

REPORT ON EXAMINATION
OF
CORAL INSURANCE COMPANY
HOLLYWOOD, FLORIDA

AS OF
DECEMBER 31, 2005

BY THE
OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida

February 12, 2007

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, 2005, of the financial condition and corporate affairs of:

CORAL INSURANCE COMPANY
4000 Hollywood Boulevard, Suite 285 S
Hollywood, Florida 33321

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

SCOPE OF EXAMINATION

This examination covered the period of April 1, 2004 through December 31, 2005. This was the Company's first financial examination by representatives of the Florida Office of Insurance Regulation (Office). This examination commenced, with planning at the Office, on October 9, 2006, to October 13, 2006. The fieldwork commenced on October 16, 2006, and was concluded as of December 22, 2006. The examination included any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

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.

In this examination, emphasis was directed to the quality, value and integrity of the statement assets and the determination of liabilities, as those balances affect the financial solvency of the Company.

The examination included a review of the corporate records and other selected records deemed pertinent to the Company's operations and practices. In addition, the NAIC IRIS ratio report, the A.M. Best Report, the Company's independent audit reports and certain work papers prepared by the Company's independent certified public accountant (CPA) were reviewed and utilized where applicable within the scope of this examination.

We valued and/or verified the integrity of the amounts of the Company's assets and liabilities as reported by the Company in its annual statement as of December 31, 2005. Transactions subsequent to year-end 2005 were reviewed where relevant and deemed significant to the Company's financial condition.

This report of examination is confined to financial statements and comments on matters that involve departures from laws, regulations or rules, or which are deemed to require special explanation or description.

Based on the review of the Company's control environment and the materiality level set for this examination, reliance was placed on the majority of the work performed by the Company's CPAs, after verifying the statutory requirements, for all accounts.

HISTORY

General

The Company was incorporated in Florida on January 15, 2004 and commenced business on April 1, 2004 with name Coral Insurance Company. The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code.

In accordance with Section 624.401(1), Florida Statutes, the Company was authorized to transact Home Owners Multiple Peril insurance coverage in Florida on December 31, 2005.

The articles of incorporation and the bylaws were not amended during the period covered by this examination.

Capital Stock

As of December 31, 2005, the Company's capitalization was as follows:

Number of authorized common capital shares	1,000,000
Number of shares issued and outstanding	1,000,000
Total common capital stock	\$1,000,000
Par value per share	\$1.00

Control of the Company was maintained by its parent, Coral Enterprises, LLC, who was 100 percent owned by 33 investors.

Profitability of Company

The following table shows the profitability trend (in dollars) of the Company for the period of examination, as reported in the filed Annual Statement.

	2005	2004
Premiums Earned	6,315,508	80,034
Net Underwriting Gain/(Loss)	(472,651)	(1,845,922)
Net Income	(171,838)	(1,738,845)
Total Assets	15,914,391	8,698,233
Total Liabilities	9,290,788	2,539,062
Surplus As Regards Policyholders	6,623,603	6,159,172

Dividends to Stockholders

The Company did not declare or pay dividends to its stockholders during the period under examination.

Management

The annual shareholder meeting for the election of directors was held in accordance with Sections 607.1601 and 628.231, Florida Statutes. Directors serving as of December 31, 2005, were:

Directors

Name and Location	Principal Occupation
Norman Barham Palm Beach Gardens, Florida	Chairman Coral insurance Company
Susan Straker Virtue Fort Lauderdale, Florida	President and Chief Executive Officer Coral Insurance Company
David Jay Carbine Fort Lauderdale, Florida	Vice President Coral Insurance Company
Bernard Meyers Palm Beach Gardens, Florida	Director Coral Insurance Company
Christine LaSala New York, New York	Chief Executive Officer World Trade Center Captive Insurance Co.

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

Senior Officers

Name	Title
Susan Straker Virtue	President/Chief Executive Officer
David Menkedick	Treasurer/Secretary
David Jay Carbine	Vice President
Christine LaSala	Vice President

The Company's board appointed an internal committee in accordance with Section 607.0825, Florida Statutes. Following is the principal internal board committee and their members as of December 31, 2005:

Audit Committee
Bernard Meyers ¹
Christine LaSala
¹ Chairman

Conflict of Interest Procedure

The Company had adopted a policy statement requiring annual disclosure of conflicts of interest, in accordance with Section 607.0832, Florida Statutes. No exceptions were noted during this examination period.

Corporate Records

The recorded minutes of the shareholder, Board of Directors, and certain internal committee were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions in accordance with Section 607.1601, Florida Statutes, including the authorization of investments as required by Section 625.304, Florida Statutes.

