received a 22.5% commission and a 5% claims handling fee based on net written premium which was defined as gross written premium less all returned premium. Net premiums collected were forwarded to a premium trust account within the fifteen day requirement per Section 625.012, Florida Statutes. The Company transfers, or causes to be transferred, to AmRisc, an amount attributable to the profitability of the Company equal to seven percent (7%) of the sum of net income before taxes for the calendar year. This profitability compensation was subject to a maximum of three percent (3%) of net written premium in any one calendar year. The agreement was filed with the Office on June 30, 2008.

Premium Trust Agreement

The Company had a Premium Trust Agreement with AmRisc which provided that premiums collected by AmRisc were wired to the trust account. Funds were then transferred every Friday to the Company's operating account at Branch Banking & Trust Company. Monthly fees incurred were paid by AmRisc and any interest earned was returned to AmRisc by wire from the Company's operating account.

Tax Sharing Agreement

The Company, along with its ultimate parent, BB&T Corporation, and affiliates, filed a consolidated federal income tax return. On December 31, 2010, the method of allocation

between the Company and BB&T Corporation was on a separate-entity basis. Each member of the group recorded an inter-company income tax receivable or payable with BB&T Corporation. Within 90 days of the remittance by BB&T Corporation of any income tax payment to the taxing authorities, all inter-company tax receivables/payables were settled. The agreement was approved by the Office on July 22, 2008.

Investment Services Agreement

The Company had an Investment Services Agreement and Insurance Company Custody Agreement with Branch Banking & Trust Company. Branch Banking & Trust Company provided the Company with investment portfolio and funds management services per the investment committee's decisions and instructions. Investment reports and reconciliations were provided on a monthly basis to the Company. Fees were paid monthly to Branch Banking & Trust Company based on the portfolio. This agreement was approved by the Office on August 21, 2007.

Accounting Services Agreement

The Company maintained an Accounting Services Agreement with BB&T Insurance Services, Inc. (BB&T Insurance) where BB&T Insurance provided the following accounting services: payment of all bills, reconciliation of all accounts, filing of statutory or regulatory accounting filings, and all other accounting functions of the Company within the ordinary course of business. BB&T Insurance was paid \$10,416.67 per month in consideration of the services, and payments were made no later than 10 days following the close of the month in which the services were provided.

Treasury Management Agreement

The Company maintained a Treasury Management Services Agreement with Branch Banking & Trust Company to furnish the Company with treasury services. The Company agreed to pay for all services in accordance with the agreement and Branch Banking & Trust Company current fee schedule for such services.

Automated Investment Sweep Agreement

The Company maintained an Automated Investment Sweep Agreement with Branch Banking & Trust Company to invest the Company's available account balances in U.S. Government Securities, subject to repurchase by Branch Banking & Trust Company as described in the agreement. Interest was paid to the Company daily with the funds re-deposited into the operating account.

Management Services Agreement

The Company maintained a Management Services Agreement that was entered into with Branch Banking & Trust Company on May 27, 2009. Branch Banking & Trust Company provided management and administrative services including corporate management services, use of information systems, corporate insurance, investor relations, financial services, tax and audit services and regulatory compliance services. This contract was automatically renewed on an annual basis.

Custodial Agreement

The Company had a custodial agreement with Branch Banking & Trust Company, entered into on June 21, 2008, and renews automatically on an annual basis until cancelled by either party. Branch Banking & Trust Company provided safekeeping services of investments for the Company.

FIDELITY BOND AND OTHER INSURANCE

The Company's parent, BB&T Corporation, maintained fidelity bond coverage up to \$25,000,000 with a retention amount of \$10,000,000, which reached the suggested minimum amount of coverage for the Company as recommended by the NAIC. The Company was identified as a named insured on the fidelity bond.

