

REPORT ON EXAMINATION
OF
CYPRESS PROPERTY & CASUALTY
INSURANCE COMPANY
JACKSONVILLE, FLORIDA

AS OF
DECEMBER 31, 2009

BY THE
OFFICE OF INSURANCE REGULATION

TABLE OF CONTENTS

LETTER OF TRANSMITTAL	-
SCOPE OF EXAMINATION	1
SUMMARY OF SIGNIFICANT FINDINGS	2
CURRENT EXAM FINDINGS	2
PRIOR EXAM FINDINGS	3
SUBSEQUENT EVENTS.....	4
HISTORY	4
GENERAL	4
DIVIDENDS TO STOCKHOLDERS	5
CAPITAL STOCK AND CAPITAL CONTRIBUTIONS.....	5
SURPLUS DEBENTURES	5
ACQUISITIONS, MERGERS, DISPOSALS, DISSOLUTIONS, AND PURCHASE OR SALES THROUGH REINSURANCE	6
CORPORATE RECORDS	6
CONFLICT OF INTEREST	6
MANAGEMENT AND CONTROL	6
MANAGEMENT	6
AFFILIATED COMPANIES	8
ORGANIZATIONAL CHART	9
TAX ALLOCATION AGREEMENT	10
COST SHARING AGREEMENT	10
MANAGING GENERAL AGENT AGREEMENT	10
FIDELITY BOND AND OTHER INSURANCE.....	11
PENSION, STOCK OWNERSHIP AND INSURANCE PLANS.....	11
TERRITORY AND PLAN OF OPERATIONS.....	11
TREATMENT OF POLICYHOLDERS.....	11
COMPANY GROWTH	12
PROFITABILITY OF COMPANY	12
LOSS EXPERIENCE	12
REINSURANCE.....	13
ASSUMED	15
CEDED	15
ACCOUNTS AND RECORDS.....	15
CUSTODIAL AGREEMENT	16
INVESTMENT ADVISORY AGREEMENT.....	16

INDEPENDENT AUDITOR AGREEMENT	17
INFORMATION TECHNOLOGY REPORT	17
STATUTORY DEPOSITS.....	17
FINANCIAL STATEMENTS PER EXAMINATION.....	18
ASSETS	19
LIABILITIES, SURPLUS AND OTHER FUNDS	20
STATEMENT OF INCOME	21
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS.....	22
COMMENTS ON FINANCIAL STATEMENTS.....	23
LIABILITIES.....	23
STATEMENT OF INCOME	24
CAPITAL AND SURPLUS	24
CONCLUSION.....	26

Tallahassee, Florida

September 24, 2010

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, 2009, of the financial condition and corporate affairs of:

**CYPRESS PROPERTY & CASUALTY INSURANCE COMPANY
13901 SUTTON PARK DRIVE SOUTH, SUITE 310
JACKSONVILLE, FLORIDA 32224**

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, 2005, through December 31, 2009. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2004. This examination commenced with planning at the Office on June 7, 2010, to June 11, 2010. The fieldwork commenced on June 14, 2010, and concluded as of September 24, 2010.

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

The following is a summary of material adverse findings, significant non-compliance findings, or material changes in the financial statements noted during this examination.

Corporate Governance

A review of the provided meeting minutes of the Board of Directors (Board) did not show evidence of Board approval of the investment activity of the Company as required by Section 625.304, Florida Statutes.

There are currently two members appointed to the Audit Committee. The Company was not in compliance with Section 624.424(8)(c), Florida Statutes, which requires that the audit committee be comprised of three or more independent directors.

An annual Meeting of Shareholders of the Company was not held for any of the years under examination as required by Section 607.0701(1), Florida Statutes and Section 628.231(2), Florida Statutes.

Reinsurance

Reinsurance Contract No. 106994001-09 between the Company and Hannover Reinsurance (Ireland), LTD reinsured the excess liability of the Company with respect to the Casualty loss incurred under the Company's Claim Number 62188 with a date of loss of February 2, 2009. This contract was accounted for as a prospective reinsurance transaction. Since the date of loss preceded the effective date of the agreement, this agreement should have been accounted for as retroactive reinsurance as prescribed by SSAP 62, Paragraphs 28 – 34.