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

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

Surplus Debentures

The Company had no surplus debentures at December 31, 2005.

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 27, 2006, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

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

Managing General Agent (MGA) Agreement

The Company had a MGA Agreement with its affiliate, Coral Insurance Advisors LLC (CIA), at December 31, 2005. The agreement stipulated that CIA was appointed and authorized to market, underwrite, and manage the Company's home owners insurance program on its behalf.

Cost Sharing Agreement

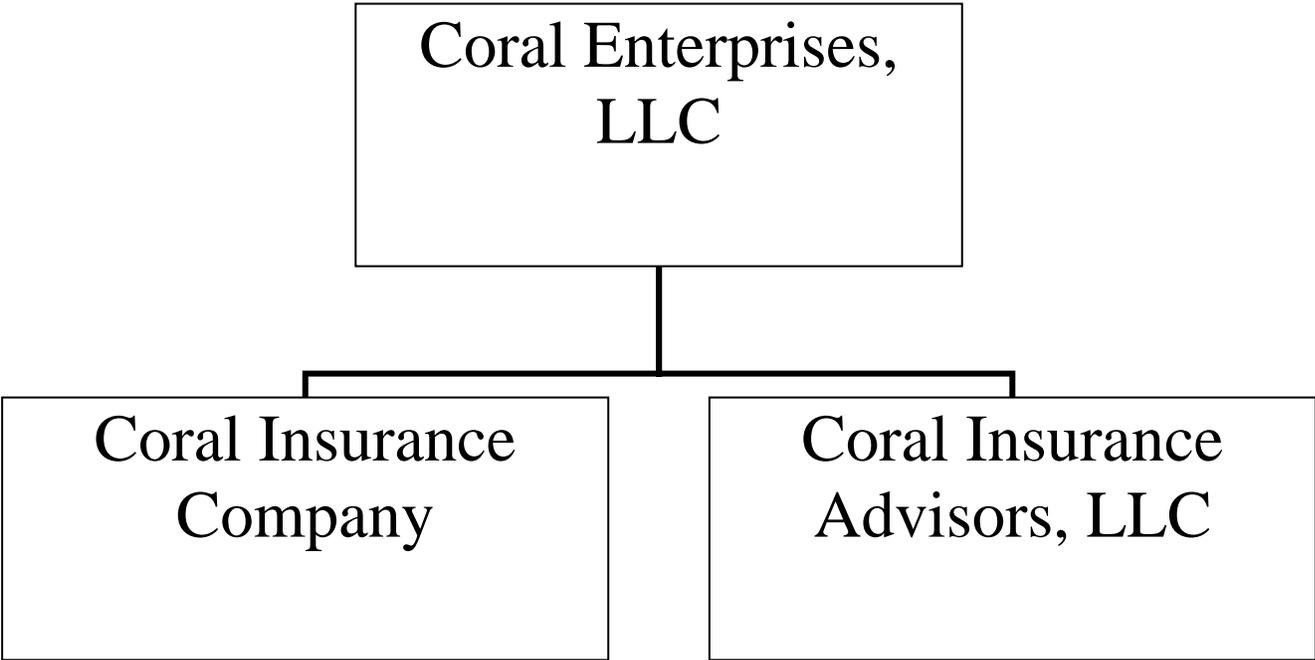
The Company had a Cost Sharing Agreement with its affiliates, Coral Enterprises, LLC (CE) and Coral Insurance Advisors, LLC (CIA), at December 31 2005. The agreement stipulated that the parties shared in the costs of certain office space, facilities, furniture, equipment, computer hardware and software. The companies shared the costs that each party had for employees who

performed technical, administrative, financial and regulatory services on behalf of one or all other parties and the parties wished to reimburse each other for such services performed.

A simplified organizational chart as of December 31, 2005, reflecting the holding company system, is shown below. Schedule Y of the Company's 2005 annual statement provided a list of all related companies of the holding company group.

**CORAL INSURANCE COMPANY
ORGANIZATIONAL CHART**

DECEMBER 31, 2005



FIDELITY BOND AND OTHER INSURANCE

The Company maintained fidelity bond coverage up to \$1,000,000 with a deductible of \$25,000, which adequately covered the suggested minimum amount of coverage for the Company as recommended by the NAIC. The Company also maintained workers compensation, commercial umbrella, business auto, property and general liability insurance coverages to protect Company assets.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company provided a 401K plan and a full health insurance benefit package to all eligible employees.

