

**REPORT ON EXAMINATION
OF
CORAL INSURANCE COMPANY, INC.
HOLLYWOOD, FLORIDA
AS OF
DECEMBER 31, 2007**

**BY THE
OFFICE OF INSURANCE REGULATION**

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Tallahassee, Florida

February 27, 2009

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, 2007, of the financial condition and corporate affairs of:

**CORAL INSURANCE COMPANY, INC.
4000 HOLLYWOOD BLVD, SUITE 285 S
HOLLYWOOD, FLORIDA 33021**

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, 2007, through December 31, 2007. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2006. This examination commenced with planning at the Office on October 21, 2008, to October 24, 2008. The fieldwork commenced on October 27, 2008, and was concluded as of January 16, 2008.

This financial examination was a third year 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 the examination be planned and performed to evaluate the financial condition and identify prospective risks 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 NAIC annual statement instructions when applicable to state regulators.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

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 reports, the Company's independent audit reports and certain work papers prepared by the Company's independent certified public accountant (CPA) and other reports and work papers as considered necessary were reviewed and utilized where applicable within the scope of this examination.

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

Status of Adverse Findings from Prior Examination

The following is a summary of significant adverse findings contained in the Office's prior examination report as of December 31, 2006, along with resulting action taken by the Company in connection therewith.

Claims

The Company was not in compliance with Section 607.1601, Florida Statutes, which requires the Company to maintain accurate accounting records. During the examination of the claims database there were 10 claims which were listed as open in the database but had no outstanding reserve amounts. Eight of the 10 files were verified as closed in 2006; however, the other 2 files were not closed until 2007. Of the 47 physical claims files reviewed: 4 files were missing documentation of cancelled checks; 1 file indicated that the date of loss was January 4, 2006 whereas the database indicated a date of loss of January 19, 2006; 2 claims had more than 1 claim number per claim; and 5 claim numbers could not be found. **Resolution:** The examiner reviewed the response the Company submitted and determined that adequate action was taken to address these specific incorrect records. A new TPA began to process claims in 2007.

HISTORY

General

The Company was incorporated in Florida on January 15, 2004 and commenced business on April 1, 2004, under the name of Coral Insurance Company, Inc. 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, 2007.

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

Capital Stock

As of December 31, 2007, 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, which was 100% owned by 33 investors in which Norman Barham owned 19% and no others owned over 15%.

Surplus Notes

The Company's capitalization included surplus notes of \$1,000,000 and \$2,000,000 payable to the parent company, Coral Enterprises, LLC, due March 15, 2007 and June 19, 2007 respectively. These cannot be repaid without approval from the Office.

The Company added \$5,000,000 to additional paid in capital on December 22, 2008, resulting from a transaction with its parent, Coral Enterprises, LLC.

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:

	2007	2006
Premiums Earned	\$ 10,532,528	\$ 8,670,079
Net Underwriting Gain/(Loss)	\$ 2,236,400	\$ (2,431,233)
Net Income	\$ (1,642,987)	\$ (1,907,444)
Total Assets	\$ 15,862,344	\$ 23,628,673
Total Liabilities	\$ 8,717,640	\$ 17,990,025
Surplus As Regards Policyholders	\$ 7,144,704	\$ 5,638,648

Dividends to Stockholders

There were no dividends declared or paid to its stockholders during the examination year.

Corporate Records

The recorded minutes of the sole shareholder and certain committees were reviewed for the period under examination.

There was no annual shareholder meeting in 2007 to discuss Board matters and elect directors and officers. There was no election of directors in 2007 by Coral Enterprises LLC, the sole shareholder.

This is a violation of Sections 607.1601, 607.1602 and 628.231, Florida Statutes.

The recorded minutes of the 2007 annual board meeting documented approval of the Company's investments by its investment manager, but did not approve the actual transactions themselves on at least an annual basis. This is a violation of Section 607.1601, Florida Statutes concerning recordkeeping requirements, and the authorization of investments as required by Section 625.304, Florida Statutes.