Prior Exam Findings

The following is a summary of significant adverse findings contained in the Office's prior examination report as of December 31, 2004, along with resulting action taken by the Company.

Net Deferred Tax

The Company failed to comply with SSAP No. 10, paragraph 10 – Deferred tax assets. The correction to the December 31, 2004 annual statement increased net deferred tax assets by \$495,038 and increased the ceded reinsurance premiums payable account by \$4,170,121, due to the acceleration of recognized reinsurance premium expense. The acceleration of expense caused surplus to fall below the minimum amount required in Section 624.408, Florida Statutes.

Resolution: Corrective action was taken by the Company during the second quarter of 2005 to comply with SSAP No. 10 and Section 624.408, Florida Statutes.

SUBSEQUENT EVENTS

In the beginning of 2010, the Company settled a third party liability claim for \$7 million, payable in three installments in early 2010. This amount was \$6.7 million above the limits on the underlying homeowner's policy. The settlement was intended to avoid lengthy and costly litigation surrounding comparative negligence and extra contractual damages that ultimately could have exceeded the settlement amount. The Company is now seeking recovery of certain damages from coverage counsel and its errors and omissions insurer.

HISTORY

General

The Company, a domestic, stock company, was incorporated in Florida on August 26, 1998, and commenced business on December 27, 1998, as Cypress Property & Casualty Insurance Company. The Company was only licensed in Florida.

The Company was authorized to transact the following insurance coverage in Florida on December 31, 2009:

Allied Lines	Other Liability
Homeowners Multi Peril	Inland Marine
Fire	

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 dividends to its stockholder in 2009.

Capital Stock and Capital Contributions

As of December 31, 2009, the Company's capitalization was as follows:

Number of authorized common capital shares	7,000,000
Number of shares issued and outstanding	700,000
Total common capital stock	\$700,000
Par value per share	\$1.00

Control of the Company was maintained by its parent, Cypress Holdings, Inc, who owned 100% of the stock issued by the Company, who in turn was 85% owned by Cypress Insurance Group, a Delaware corporation, and 15% by management and other investors.

Surplus Debentures

On February 2, 2007, the Company executed a surplus note with the State Board of Administration of Florida in the amount of \$20.5 million in order to participate in the Capital Build-up Incentive Program. The surplus note accrued interest at a rate equivalent to the 10-year U.S. Treasury Bond rate. The term of the agreement was 20 years.

During the first quarter of 2010, the Company requested permission from the Office to repay \$12.5 million of the \$20.5 million surplus note issued to the State Board of Administration of Florida. The request was granted and the Company made the payment on April 7, 2010. This transaction reduced Surplus As Regards Policyholders to approximately \$35 million at that date.

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

There were no acquisitions, mergers, disposals, dissolutions, or purchase or sales through reinsurance during the period of examination.

CORPORATE RECORDS

The recorded minutes of the shareholder, 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 accordance with Section 607.1601, Florida Statutes. The Company was not in compliance with Section 625.304, Florida Statutes, as there was no record of the Board's authorization of investments as required by the statute.

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 not held in accordance with Sections 607.1601 and 628.231, Florida Statutes. Directors serving as of December 31, 2009, were:

Name and Location**Principal Occupation**

Alan Henry Fishman, Chairman
Brooklyn Heights, New York

President & CEO
Independence Community Bank

Adam Warren Reinmann
Chappaqua, New York

Private Equity Professional
Onex Corporation

Gary Russell Harger
Jacksonville, Florida

President & CEO
Cypress P&C Insurance Company

Robert John Smith (a)
Ponte Vedra Beach, Florida

Executive Vice President – Finance
Cypress P&C Insurance Company

Joseph Francis Braunstein Jr.
Ponte Vedra Beach, Florida

Executive Vice President - Insurance
Cypress P&C Insurance Company

(a) Resigned as of July 31, 2010 and was replaced by Brook L. Cuddy as Director on August 1, 2010.