STATUTORY DEPOSITS

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

	STATE	DESCRIPTION	RATE	MATURITY DATE	PAR VALUE	MARKET VALUE
FL		CASH			\$ 250,000	\$ 250,000
FL		CASH Interest			15,464	15,464
TOTAL FL DEPOSITS					<u>\$ 265,464</u>	<u>\$ 265,464</u>

INSURANCE PRODUCTS AND RELATED PRACTICES

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 626.954(1)(i)3,a, Florida Statutes.

REINSURANCE

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

Assumed

The Company had no assumed business at December 31, 2005.

Ceded

As of December 31, 2005, the Company's reinsurance program consisted of a quota share, property excess of loss reinsurance for catastrophic events, property excess per risk coverages, as well as a reinstatement premium protection plan.

The Company's Quota Share agreement effective June 1, 2005 was with Ace Property and Casualty Insurance Company and QBE Reinsurance, both authorized reinsurers. The contract coverage was for 50% of all losses, net of reinsurance recoveries. Maximum liability per occurrence was limited to 50% of \$2 million, and to any one risk was 50% of \$600,000. Premium ceded to the Quota Share contract between the Company and its Reinsurers was paid quarterly based on a provisional rate of 32.5% which was linked to a 51% earned to incurred loss ratio. Reports of activity were required to be submitted to reinsurers no later than 30 days following the end of each quarter. Adjustment of the provisional premium occurred at the end of the treaty year. The adjustment formula provided for a minimum rate of 26% at a 57.5% loss ratio (sliding downward at 1:1) and a maximum rate of 40% at a 41% loss ratio (sliding upward at .75:1).

The Company's catastrophe excess of loss contract, effective June 1, 2005 was with various Lloyd's of London syndicates, all authorized reinsurers, and ACE Tempest Reinsurance Ltd. and XL Re Ltd., both unauthorized reinsurers. The contract coverage was 100% of \$27.7 million in excess of \$2 million of ultimate net loss for each loss occurrence, not to exceed a provisional limit of 100% of \$55.4 million. The Florida Hurricane Catastrophe Fund coverage was estimated to be 90% of \$37 million in excess of \$10 million. The contract premium on the catastrophe excess of loss treaty was of \$3,462,500, payable in four equal installments on July 1, 2005, October 1, 2005, January 1, 2006 and April 1, 2006.

ACCOUNTS AND RECORDS

An independent certificate public accountant (CPA) audited the Company's statutory basis financial statements annually for the years 2004 and 2005, 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 on a computerized system. The Company's balance sheet accounts were verified with the line items of the annual statement submitted to the Office. The Company maintained a Premium Trust Bank Account with Glacier Bank, located in Bigfork, Montana which was outside the State of Florida and was not in compliance with section 628.271(2), Florida Statutes.

The Company maintained its principal operational offices in Hollywood, Florida, where this examination was conducted.

The Company and non-affiliates had the following agreements:

Custodial Agreement

The Company entered into a custodial agreement with Wilmington Trust Federal Savings Bank dated February 27, 2004. The custodial agreement provided the proper safeguards and controls indemnifying the Company as provided by Rule 69O-143.042 Florida Administrative Code.

Claims Administration Services Agreement

The Company entered into a claims administration services agreement with Insurance Servicing and Adjusting Company (ISAC), on March 15, 2004. The agreement stipulated that ISAC provide claims administration services for the Company. This was to include on the behalf of the Company, investigating, adjusting, processing, record keeping and periodic reporting of the Company's claims liabilities to Company management.

Policy Administration Services Agreement

The Company, through its affiliate, Coral Insurance Advisors, LLC (CIA), entered into a policy administration services agreement with The Waterstreet Company (Waterstreet), a Montana Corporation, on March 1, 2004. The agreement stipulated that Waterstreet provide policy administration services for the Company. This was to include on the behalf of the Company, managing, performing premium billing and collection functions, agent commission disbursements, accounting and periodic reporting of the Company's premium policies to company management.

Software License Agreement

The Company entered into a computer software license agreement with The Freedom Group, Inc. (TFG), an Iowa Corporation, on December 15, 2003. The agreement granted the Company a license to utilize all facets of TFG's computer software program for the course of ordinary daily business operations.

Risk-Based Capital

The Company reported its risk-based capital at an adequate level.

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2005, 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."

