

REPORT ON EXAMINATION
OF
FLORIDA PENINSULA INSURANCE
COMPANY
BOCA RATON, FLORIDA

AS OF
DECEMBER 31, 2008

BY THE
OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida

February 12, 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, 2008, of the financial condition and corporate affairs of:

**FLORIDA PENINSULA INSURANCE COMPANY
621 NW 53RD STREET
BOCA RATON, FLORIDA 33487**

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, 2008, through December 31, 2008. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2007. This examination commenced with planning at the Office on September 22, 2009, to September 25, 2009. The fieldwork commenced on October 12, 2009, and concluded as of February 12, 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.

Risk-focused examinations consist of a seven-phase process that can be used to identify and assess risk, assess the adequacy and effectiveness of strategies/controls used to mitigate risk and assist in determining the extent and nature of procedures and testing to be utilized in order to

complete the review of that activity. The process should generally include a determination of the quality and reliability of the corporate governance structure and risk management programs. In addition, it can be used for verification of specific portions of the financial statements or other limited-scope reviews, increased focus on, and can result in increased substantive testing of, accounts identified as being at high risk of misstatement. Conversely, the risk assessment process should result in decreased focus on, and fewer substantive tests on the accounts identified as being at low risk of misstatement. The risk-focused surveillance process can be used to assist examiners in targeting areas of high-risk.

In this examination, emphasis was directed to the quality, value and integrity of the statement of assets and the determination of liabilities, as those balances affect the financial solvency of the Company as of December 31, 2008. Transactions subsequent to year-end 2008 were reviewed where relevant and deemed significant to the Company's financial condition.

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 Demotech rating report, the Company's independent audit reports and certain work papers prepared by the Company's independent certified public accountant (CPA) and other reports 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 involved departures from laws, regulations or rules, or which were deemed to require special explanation or description.

Status of Adverse Findings from Prior Examination

There were no exceptions or findings in the examination as of December 31, 2007.

HISTORY

General

The Company was incorporated in Florida on March 30, 2005, as a stock property and casualty insurer under the applicable provisions of the Florida Statutes. The Company commenced operations on May 1, 2005, as Florida Peninsula Insurance Company.

The Company was party to Consent Order 81299-05-CO, filed April 22, 2005, 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 Homeowners Multi Peril, Fire, Inland Marine and Other Liability insurance coverage in Florida on December 31, 2008.

The Company had a contract with the Citizens Property Insurance Corporation (Citizens) under the depopulation plan whereby the Company assumed policies pursuant to various consent orders approved by the Office. During 2008 the Company assumed a total of 48,225 policies as part of the depopulation plan. The Company planned to generate new business through voluntary business

growth with the introduction of new product lines, expanding lines of business and the scrutinizing of market opportunities.

The Articles of Incorporation were amended during the period covered by this examination. The significant changes pertained to limiting the class of authorized shares in the event of dissolution; added language that the majority of directors must be citizens of the United States and changed the registered agent to the Chief Financial Officer.

Capital Stock

As of December 31, 2008, the Company's capitalization was as follows:

Number of authorized common capital shares	20,000
Number of shares issued and outstanding	20,000
Total common capital stock	\$2,000,000
Par value per share	\$100.00

Control of the Company was maintained by its parent, Florida Peninsula Holdings, LLC, which owned 100% of the stock issued by the Company. On November 29, 2006, Florida Peninsula Holdings, LLC pledged 100% of the Company's stock as collateral to obtain a loan of \$22,500,000. The purpose of the loan was to provide \$20,000,000 capital for the Company. During the first quarter of 2008, the Company issued 20,000 shares of stock at \$100 par value to the Florida Peninsula Holdings, LLC in exchange for the 1,000 existing shares, which have been canceled pursuant to approval by the Office.

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.

	2008	2007	2006
Premiums Earned	94,440,227	47,605,011	32,356,949
Net Underwriting Gain/(Loss)	7,895,318	(10,886,975)	2,308,193
Net Income	7,763,818	(7,162,957)	4,364,100
Total Assets	179,457,331	122,771,331	64,639,346
Total Liabilities	114,128,827	67,246,925	34,370,968
Surplus As Regards Policyholders	65,226,704	55,524,406	30,268,378

Dividends to Stockholders

The Company did not declare or pay dividends to its stockholder in 2008.