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

Name**Title**

Gary Russell Harger

President & Treasurer

Robert John Smith (a)

Executive Vice President & Secretary

Joseph Francis Braunstein

Executive Vice President

Glenn Stanley Lawson

Chief Financial Officer

(a) Resigned as of July 31, 2010 and was replaced by Joseph Francis Braunstein as Secretary on August 1, 2010.

The Board appointed one committee in accordance with Section 607.0825, Florida Statutes, and its members as of December 31, 2009 were:

Audit Committee

Alan Henry Fishman¹

Adam Warren Reinmann

¹ Chairman

While the members were independent, the audit committee did not have three or more members as required by Section 624.424(8) (c), Florida Statutes.

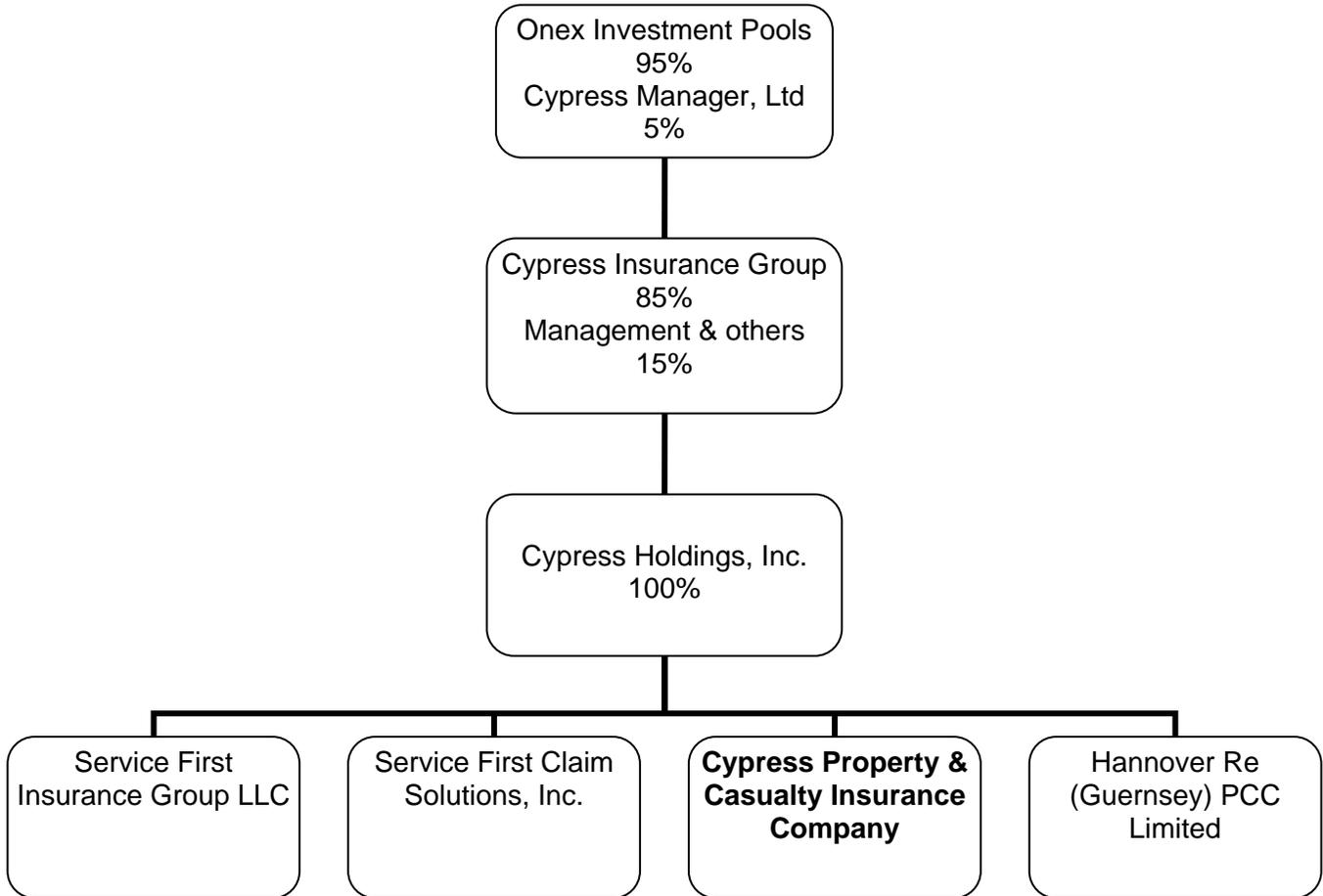
Affiliated Companies

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 26, 2010, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

An organizational chart as of December 31, 2009, reflecting the holding company system, is shown below. Schedule Y of the Company's 2009 annual statement provided a list of all related companies of the holding company group.

**CYPRESS PROPERTY & CASUALTY INSURANCE COMPANY
Organizational Chart**

DECEMBER 31, 2009



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

Tax Allocation Agreement

The Company filed a consolidated tax return with its parent and certain affiliates. On December 31, 2009, income tax provisions were allocated to the respective companies based on their contribution to consolidated taxable income.

Cost Sharing Agreement

The Company entered into a Cost Allocation Agreement with its parent and certain affiliates on July 9, 2007. The agreement allocated cost based upon the scope of work and responsibilities performed for the benefit of the affiliated company. The Company was reimbursed for an allocation of salaries, benefits and operating expenses in the amount of \$7,399,000 as of December 31, 2009.

Managing General Agent Agreement

The Company entered into a Managing General Agency (MGA) Agreement with its affiliate, Service First Insurance Group, LLC on January 1, 2009. The agreement was for a term of five years and would automatically renew for successive five-year periods, unless otherwise terminated within the guidelines of the agreement. MGA fees were based on 19% of gross written premium from personal lines and 25% of gross written premium from commercial lines. MGA fees included the \$25 policy fee. Claims administration services were included in the agreement. Claims administration fees were based on .75% of gross written premium. Fees incurred under this agreement during 2009 amounted to \$11,728,000.