CORAL INSURANCE COMPANY
Assets

DECEMBER 31, 2005

Classification	Per Company	Examination Adjustments	Per Examination
Bonds	\$ 11,100,000		\$ 11,100,000
Cash and Short-term Investments	2,418,028		2,418,028
Investment income due and accrued	103,907		103,907
Agents' Balances:			
Uncollected premium	1,448,094		1,448,094
Reinsurance Recoverable	77,274		77,274
Net deferred tax asset	590,138		590,138
Receivable from Parents, Subsidiaries and Affiliates	176,951		176,951
Totals	\$ 15,914,392	\$ -	\$ 15,914,392

CORAL INSURANCE COMPANY
Liabilities, Surplus and Other Funds

DECEMBER 31, 2005

Liabilities	Per Company	Examination Adjustments	Per Examination
Losses	\$596,738		\$596,738
Loss adjustment expenses	19,541		\$19,541
Other expenses	17,534		\$17,534
Taxes, licenses and fees	12,974		\$12,974
Unearned premium	7,528,671		\$7,528,671
Advanced premium	284,367		\$284,367
Ceded reinsurance premiums payable	459,594		\$459,594
Remittances and items not allocated	121,369		\$121,369
Payable for securities	250,000		\$250,000
Total Liabilities	<u>\$9,290,788</u>		<u>\$9,290,788</u>
Common capital stock	\$1,000,000		\$1,000,000
Gross paid in and contributed surplus	7,000,000		\$7,000,000
Unassigned funds (surplus)	<u>(1,376,397)</u>		(\$1,376,397)
Surplus as regards policyholders	<u>\$6,623,603</u>		<u>\$6,623,603</u>
Total liabilities, capital and surplus	<u>\$15,914,391</u>	<u>\$0</u>	<u>\$15,914,391</u>

CORAL INSURANCE COMPANY
Statement of Income

DECEMBER 31, 2005

Underwriting Income	
Premiums earned	\$6,315,508
DEDUCTIONS:	
Losses incurred	2,720,656
Loss expenses incurred	201,085
Other underwriting expenses incurred	3,866,418
Aggregate write-ins for underwriting deductions	0
Total underwriting deductions	<u>\$6,788,159</u>
Net underwriting gain or (loss)	(\$472,651)
Investment Income	
Net investment income earned	\$291,573
Net realized capital gains or (losses)	<u>(1)</u>
Net investment gain or (loss)	\$291,572
Other Income	
Net gain or (loss) from agents' or premium balances charged off	(\$1,404)
Finance and service charges not included in premiums	10,645
Aggregate write-ins for miscellaneous income	0
Total other income	<u>\$9,241</u>
Net income before dividends to policyholders and before federal & foreign income taxes	(\$171,838)
Dividends to policyholders	<u>0</u>
Net Income, after dividends to policyholders, but before federal & foreign income taxes	(\$171,838)
Federal & foreign income taxes	<u>0</u>
Net Income	(\$171,838)
Capital and Surplus Account	
Surplus as regards policyholders, December 31 prior year	\$6,159,172
Gains and (Losses) in Surplus	
Net Income	(\$171,838)
Net unrealized capital gains or losses	0
Change in net deferred income tax	44,217
Change in non-admitted assets	592,052
Change in provision for reinsurance	0
Change in excess statutory over statement reserves	0
Surplus adjustments: Paid in	0
Aggregate write-ins for gains and losses in surplus	0
Examination Adjustment	0
Change in surplus as regards policyholders for the year	<u>\$464,431</u>
Surplus as regards policyholders, December 31 current year	<u><u>\$6,623,603</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses

\$616,279

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, 2005, make a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

The Office actuary reviewed work papers provided by the Company and was in concurrence with this opinion.

**CORAL INSURANCE COMPANY
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS**

DECEMBER 31, 2005

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 per December 31, 2005, Annual Statement	\$ 6,623,603
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	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:			
No Adjustment	\$ -	\$ -	\$ -
LIABILITIES:			
No Adjustment	\$ -	\$ -	\$ -
Net Change in Surplus:			0
Surplus as Regards Policyholders December 31, 2005, Per Examination			\$ 6,623,603

SUMMARY OF FINDINGS

Current examination comments and corrective action

The following is a brief summary of items of interest and corrective action to be taken by the Company regarding findings in the examination as of December 31, 2005.

Glacier Bank

The Company maintained a Premium Trust Bank Account with Glacier Bank, located in Bigfork, Montana which was outside the State of Florida and was not in compliance with Section 628.271, Florida Statutes. On January 25, 2007, the Company closed this account with Glacier Bank. The Company stated that premium deposits are now electronically scanned directly into the Company's operating account at Wilmington Trust Federal Savings Bank.

CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Coral Insurance Company** as of December 31, 2005, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was \$6,623,603, which was in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned, Kethessa Carpenter, CPA, Financial Examiner/Analyst Supervisor and Joseph Boor, FCAS, Office Actuary, participated in the examination.

Respectfully submitted,

Owen A. Anderson
Financial Examiner/Analyst II
Florida Office of Insurance Regulation