The parent company, with the Company identified as a named insured, also maintained Workers' Compensation, Directors and Officers Liability (Management Liability), General Liability, Inland Marine, Pension and Welfare, Kidnap and Ransom, and Errors and Omissions (E&O) insurance coverage with limits up to \$25,000,000 and deductibles up to \$500,000.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company allocated compensation to certain officers of the Company as part of the MGA and Accounting Services Agreement. The money allocated to the officers was only a portion of the total compensation paid to them by their employers.

TERRITORY AND PLAN OF OPERATIONS

The Company was authorized to transact insurance only in the State of Florida.

Treatment of Policyholders

The Company established procedures for handling written complaints in accordance with Section 626.9541(1) (j), Florida Statutes.

The Company maintained a claims procedure manual that included detailed procedures for handling each type of claim in accordance with Section 626.9541(1) (i) 3a, Florida Statutes.

COMPANY GROWTH

Since inception the Company has experienced significant growth.

The Company had the following primary objectives for its Florida business:

- Working towards an AM Best rating
- Inclusion of other complimentary lines

The geographical location where the Company operated, the counties of Palm Beach, Dade and Broward, provided a strong risk for losses as hurricanes would cause major damage of property insured by the Company. The Company was susceptible to economic volatility due to hurricane and tornado events and most recently sinkhole exposure in Florida. The Company mitigated this risk by obtaining reinsurance coverage through Guy Carpenter, Tiger Risk and the Florida Hurricane Catastrophe Fund as well as through underwriting guidelines which required "best in class" condominium commercial multi-peril non liability coverage.

Profitability of Company

The following table shows the profitability trend (in dollars) of the Company for the period of operations, as reported in the filed annual statements.

	2010	2009	2008	2007
Premiums Earned	118,338,074	83,406,433	66,643,791	1,467,845
Net Underwriting Gain/(Loss)	44,159,113	26,494,823	20,146,940	(8,479,744)
Net Income	29,399,488	17,431,731	13,821,785	(6,236,051)
Total Assets	207,673,650	173,798,706	118,640,904	56,007,906
Total Liabilities	98,823,433	94,834,166	58,847,627	26,219,640
Surplus As Regards Policyholders	108,850,217	78,964,540	59,793,277	29,788,266

LOSS EXPERIENCE

There have been no significant changes in the Company's loss experience during the period under review.

REINSURANCE

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

Assumed

The Company did not assume any reinsurance during the period of this examination.

Ceded

The Company participated in the Florida Hurricane Catastrophe Fund (FHCF) which provided 90% coverage for up to \$692 million in hurricane losses above the \$142 million attachment point. The Company also had a \$53 million excess of \$22 million catastrophe excess of loss reinsurance contract and \$150 million excess of \$75 million catastrophe excess of loss reinsurance contract in force that wraps below and alongside the 90% FHCF coverage. The Company ultimately retains \$22 million of retention per event which is 20.2% of surplus as of the examination date. Additionally, non-catastrophe facultative automatic coverage was in place ranging from \$9.5 million and \$28 million depending on the size of the risk. The Company placed facultative reinsurance for individual risk exposure as deemed necessary on a specific account by account basis.

The reinsurance contracts were reviewed by the Company's appointed actuary and were utilized in determining the ultimate loss opinion.

ACCOUNTS AND RECORDS

The Company maintained its principal operational offices in Davie, Florida.

An independent CPA audited the Company's statutory basis financial statements for the year ended December 31, 2010, in accordance with Section 624.424(8), Florida Statutes. Supporting work papers were prepared by the CPA as required by Rule 69O-137.002, Florida Administrative Code.

The Company's accounting records were maintained through the use of SunGard EAS GL system. Branch Banking & Trust Company provided application support for all applications as well as network services for the SunGard EAS GL system and a few accounting employees. AmRisc provided network services to all of the employees that process underwriting and billing for the Company.