FIDELITY BOND AND OTHER INSURANCE

The Company maintained fidelity bond coverage up to \$2,000,000 with a deductible of \$50,000, an amount which was considered adequate per NAIC guidelines. The Company also maintained Professional Liability coverage, which included Directors and Officers (D&O), with an aggregate limit of \$3,000,000 with a deductible of \$25,000 as well as Worker's Compensation and Employer's Liability coverage.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company had a qualified 401(k) retirement plan for the benefit of their employees. The Company also had an employee medical and dental plan.

TERRITORY AND PLAN OF OPERATIONS

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

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

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 statements.

	2009	2008	2007	2006	2005
Premiums Earned	31,925,776	36,444,081	44,723,171	22,557,408	21,997,889
Net Underwriting Gain/(Loss)	(9,016,951)	(1,092,973)	(2,092,589)	772,292	(2,112,778)
Net Income	(5,223,256)	459,054	42,463	1,538,514	(667,336)
Total Assets	102,261,699	96,617,634	100,604,410	47,845,644	41,165,886
Total Liabilities	54,858,814	44,069,491	48,787,541	38,160,841	33,015,892
Surplus As Regards Policyholders	47,402,885	52,548,143	51,816,870	9,684,804	8,149,994

LOSS EXPERIENCE

There has not been any significant change in the Company's loss experience. However, in anticipation of the \$7 million settlement mentioned in the Subsequent Event section above, the Company established the reserves associated with this claim which brought the 2009 net incurred loss ratio to 56%. Excluding this settlement, the net incurred loss ratio would have been 44%.

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. The following clauses were noted:

Contract No. 106994001-09

This adverse development contract between the Company and Hannover Reinsurance (Ireland), LTD (Hanover) contained a clause which stated that it “reinsures the excess liability of the Company with respect to the casualty loss incurred under the Company’s Claim Number 62188 with a date of loss of February 2, 2009.” This contract was accounted for as a prospective reinsurance transaction. Since the date of loss precedes the effective date of the agreement, this agreement should have been accounted for as retroactive reinsurance as prescribed by SSAP 62, Paragraphs 28 - 34.