MANAGEMENT AND CONTROL

Directors indicated as serving as of December 31, 2007, were:

Directors

Name and Location

Norman Barham
18 Long Beach Blvd.,
Loveladies, NJ 08008-6142

Robert K. Meyers
800 Andrews Avenue, Unit #3
Delray Beach, FL 33483

David Jay Carbine
1040 Seminole Drive, # 1557
Ft. Lauderdale, FL 33304

Christine LaSala
WTC Captive Insurance Company
100 William Street, Suite 2001
New York, NY 10038

William H. Bolinder
19 Boothby Road
Kennebunk, ME 04043

Bernard Meyers
3699 Toulouse Drive
Palm Beach Gardens, FL 33410

Principal Occupation

Chairman of the Board

Chief Executive Officer and President

Vice President – Underwriting & Claims

President – World Trade Center
Captive Insurance Program

Board member, Investor

Director, Retired

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

Senior Officers

Name	Title
Robert K. Meyers	Chief Executive Officer and President
David Jay Carbine	Vice President
David Menkedick	Secretary and Treasurer

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

Audit Committee – No chairman designated.

Bernard Meyers
Christine LaSala
Robert Meyers
David Menkedick
Keith Tagman

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

The minutes did not evidence a meeting of the audit committee in 2007. This practice violated Section 607.1601 & 607.1602, Florida Statutes. The Company agreed the statutes require record keeping for committee meetings of the Board of Directors but that there was no requirement for a committee to meet on an annual basis or ever, if so decided, as the statutes were silent regarding the frequency of committee meetings.

The Board was indecisive on their utilization of a compensation committee that was never appointed but referenced in the minutes. This was a violation of Section 607.1601 & 607.1602, Florida Statutes. The Company should review all committees to be in compliance with the cited Florida Statutes.

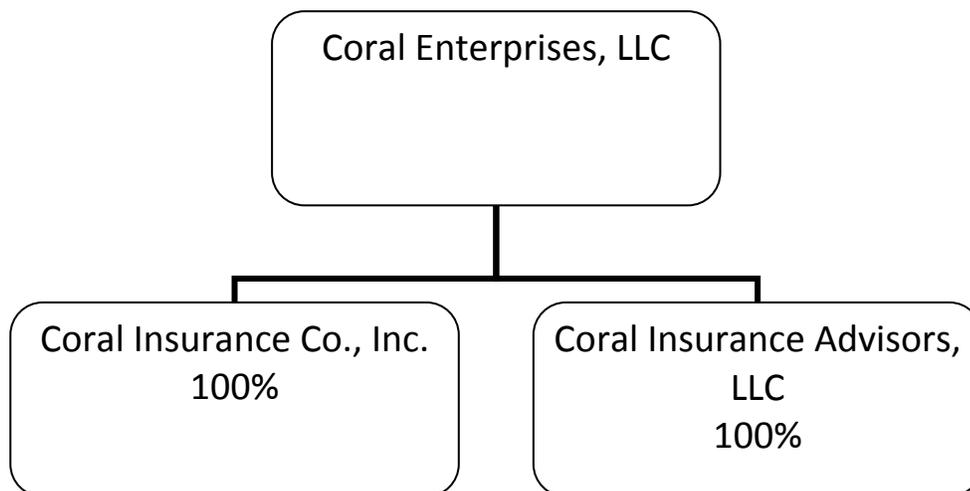
The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code.

The latest holding company registration statement was filed with the State of Florida on March 10, 2008, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

Organizational Chart

A simplified organizational chart as of December 31, 2007, reflecting the holding company system, is shown below. Schedule Y of the Company's 2007 annual statement provided a list of all related companies of the holding company group.