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, 2008, were:

Directors

Name and Location

Paul Montgomery Adkins
Boca Raton, FL

Roger Louis Desjaden
Franklin Park, NJ

Principal Occupation

Chairman of the Board of the Company

Chief Executive Officer of the Company

Clint Bryan Strauch Hollywood, FL	Chief Operating Officer of the Company
Francis Joseph Lattanzio Glastonbury, CT	Chief Financial Officer of the Company
Gary Andrew Cantor Ocean Ridge, Florida	Managing Director of the Company
Stacey Alexander Giuliani Fort Lauderdale, Florida	Chief Legal Officer of the Company

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

Senior Officers

Name	Title
Paul Montgomery Adkins	Chairman
Roger Louis Desjadon	Chief Executive Officer
Clint Bryan Strauch	Chief Operating Officer
Gary Andrew Cantor	Executive Vice President
Stacey Alexander Giuliani	Secretary
Francis Joseph Lattanzio	Chief Financial Officer/Treasurer

The Company's board appointed internal committees in accordance with Section 607.0825, Florida Statutes. Following are the principal internal board committees and their members as of December 31, 2008:

Audit Committee

Gary Andrew Cantor¹
Francis Joseph Lattanzio
Stacey Alexander Giuliani
Cindy Murphy

¹ Chairman

Investment Committee

Roger Louis Desjadon¹
Francis Joseph Lattanzio
Paul Montgomery Adkins
Gary Andrew Cantor

Conflict of Interest Procedure

The Company adopted a policy statement requiring annual disclosure of conflicts of interest in accordance with the NAIC Financial Condition Examiners Handbook.

Corporate Records

The recorded minutes of the shareholder, Board of Directors, audit and investment 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, including the authorization of investments as required by Section 625.304, Florida Statutes.

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

There were no mergers, disposals, dissolutions, or purchase or sales through reinsurance during the period covered by this examination.

Surplus Note

In January 2007, the Company received proceeds from a Surplus Note issued by the State of Florida under the Insurance Capital Build-up Incentive Program in the amount of \$25,000,000. The note was executed between the Company and the State Board of Administration of Florida. The term of the note was 20 years at a rate of interest equivalent to the 10-year U.S. Treasury Bond rate.

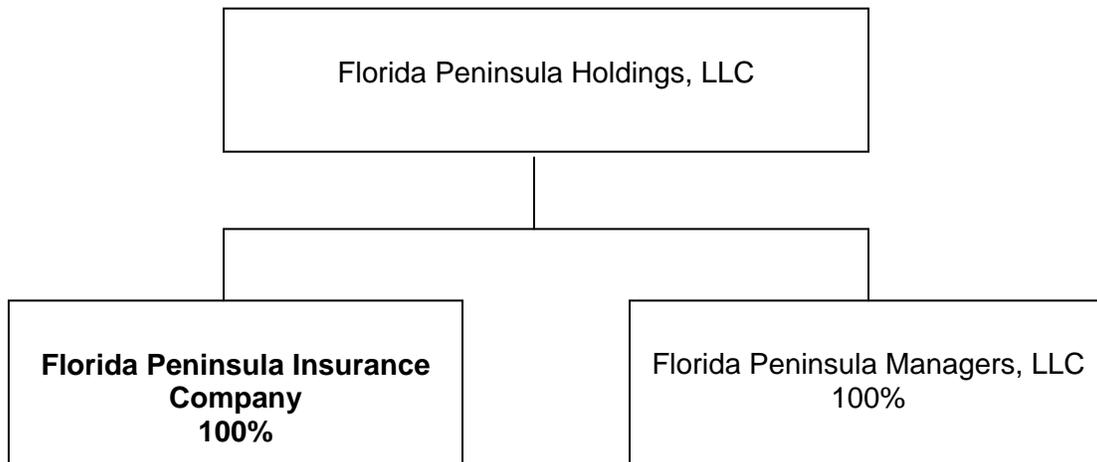
AFFILIATED COMPANIES

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, 2009, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

A simplified organizational chart as of December 31, 2008, reflecting the holding company system, is shown below. Schedule Y of the Company's 2008 annual statement provided a list of all related companies of the holding company group.