Contract No. 93618001-08

This property catastrophe excess of loss contract between the Company and Hannover provided the Company its first layer of reinsurance protection – 100% of \$5 million in excess of the Company’s retention of \$4 million. The contract contained a clause which disclosed that there was a 100% retrocession of the \$3 million premium and liability of loss to the Company’s affiliate, Hannover Re (Guernsey) PCC Limited, Cypress Cell (Cypress Cell).

The contract also disclosed that due to the specific 100% retrocession, Hannover applied deposit accounting rules to reflect the contract in its records. A review of the retrocessional contract between Hannover and Cypress Cell revealed that Hannover applied deposit account rules to that contract as well. The fact that Hannover applies deposit accounting to both assuming and ceding transactions would indicate that premiums and risk are simply passing through to Cypress Cell.

In 2006, the Company's parent established Cypress Cell as a protected captive cell within Hannover Re (Guernsey) PCC LTD. Under the PCC structure, the Company was to cede premium to Hannover and Hannover was to purchase reinsurance from the Cypress Cell. In addition to this retrocessional arrangement, the Company also entered into a direct reinsurance agreement with the Cypress Cell. Both the retrocessional arrangement and the direct contract with the Cypress cell were approved by the Office on July 18, 2006. The approval expired on July 13, 2007.

In 2006, the OIR conducted a limited scope examination on the reinsurance program. Concerns were raised pertaining to both the Company's retrocessional arrangement and the direct contract with the Cypress Cell. In the case of the direct reinsurance contract, the legitimacy of the transaction as reinsurance was questioned. It was recommended that the Company discontinue its use of this protective cell program in 2007.

Beginning with the 2007-08 reinsurance program, the Company no longer had any direct reinsurance relationship with the Cypress Cell. The retrocessional arrangement, as evidenced by this contract and the one preceding, has continued. This retrocessional arrangement is a mechanism through which the Company is able to indirectly purchase reinsurance from Cypress Cell contrary to the Office's recommendation to not place reinsurance directly with the cell.

Assumed

The Company did not assume any risk through reinsurance during the period under examination.

Ceded

The Company ceded risk on a per risk excess of loss and per occurrence catastrophe basis to the Florida Hurricane Catastrophe Fund (FHCF) and various unrelated reinsurers. For the year ended December 31, 2009, the commercial excess of loss treaties generally provided coverage on ultimate net losses of \$55.6 million in excess of \$4 million per occurrence, not to exceed \$111.2 million for all occurrences. The FHCF main and Temporary Increase in Coverage Limit (TICL) layers provided additional protection from qualifying catastrophic events increasing coverage on ultimate net losses to \$148.3 million per occurrence. Management has estimated its current reinsurance program to be sufficient to protect the Company to at least the 200-year probable maximum loss as determined by a catastrophe model approved by the Office.

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 Jacksonville, Florida, where this examination was conducted.

An independent CPA audited the Company's statutory basis financial statements annually for the years 2005 through 2009, 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 in two data centers, one in Atlanta, which is the main data center, and another in Jacksonville, which serves as the backup data center. All IT functions are outsourced to service providers.

Significant delays were experienced during the course of the examination in receiving requested documentation from both the Company and the independent CPA firm. These delays caused an increase to both length and cost of the examination.

The Company and non-affiliates had the following agreements:

Custodial Agreement

The Company maintained a custodial agreement with U.S. Bank National Association that was entered into on September 22, 2006. The Company was in compliance with Rule 69O-143.042, Florida Administrative Code, which stipulates the requirements of a custodial agreement.

Investment Advisory Agreement

The Company maintained an agreement with General Re – New England Asset Management, Inc. (NEAM) that was entered into on August 7, 1998. Under this agreement, NEAM directed and supervised the investments within established account objectives and guidelines established by the Company.