**CORAL INSURANCE COMPANY, INC.
ORGANIZATIONAL CHART
DECEMBER 31, 2007**



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

Managing General Agent (MGA) Agreement

The Company had an MGA agreement with its affiliate, Coral Insurance Advisors, LLC (CIA), at December 31, 2007. The agreement stipulated that CIA was appointed and authorized to market, underwrite, and manage the Company's homeowners' insurance program on its behalf.

Cost Sharing Agreement

The Company had a cost sharing agreement with its affiliates, Coral Enterprises, LLC (CE) and CIA, at December 31, 2007. 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 for employees who performed technical, administrative, financial and regulatory services on behalf of one or all other parties. The parties reimbursed each other for services performed.

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 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. There was a bonus incentive for employees based on performance criteria and the bonus amount was determined at the sole discretion of the Board of Directors, with the exception of the President, having a fixed guaranteed bonus as part of his compensation.

INSURANCE PRODUCTS

Territory and Plan of Operation

The Company was authorized to transact homeowners insurance only in the State of Florida. As of December 31, 2007, the Company wrote in Florida only.

Treatment of Policyholders

The Company established procedures for handling written complaints in accordance with Section 626.9541(1) (j), Florida Statutes. Our claims specialist reviewed 2007 and 2008 reported and found no reportable conditions or violations.

REINSURANCE

The reinsurance contracts were reviewed by the Company's appointed actuary and were utilized in determining the ultimate loss opinion. The reinsurance contracts had a fiscal year dating from June 1 to May 31 since operations began.

Reinsurance contracts in-force at December 31, 2007, were reviewed and complied with NAIC standards with respect to the standard insolvency clause transfer of risk and reporting and settlement deadlines.

Assumed

The Company did not assume risk under any reinsurance agreements during 2007.

Ceded

As of December 31, 2007, the Company's reinsurance program consisted of a 50% quota share, Florida Hurricane CAT Fund (FHCF), property excess of loss reinsurance for catastrophic events,

property per risk coverages, as well as a reinstatement premium protection. The Company's quota share agreement effective June 1, 2007 provided coverage for 50% of losses with aggregate losses not exceeding 250% of net earned premiums in any one contract year. The maximum reinsurer liability per occurrence is limited to 50% of \$1,700,000 and 50% of \$3,400,000 for any one risk.

The ceding of net premium stipulated in the contract between the Company and the reinsurers was a provisional commission of 31% that adjusts to a maximum of 40% at a loss ratio of 37.5% or less and a minimum of 23.5% at a loss ratio of 57.5% or more.

The Company's excess per risk reinsurance agreement was effective June 1, 2007. The contract coverage per risk was \$1.1 Million excess of \$600,000 of ultimate net losses on each homeowner's risk of \$600,000 or greater with a limit of \$1,650,000 for any one occurrence.

The Company also had four layers of catastrophe excess of loss reinsurance coverage. These excess of loss treaties generally provide coverage on ultimate net losses of approximately \$130,900,000 in excess of \$1,700,000 per occurrence not to exceed \$155,800,000 for all occurrences. Coverage was provided by the FHCF for 90% of the losses from catastrophic events in excess of approximately \$20,800,000 up to a maximum of approximately \$126,800,000 plus 100% of qualifying losses in excess of \$1,700,000 up to approximately \$11,700,000.

The Company's limit on catastrophic reinsurance for contract year 05/06 is \$70,125,851. Actual paid losses on Wilma through October 31, 2008, were \$66,998,043. The examination results indicate this limit is insufficient and ultimately the Company will have to pay claims over the limits noted here and in our actuarial results.

ACCOUNTS AND RECORDS

The Company's accounting records were maintained on a computerized system. The Company's balance sheet accounts were verified with the line item of the December 31, 2007, Annual Statement submitted to the Office for 2007.

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

An independent certified public accountant (CPA) audited the Company's statutory basis financial statements annually for the years 2007, 2006 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.