FLORIDA PENINSULA INSURANCE COMPANY, INC. ORGANIZATIONAL CHART

DECEMBER 31, 2008



The following agreement was in effect between the Company and its affiliate:

Management Services Agreement

The Company had a Managing General Agency (MGA) agreement with Florida Peninsula Managers, LLC, to provide the Company with underwriting, policyholder, claim administration services, accounting, marketing and other similar services. The agreement complied with Florida Statutes.

FIDELITY BOND AND OTHER INSURANCE

The Company's parent, Florida Peninsula Holdings, LLC, maintained fidelity bond coverage up to \$7,500,000, considered adequate by the NAIC. The Company was identified as a named insured on the fidelity bond.

The Company also maintained Businessowners, Workers Compensation, Directors and Officers (D&O), and Errors and Omissions (E&O) insurance coverage with limits up to \$7,500,000 and deductibles up to \$250,000.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company's sole employee participated in a qualified 401(k) retirement plan sponsored by its parent, Florida Peninsula Holdings, LLC.

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	<u>\$ 300,000</u>	<u>\$ 300,000</u>
TOTAL FLORIDA DEPOSITS		\$ 300,000	\$ 300,000

INSURANCE PRODUCTS

Territory

The Company was authorized to transact insurance in the states of Florida and South Carolina.

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.

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 assumed risk from Citizens in various take out amounts pursuant to a Consent Order, dated and approved on January 28, 2008. The Company requested and received approval to remove up to 80,000 policies. During the first quarter of 2008, the Company took out 27,280 policies; during the second quarter of 2008, they 8,003 policies; and during the fourth quarter of 2008, 12,942 policies. At year-end 2008, the Company had assumed more than \$46 million in premiums from Citizens.

Ceded

The Company ceded risk on a quota share and excess of loss basis to authorized and unauthorized reinsurers. The primary reinsurers were Allianz Risk Transfer, Lloyd's Syndicate number 2001, and Amlin Bermuda, LTD. The Company participated in the Florida Hurricane Catastrophe Fund. The Company had qualified irrevocable letters of credit for each of the agreements with unauthorized reinsurers.

ACCOUNTS AND RECORDS

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

An independent CPA audited the Company's statutory basis financial statements annually for the years 2008, 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 and non-affiliates had the following agreements:

Master Business Process Outsourcing Services

Effective January 1, 2008, the Company's affiliate, Florida Peninsula Managers, LLC (FPM) entered into a Master Business Process Outsourcing Services agreement with Computer Sciences Corporation (CSC) whereby the Company granted authority to CSC to receive and accept proposals for insurance contracts and issue policies based on the Company's underwriting guidelines. These services also included premium reporting, policy preparation, policy issuance and billing and collection of premiums.

Claims Services Agreement - CatManDo

Effective May 1, 2006, the Company's affiliate, FPM entered into a Claim Services Agreement with CatManDo, Inc. to provide claims services for claims assigned to them. CatManDo was to act as administrator and fully investigate, evaluate and handle each claim reported within established authority for claims.

Claims Services Agreement – NCA Group

Effective May 1, 2006, the Company's affiliate, FPM entered into a Claim Services Agreement with NCA Group, Inc. to provide claims services for claims assigned to them. NCA was to act as administrator and fully investigate, evaluate and handle each claim reported within established authority for claims.

Broker Services Agreement

Effective July 12, 2006, the Company entered into a Reinsurance Intermediary Agreement with Guy Carpenter, Inc. by which Guy Carpenter provided reinsurance services including analyzing and evaluating exposures, making recommendations, negotiating premium and coverage terms, securing reinsurers' authorizations to participate, preparing preliminary contract wordings, securing signed agreements and claim services.

Software License Agreement - AIR

Effective November 15, 2006, the Company entered into a software license agreement with AIR Worldwide Corporation for the Company to use catastrophe modeling software and related programs used in evaluating the Company's current and potential book of business

Software License Agreement – Risk Management Solutions

Effective December 15, 2006, the Company entered into a software license agreement with Risk Management Solutions, Inc. for the Company to use catastrophe modeling software and related programs used in evaluating the Company's current and potential book of business.

Information Technology Report

Eide Bailly LLP 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.

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2008, 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."