Independent Auditor Agreement

The Company has contracted with PricewaterhouseCoopers, LLC to perform the annual audit of its financial statements as required by Rule 690-137.002 (7) (c), Florida Administrative Code.

INFORMATION TECHNOLOGY REPORT

INS Services, Inc. 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:

State	Description	Par Value	Market Value
FL	FL State Treasury Inv Account	\$ 300,000	\$ 300,000
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, 2009, 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."

CYPRESS PROPERTY & CASUALTY INSURANCE COMPANY
Assets

DECEMBER 31, 2009

	Per Company	Examination Adjustments	Per Examination
Bonds	\$57,535,815	\$0	\$57,535,815
Cash	31,496,737		31,496,737
Investment income due and accrued	428,324		428,324
Premiums and considerations:			
Uncollected premium	5,738,100		5,738,100
Deferred premium			
Amounts recoverable from reinsurers	946,286		946,286
Current federal and foreign income tax recoverable	2,637,060		2,637,060
Net deferred tax asset	2,475,827		2,475,827
Aggregate write-in for other than invested assets	1,003,551		1,003,551
Totals	<u>\$102,261,699</u>	<u>\$0</u>	<u>\$102,261,699</u>

CYPRESS PROPERTY & CASUALTY INSURANCE COMPANY
Liabilities, Surplus and Other Funds

DECEMBER 31, 2009

	Per Company	Examination Adjustments	Per Examination
Losses	\$15,302,316	\$3,000,000	\$18,302,316
Loss adjustment expenses	1,464,561		1,464,561
Other expenses	1,543,651		1,543,651
Taxes, licenses and fees	271,194		271,194
Borrowed money and interest thereon	639,782		639,782
Unearned premium	32,034,232		32,034,232
Advance Premiums	1,423,575		1,423,575
Ceded reinsurance premiums payable	143,406		143,406
Funds held under reinsurance treaties	49,585		49,585
Remittances and items not allocated	87,726		87,726
Provision for reinsurance	45,038		45,038
Payable to parent, subsidiaries and affiliates	497,343		497,343
Retroactive reinsurance reserve ceded	0	(3,000,000)	(3,000,000)
Aggregate write-ins for liabilities	1,356,405		1,356,405
Total Liabilities	\$54,858,814	\$0	\$54,858,814
Common capital stock	\$700,000		\$700,000
Surplus notes	25,500,000		25,500,000
Gross paid in and contributed surplus	37,159,857		37,159,857
Special Surplus - Retroactive Reinsurance	0	1,500,000	1,500,000
Unassigned funds (surplus)	(15,956,972)	(1,500,000)	(17,456,972)
Surplus as regards policyholders	\$47,402,885	\$0	\$47,402,885
Total liabilities, surplus and other funds	\$102,261,699	\$0	\$102,261,699

CYPRESS PROPERTY & CASUALTY INSURANCE COMPANY
Statement of Income

DECEMBER 31, 2009

Underwriting Income

Premiums earned		\$31,925,776
	Deductions:	
Losses incurred		\$17,914,805
Examination adjustment		\$1,500,000
Loss expenses incurred		2,461,810
Other underwriting expenses incurred		20,566,112
Total underwriting deductions		\$42,442,727
Net underwriting gain or (loss)		(\$10,516,951)

Investment Income

Net investment income earned		\$1,052,615
Net realized capital gains or (losses)		714,345
Net investment gain or (loss)		\$1,766,960

Other Income

Aggregate write-ins for miscellaneous income		\$3,604
Examination adjustment		1,500,000
Total other income		\$1,503,604
Net income before dividends to policyholders and before federal & foreign income taxes		(\$7,246,387)
Dividends to policyholders		0
Net Income, after dividends to policyholders, but before federal & foreign income taxes		(\$7,246,387)
Federal & foreign income taxes		(2,023,131)
Net Income (Loss)		(\$5,223,256)

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year		\$52,548,144
Net Income		(\$5,223,256)
Change in net deferred income taxes		333,543
Change in non-admitted assets		(210,507)
Change in provision for reinsurance		(45,038)
Examination Adjustment		0
Change in surplus as regards policyholders for the year		(\$5,145,257)
Surplus as regards policyholders, December 31 current year		\$47,402,886

A comparative analysis of changes in surplus is shown below.