Custodial Agreement

The Company had a custodial agreement with Wilmington Trust Federal Savings Bank dated February 27, 2004. Wilmington Trust Federal Savings Bank is a trust company and therefore qualified as a custodian defined by Rule 69O-143.041, Florida Administrative Code.

The Company's current custodial Agreement with Wilmington Trust Federal Savings Bank does not contain language that demonstrates compliance with Sections 2 (b) (e), (g), (h) (j) and (n) of the Rule 69O-143.041, Florida Administrative Code.

Specific violations to Rule 69O-143.041, Florida Administrative Code, were detailed as follows:

2 (b): Securities held in fungible bulk by the custodian and securities in a clearing corporation or in the Federal Reserve book-entry system shall be separately identified on the custodian's official records as being owned by the insurance company. Said records shall identify which custodied securities are held

by the custodian or by its agent and which securities are in a clearing corporation or in the Federal Reserve book-entry system. If the securities are in a clearing corporation or in the Federal Reserve book-entry system, said records shall also identify where the securities are and if in a clearing corporation, the name of the clearing corporation and if through an agent, the name of the agent.

2 (e): The custodian shall arrange for execution of transactions in custodied securities in accordance with the insurance company's instructions and shall not exercise discretionary authority to effect transactions in custodied securities except in such limited or special circumstances as the insurance company may authorize.

2 (g): During the course of the custodian's regular business hours, any officer or employee of the insurance company, any independent accountant selected by the insurance company and any representative of an appropriate regulatory body shall be entitled to examine, on the premises of the custodian, the custodian's records relating to custodied securities, but only upon furnishing the custodian with written instructions to that effect from an appropriate officer of the insurance company.

2 (h): The custodian and its agents shall be required to send to the insurance company all reports which they receive from a clearing corporation or the Federal Reserve book-entry system on their respective systems of internal accounting control and reports prepared by outside auditors on the custodians or its agent's internal accounting control of custodied securities that the insurance company may reasonably request.

2 (j): The custodian shall provide, upon written request from the Insurance Director or from an appropriate officer of the insurance company, the appropriate affidavits, on Forms OIR-D0-341 (A), (B), or (C) or substantially similar forms with respect to custodied securities. Forms OIR-D0-341 (A), (B) and (C), entitled "Custodian Affidavit," are hereby incorporated by reference. These forms shall

become effective on the effective date of these rules and may be obtained from the Office of Insurance Regulation, Larson Building, Tallahassee, Florida.

2 (n): In the event that the custodian gains entry in a clearing corporation or in the Federal Reserve book-entry system through an agent, there shall be an agreement between the custodian and the agent under which the agent shall be subject to the same liability for loss of custodied securities as the custodian, provided, however, that, if the agent shall be subject to regulation under the laws of a jurisdiction which is different from the jurisdiction the laws of which regulate the custodian, the Director may accept a standard of liability applicable to the agent which is different from the standard of liability applicable to the custodian.

Independent Auditor Agreement

The Company had an agreement with Thomas, Howell & Ferguson to perform an audit of its statutory financial statements for the years 2006 and 2007.

Information Technology Review

Computer systems evaluation was performed by EIC, CISA and AES James York on the Company based on a review of documentation and completion of Exhibit C from the Financial Condition Examiners Handbook. There were no findings in our review that presented a risk of material misstatement to the financial statements.