The Company and non-affiliates had the following agreements:

Claims Handling Agreement

The Company's MGA, AmRisc, had a claims handling agreement with CJW & Associates, Inc. (CJW), authorizing CJW to handle claims on properties written under the MGA Agreement with AmRisc. CJW was authorized to settle all claims on behalf of the Company up to a limit of \$100,000 without additional authority. Notwithstanding this authority, CJW was to refer all claims relating to, without prejudice; law suits, denials and losses likely to exceed authority to the Company. Claims were reported to AmRisc and forwarded to CJW for handling. CJW fees were paid on a monthly basis.

Independent Auditor Agreement

The Company contracted with an external, independent CPA firm, to perform the annual audit of its financial statements as required by Rule 69O – 137.002 (7) (c), Florida Administrative Code for the period under examination.

Consulting Services Agreement

The Company had a Consulting Service Agreement with Stanley Parson Insurance Services Inc. (Consultant), where the Consultant provided the Company with consulting and technical services regarding the development, licensure, product development, regulatory compliance, and operation of a Florida Insurer and such affiliated organizations as the Company deemed appropriate. The agreement also provided that the Consultant consult with the Company and perform functions and projects the officers and administration staff determined to be in the best interest of the Company.

Investigative Services Agreement

The Company, and its MGA, AmRisc, had a Special Investigative Services Agreement with Vero Investigations for providing specialized insurance investigative services to the Company and its MGA in compliance with Florida law.

Butler Dunlap Actuarial Services Agreement

The Company entered into an Actuarial Services Agreement with Butler Dunlap to prepare and file rate filings and provide an opinion on the loss reserves. The contract was for an ongoing basis and the Company pays a monthly retainer to Butler Dunlap.

INFORMATION TECHNOLOGY REPORT

Ins-Focus, LLC performed an evaluation of the information technology and computer systems of the Company. Results of the evaluation were noted in the Information Technology Report provided to the Company.

STATUTORY DEPOSITS

The following securities were deposited with the State of Florida as required by Section 624.411, Florida Statutes and with various state officials as required or permitted by law:

STATE	Description	Par Value	Market Value
FL	Certificate of Deposit	\$ 300,000	\$ 300,000
TOTAL FLORIDA DEPOSITS		<u>\$ 300,000</u>	<u>\$ 300,000</u>
TOTAL SPECIAL DEPOSITS		<u>\$ 300,000</u>	<u>\$ 300,000</u>

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2010, and the results of its operations for the year then ended as determined by this examination. Adjustments made as a result of the examination are noted in the section of this report captioned, "Comparative Analysis of Changes in Surplus."

AMERICAN COASTAL INSURANCE COMPANY
Assets

DECEMBER 31, 2010

	Per Company	Examination Adjustments	Per Examination
Bonds	\$97,968,343		\$97,968,343
Cash and Short-Term Investments	72,796,766		72,796,766
Agents' Balances:			
Uncollected premium	14,899,748		14,899,748
Reinsurance recoverable	8,777		8,777
Net Deferred Tax Asset	4,700,560		4,700,560
Investment income due & accrued	1,004,641		1,004,641
Aggregate write-in for other than invested assets	16,294,815		16,294,815
Totals	<u>\$207,673,650</u>		<u>\$207,673,650</u>

AMERICAN COASTAL INSURANCE COMPANY
Liabilities, Surplus and Other Funds

DECEMBER 31, 2010

	Per Company	Examination Adjustments	Per Examination
Losses	\$11,960,816		\$11,960,816
Loss adjustment expenses	695,266		695,266
Other expenses	106,530		106,530
Taxes, licenses and fees	1,082,418		1,082,418
Unearned premium	60,674,052		60,674,052
Ceded Reinsurance Premiums Payable	15,075,945		15,075,945
Amounts withheld	820,672		820,672
Payable to parent, subsidiaries and affiliates	8,407,734		8,407,734
Total Liabilities	\$98,823,433		\$98,823,433
Common capital stock	\$100		\$100
Gross paid in and contributed surplus	49,999,900		49,999,900
Unassigned funds (surplus)	58,850,217		58,850,217
Surplus as regards policyholders	\$108,850,217		\$108,850,217
Total liabilities, surplus and other funds	\$207,673,650		\$207,673,650