CYPRESS PROPERTY & CASUALTY INSURANCE COMPANY
Comparative Analysis of Changes In Surplus

DECEMBER 31, 2009

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, 2009, per Annual Statement \$47,402,885

	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:			
No Adjustment			
LIABILITIES:			
Losses	\$15,302,316	\$18,302,316	\$3,000,000
Retroactive reinsurance reserve ceded		(3,000,000)	(3,000,000)
STATEMENT OF INCOME			
Losses incurred	17,914,805	19,414,804	(1,500,000)
Gain on retroactive reinsurance		1,500,000	1,500,000
CAPITAL AND SURPLUS			
Unassigned funds	(15,956,972)	(17,456,972)	(1,500,000)
Special surplus - retro reinsurance		1,500,000	1,500,000
Net Change in Surplus:			0
Surplus as Regards Policyholders December 31, 2009, Per Examination			\$47,402,885

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses \$19,766,877

An outside actuarial firm appointed by the Board rendered an opinion that the amounts carried in the balance sheet as of December 31, 2009, 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 an independent actuarial firm, INS Consultants, Inc. to review the Statutory Loss Reserve carried in the Company's balance sheet as of December 31, 2009, and was in concurrence with this opinion.

The \$3 million examination adjustment to Losses resulting from the retroactive reinsurance transaction that was improperly recorded is offset by the \$3 million contra-liability write-in item, Retroactive Reinsurance Reserve Ceded. These adjustments do not affect the aforementioned opinions or impact surplus.

Statement of Income

The following examination adjustments were made to the Income Statement to report the initial gain arising from the retroactive reinsurance transaction that was improperly recorded:

	As per the Annual Statement	Adjustment	As per the Examination
Loss Incurred	\$17,914,804	\$1,500,000	\$19,414,804
Aggregate Write-ins for misc income: Gain on Retroactive Reinsurance	\$0	\$1,500,000	\$1,500,000

There was no impact on surplus as a result of these adjustments.

Capital and Surplus

The examination adjustment restricting surplus by \$1,500,000 creates the special surplus account for the retroactive reinsurance transaction required under SSAP 62, Paragraph 29(d).

There was no impact on total surplus as a result of this adjustment.

The amount reported by the Company of \$47,402,885, exceeded the minimum of \$5,485,881 required by Section 624.408, Florida Statutes.

SUMMARY OF RECOMMENDATIONS

Corporate Governance

We recommend that the investment activity of the Company be approved by the Board of Directors as required by Section 625.304, Florida Statutes.

We recommend that the Company comply with Section 624.424(8)(c), Florida Statutes, which requires that the audit committee be comprised of three or more independent directors.

We recommend that an annual Meeting of Shareholders of the Company be held as required by Section 607.0701(1), Florida Statutes and Section 628.231(2), Florida Statutes.

Reinsurance

We recommend that the Company properly account for all reinsurance transactions according to SSAP 62.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **CYPRESS PROPERTY & CASUALTY INSURANCE COMPANY** as of December 31, 2009, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was \$47,402,885, in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned, John V. Normile, CFE, INS Regulatory Insurance Services, Inc. (InsRis); Patricia Casey Davis, CPA, CFE, Manager; InsRis; and Brian Dunn, CFE, INS Consultants, Inc, participated in portions of the examination. Gene Thompson, ACAS, MAAA, INS Consultants, Inc. and James R. Neidermyer, FCAS, MAAA, INS Consultants, Inc. completed the actuarial portion of this examination. We also recognize Claude Granese, CPA, INS Services, Inc. participation in the examination.

Respectfully submitted,

Kethessa Carpenter, CPA
Financial Examiner/Analyst Supervisor
Florida Office of Insurance Regulation