STATUTORY DEPOSITS

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

STATE	DESCRIPTION	Par Value	Market Value
FL	Cash	\$250,000	\$250,547
	TOTAL FL DEPOSITS	<u>\$250,000</u>	<u>\$250,547</u>
	TOTAL SPECIAL DEPOSITS	<u>\$250,000</u>	<u>\$250,547</u>

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2007, 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, INC.
Assets

DECEMBER 31, 2007

	Per Company	Examination Adjustments	Per Examination
Bonds	\$ 6,453,978		\$ 6,453,978
Cash and Short-term Investments	3,791,165		3,791,165
Investment income due and accrued	146,940		146,940
Premiums and considerations			
Deferred premiums booked but not yet due	1,896,205		1,896,205
Reinsurance Recoverable	1,009,708		1,009,708
Net deferred tax asset	646,309		646,309
Guaranty funds receivable	1,918,039		1,918,039
Totals	\$ 15,862,344	\$ -	\$ 15,862,344

CORAL INSURANCE COMPANY, INC.
Liabilities, Surplus and Other Funds

DECEMBER 31, 2007

	Per Company	Examination Adjustments	Per Examination
Losses	\$2,306,124	\$5,730,490	\$8,036,614
Loss adjustment expenses	105,410		105,410
Other expenses	53,153		53,153
Taxes, licenses and fees	112,043		112,043
Unearned premium	3,195,610		3,195,610
Advance premium	428,562		428,562
Ceded reinsurance premiums payable	893,481	(293,200)	600,281
Amounts withheld or retained for others	172,324		172,324
Provision for Reinsurance	14		14
Payable to parent, subsidiaries and affiliates	1,418,461		1,418,461
Aggregate write-ins for liabilities	32,472		32,472
Total Liabilities	\$8,717,654	\$5,437,290	\$14,154,944
Common capital stock	1,000,000		1,000,000
Surplus notes	4,000,000		4,000,000
Gross paid in and contributed surplus	7,000,000		7,000,000
Unassigned funds (surplus)	(4,855,297)	(5,437,290)	(10,292,587)
Surplus as regards policyholders	\$7,144,703	(\$5,437,290)	\$1,707,413
Total liabilities, surplus and other funds	\$15,862,357	\$0	\$15,862,357

CORAL INSURANCE COMPANY, INC.
Statement of Income

DECEMBER 31, 2007

Underwriting Income

Premiums earned		\$10,532,528
	Deductions:	
Losses incurred		3,901,552
Loss expenses incurred		706,411
Other underwriting expenses incurred		8,160,965
Aggregate write-ins for underwriting deductions		0
Total underwriting deductions		\$12,768,928
Net underwriting gain or (loss)		(\$2,236,400)

Investment Income

Net investment income earned		\$618,158
Net realized capital gains or (losses)		0
Net investment gain or (loss)		\$618,158

Other Income

Net gain or (loss) from agents' or premium balances charged off		(\$49,903)
Finance and service charges not included in premiums		25,158
Aggregate write-ins for miscellaneous income		0
Total other income		(\$24,745)
Net income before dividends to policyholders and before federal & foreign income taxes		(\$1,642,987)
Dividends to policyholders		0
Net Income, after dividends to policyholders, but before federal & foreign income taxes		(\$1,642,987)
Federal & foreign income taxes		0
Net Income		(\$1,642,987)

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year		\$5,638,648
Net Income		(\$1,642,987)
Change in net deferred income tax		(470,882)
Change in non-admitted assets		619,925
Change in surplus notes		3,000,000
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		(5,437,290)
Change in surplus as regards policyholders for the year		(\$3,931,234)
Surplus as regards policyholders, December 31 current year		\$1,707,414

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Ceded reinsurance premiums payable \$600,281

The above amount was \$293,200 less than the total of \$893,481 reported by the Company in its 2007 Annual Statement.

The Company's CPA work papers and report indicate confirmed amounts related to reinsurance premiums payable were \$293,200 less than the total the Company reported in its 2007 Annual Statement. This results in a difference in surplus in the CPA's report and the Company's 2007 Annual Statement of \$293,200.

The examiner reviewed the information and re-confirmed the data to verify the adjustment was appropriate and is thereby included in this examination report.

Losses and Loss Adjustment Expenses \$8,142,024

The above amount represents an increase of \$5,730,490 to the Company's total of \$2,411,534.