AMERICAN COASTAL INSURANCE COMPANY
Statement of Income

DECEMBER 31, 2010

Underwriting Income

Premiums earned	\$118,338,074
Deductions:	
Losses incurred	\$3,882,959
Loss adjustment expenses incurred	11,901,975
Other underwriting expenses incurred	58,394,027
Total underwriting deductions	\$74,178,961
Net underwriting gain or (loss)	\$44,159,113

Investment Income

Net investment income earned	\$1,949,293
Net investment gain or (loss)	\$1,949,293
Net income before dividends to policyholders and before federal & foreign income taxes	\$46,108,406
Dividends to policyholders	0
Net Income, after dividends to policyholders, but before federal & foreign income taxes	\$46,108,406
Federal & foreign income taxes	16,708,918
Net Income	\$29,399,488

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year	\$78,964,540
Net Income	\$29,399,488
Change in Net Deferred Income Tax	487,849
Change in non-admitted assets	(1,696)
Change in surplus as regards policyholders for the year	\$29,885,641
Surplus as regards policyholders, December 31 current year	\$108,850,181*

*Calculated Surplus as regards policyholders, December 31 current year on the Statement of Income (108,850,181) differs from the amount reported as Surplus as regards policyholders on the Statement of Liabilities, Surplus and Other Funds (108,850,217). The Office considers the \$36 difference immaterial. However, comparison with the December 31, 2010, Report of Independent Auditors indicates that \$108,850,217 is the correct Surplus as regards policyholders for the period ended December 31, 2010.

A comparative analysis of changes in surplus is shown below.

**AMERICAN COASTAL INSURANCE COMPANY
Comparative Analysis of Changes in Surplus**

DECEMBER 31, 2010

The following is a reconciliation of Surplus as regards policyholders between that reported by the Company and as determined by the examination.

Surplus as Regards Policyholders December 31, 2010, per Annual Statement	\$108,850,217
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	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:			
No Adjustment			
LIABILITIES:			
No Adjustment			
Other Expenses			
Net Change in Surplus:			<u>0</u>
Surplus as Regards Policyholders December 31, 2010, Per Examination			<u><u>\$108,850,217</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses	<u>\$12,656,082</u>
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An outside actuarial firm appointed by the Board of Directors, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2010, made a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

The Office engaged consulting actuary, George Turner, FCAS, MAAA, of InsFocus, LLC, to review the loss and loss adjustment expense reserves presented within the Company's December 31, 2010, annual statement and he was in concurrence with this opinion.

Capital and Surplus

The amount of Capital and Surplus reported by the Company of \$108,850,217, exceeded the minimum of \$8,840,608 required by Section 624.408, Florida Statutes.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **American Coastal Insurance Company** as of December 31, 2010, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's surplus as regards policyholders was \$108,850,217, which exceeded the minimum of \$8,840,608 required by Section 624.408, Florida Statutes.

In addition to the undersigned, Anthony DeLuca, MBA, CPA, Examiner-In-Charge; Marcus Ladd, CPA, Participating Examiner; and Bradley Carroll, CPA, of InsFocus, LLC participated in the examination. In addition, George Turner, FCAS MAAA, consulting actuary, Carlos Ruesta, CISA, IT Manager, and Nicholas Adimoolah, CPA, CISA, Senior IT Examiner, of InsFocus, LLC also participated in the examination. Maurice Fuller, Financial Examiner/Analyst II; Chibueze Alutu, CISA Financial Examiner/Analyst II; and Gary Farmer, CFE, CPA, AES Financial Examiner/Analyst Supervisor of the Office also participated in the examination.

Respectfully submitted,

Mary M. James, CFE, CPM
Chief Examiner
Florida Office of Insurance Regulation