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, 2007 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 the services of consulting actuary Nathan T. Godbold, from Roswell, GA actuarial firm Godbold, Malpere & Company to provide an independent actuarial opinion and supporting report for examination purposes.

The increases in reserves per examination were based on Mr. Godbold's analysis that indicated deteriorating 2008 loss trends and exposure to Hurricane Wilma claims have a distinct probability of exceeding reinsurance coverage for the year 2005.

Capital and Surplus

The amount reported by the Company of \$7,144,704 was reduced by \$5,437,290 upon examination to \$1,707,414, which was below the required minimum of \$4,000,000 pursuant to Section 624.408, Florida Statutes.

The Company's capital and surplus upon examination was \$1,707,414, which was \$2,292,586 below the requirements of Section 624.408(1)(a)5. This results in a violation of Section 624.4085 (4) (a), Florida Statutes, as the Company was below the Risk Based Capital Regulatory Action Level of \$2,268,933.

A comparative analysis of changes to surplus is shown below.

**CORAL INSURANCE COMPANY, INC.
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS**

DECEMBER 31, 2007

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

Surplus as Regards Policyholders December 31, 2007, per Annual Statement		<u>\$7,144,704</u>
	<u>PER COMPANY</u>	<u>PER EXAM</u>
		<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:	15,862,344	15,862,344
		0
LIABILITIES:	(8,717,654)	(14,154,930)
		(5,437,290)
EXAMINATION ADJUSTMENTS		
Loss and LAE		(5,730,490)
Reinsurance commissions payable		293,200
		<u>(5,437,290)</u>
Net Change in Surplus:		<u>5,437,290</u>
Surplus as Regards Policyholders December 31, 2007, Per Examination		<u><u>\$1,707,414</u></u>

SUMMARY OF FINDINGS

Compliance with previous directives

The Company has taken the necessary actions to address the comments made in the 2006 examination report issued by the Office.

Current examination comments and corrective action

- 1) Minutes for board committees were not adequately maintained to comply with statute. The Company did not have any 2007 committee minutes, as required by Section 607.1602 (a), Florida Statutes. **We recommend the Company schedule at least an annual meeting for all committees and maintain minutes of the committee to comply with Section 607.1602 (a), Florida Statutes.**

- 2) There was no 2007 election of directors by the sole shareholder, Coral Enterprises, LLC. This was a violation of Section 607.0701 Florida Statutes and Section 2.01 of the bylaws. **We recommend the Company retroactively appoint the 2007 directors and approve all 2008 directors and comply with Section 2.01 of the bylaws and Section 607.0701, Florida Statutes.**

- 3) The Company's current custodial Agreement with Wilmington Trust Federal Savings Bank does not contain language that demonstrates compliance with Sections 2(b) (e), (g), (h) (j) and (n) of

Rule 69O-143.042, Florida Administrative Code. **We recommend the current custodial agreement be revised to comply with the referenced missing provisions.**

- 4) The loss reserves at the company were dramatically increased and surplus decreased upon examination with the corresponding adjustment resulting in a violation of the minimum surplus requirements of \$4,000,000 pursuant to Section 624.408, Florida Statutes. **We recommend the Company work more closely with their actuary and TPA to identify and better manage the risk assessment in the current period and over time as they expand into other counties so as to continually comply with Section 624.408, Florida Statutes.**
- 5) Investments transactions by the Company and its investment manager were not noted as approved by the Board of Directors in 2007. Even though the investment policy regulates the investment strategy, it does not substitute for Board approval of the Company's investment activity. This is a violation of Section 625.304, Florida Statutes. **We recommend the Board of Directors approve the 2007 investment transactions and do so annually at a minimum.**
- 6) The amount of capital and surplus reported by the Company of \$7,144,704 was reduced by \$5,437,290 upon examination to \$1,707,414 which is below the required minimum of \$4,000,000 pursuant to Section 624.408, Florida Statutes. **We recommend the Company take actions to comply with the minimum required under the cited Florida Statute.**
- 7) The Company's capital and surplus upon examination was \$1,707,414 which is below the Risk Based Capital Company Action Level of \$3,025,244. The Company is therefore subject to the requirements of Section 624.4085 (4) (a), Florida Statutes. **We recommend the Company immediately increase its capital and surplus to at least \$4,000,000.** The Company received a capital contribution of \$5,000,000 on December 31, 2008. However, the impact of this

contribution must be weighed against current financial statements as opposed to the December 31, 2007, date of this report and associated account values. **We also recommend the Company make the required filings and take the actions as required under Section 624.4085 (4) (a), Florida Statute.**

SUBSEQUENT EVENTS

Mr. David Menkedick resigned as Treasurer and Secretary effective January 15, 2008. Mr. Todd Lindquist was hired and appointed as the Chief Financial Officer and Secretary of the company effective February 11, 2008.

Mr. Todd Lindquist resigned as Chief Financial Officer and Secretary effective August 1, 2008. Mr. Keith Tagman, CPA was appointed Chief Financial Officer and Secretary effective August 1, 2008 under a contractual agreement with the Company. Per a letter dated February 25, 2009 Keith Tagman resigned as of February 25, 2009.

Bernard Meyers resigned from the Board of Directors effective November 12, 2008.

Stanley Mandel was elected as a member of the Board of Directors effective May 22, 2008

Board member and Vice President Mr. Jay Carbine resigned with an effective date of January 31, 2009.

The Company plans to begin writing policies in the following additional Florida counties on January 1, 2009: Hardee, Desoto, Highlands, Okeechobee, Osceola, Orange, Seminole, Lake, Volusia, Flagler, Clay, Putnam, St. Johns, Duval and Nassau.

The Company received a capital contribution of \$5,000,000 on December 22, 2008 from the ultimate controlling entity Coral Enterprises, LLC.

On December 16, 2008 the Board of Directors for Affiliate Coral Enterprises, LLC forgave the Company of \$1,600,000 of expenses owed to Coral Insurance Advisors, LLC pursuant to the MGA Contract between the two affiliates.

On December 16, 2008, the Board of Directors of Coral Insurance Company agreed that the aforementioned forgiveness of expenses from affiliate Coral Insurance Advisors would be treated as additional paid in surplus as of December 31, 2008.

On December 11, 2008 the Company appointed Guy Carpenter & Company LLC, and replaced Collins and Company as its Reinsurance broker.

On April 9, 2009, the Company consented to the appointment of the Department of Financial Services (Department) as Receiver for purposes of rehabilitation. As Receiver, the Department took possession of all the property and assets of the company and took steps to conduct the business of the company and remove the causes and conditions which made the rehabilitation necessary.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Coral Insurance Company, Inc.** as of December 31, 2007, consistent with the insurance laws of the State of Florida.

Upon examination the Company's Surplus as regards policyholders was \$1,707,414. This amount puts the Company in violation of Section 624.408, Florida Statutes, which requires an insurer in this State shall at all times maintain surplus as to policyholders not less than \$4,000,000 under Section 424.408 (1)(a) 5, Florida Statutes. Please see the subsequent events section of this report that reflects a contribution of \$5,000,000 additional paid-in capital from the ultimate controlling entity, Coral Enterprises, LLC. The effects on the current surplus of the Company of this infusion cannot be determined as the examination date was as of December 31, 2007, and the date of the infusion was December 22, 2008.

In addition to the undersigned, the following individuals participated in the examination: Nathan T. Godbold, ACAS, MAAA, FCA, Paula Keyes, CPCU, ARe, AIR, Charles Jackson, Licensed Independent Claims Adjuster and Licenses Claims Counselor and James E. York Jr. CFE, CISA, AES, all from Integra Management Group.

Respectfully submitted,

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Florida Office of Insurance Regulation