FLORIDA PENINSULA INSURANCE COMPANY
Assets

DECEMBER 31, 2008

	Per Company	Examination Adjustments	Per Examination
Bonds	\$126,158		\$126,158
Cash	157,640,753		157,640,753
Investment income due and accrued	47,495		47,495
Premiums and considerations:			
Uncollected premium	508,356		508,356
Deferred premium	6,348,473		6,348,473
Reinsurance recoverable	742,757		742,757
Net deferred tax asset	5,003,230		5,003,230
Aggregate write-in for other than invested assets	9,040,109		9,040,109
	<hr/>		
Totals	\$179,457,331	\$0	\$179,457,331
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FLORIDA PENINSULA INSURANCE COMPANY
Liabilities, Surplus and Other Funds

DECEMBER 31, 2008

	Per Company	Examination Adjustments	Per Examination
Losses	\$20,000,008		\$20,000,008
Loss adjustment expenses	1,156,813		1,156,813
Taxes, licenses and fees	2,097,798		2,097,798
Current federal and foreign taxes	4,140,348		4,140,348
Borrowed money	230,639		230,639
Unearned premium	60,416,807		60,416,807
Advance premiums	3,541,391		3,541,391
Ceded reinsurance premiums payable	19,692,709		19,692,709
Funds held under reinsurance treaties	118,559		118,559
Remittances and items allocated	4,746		4,746
Payable to parent, subsidiaries and affiliates	923,385		923,385
Aggregate write-ins for liabilities	1,805,624		1,805,624
Total Liabilities	\$114,128,827		\$114,128,827
Common capital stock	\$2,000,000		\$2,000,000
Surplus notes	25,000,000		25,000,000
Gross paid in and contributed surplus	31,000,000		31,000,000
Unassigned funds (surplus)	7,226,704		7,226,704
Surplus as regards policyholders	\$65,226,704		\$65,226,704
Total liabilities, surplus and other funds	\$179,355,531	\$0	\$179,355,531

FLORIDA PENINSULA INSURANCE COMPANY
Statement of Income

DECEMBER 31, 2008

Underwriting Income

Premiums earned		\$94,440,227
	Deductions:	
Losses incurred		27,910,570
Loss expenses incurred		12,450,496
Other underwriting expenses incurred		46,183,843
Total underwriting deductions		\$86,544,909
Net underwriting gain or (loss)		\$7,895,318

Investment Income

Net investment income earned		\$837,429
Net investment gain or (loss)		\$837,429

Other Income

Net gain or (loss) from agents' or premium balances charged off		(\$20,385)
Finance and service charges not included in premiums		247,577
Aggregate write-ins for miscellaneous income		6,602,651
Total other income		\$6,829,843
Net income before dividends to policyholders and before federal & foreign income taxes		\$15,562,590
Net Income, after dividends to policyholders, but before federal & foreign income taxes		\$15,562,590
Federal & foreign income taxes		7,798,772
Net Income		\$7,763,818

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year		\$55,524,406
Net Income		\$7,763,819
Change in net deferred income tax		2,275,498
Change in non-admitted assets		(235,218)
Change in provision for reinsurance		(101,800)
Capital Changes:		
Paid in		1,999,000
Surplus adjustments:		
Paid in		(1,999,000)
Change in surplus as regards policyholders for the year		\$9,702,299
Surplus as regards policyholders, December 31 current year		\$65,226,705

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses \$21,156.821

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, 2008, made a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

Pacific Actuarial Consultants (PAC), found the consulting firm's actuary for this examination the Company's gross and net loss and loss adjustment expense reserves at December 31, 2008, to be reasonably stated.

Capital and Surplus

The amount reported by the Company of \$65,226,705 exceeded the minimum of \$11,412,882 required by Section 624.408, Florida Statutes.

A comparative analysis of changes in surplus is shown below.

**FLORIDA PENINSULA INSURANCE COMPANY
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS**

DECEMBER 31, 2008

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, 2008, per Annual Statement	\$65,226,704
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	PER COMPANY	PER EXAM	INCREASE (DECREASE) IN SURPLUS
ASSETS:			
No adjustment			\$0
LIABILITIES:			
No adjustment			\$0
Net Change in Surplus:			\$0
Surplus as Regards Policyholders December 31, 2008, Per Examination			\$65,226,704

SUMMARY OF FINDINGS

Compliance with previous directives

There were no exceptions or findings in the examination as of December 31, 2007.

Current examination comments and corrective action

There were no findings or corrective action to be taken by the Company regarding this examination

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Florida Peninsula Insurance Company** as of December 31, 2008, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was \$65,226,704 in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned, the following participated in the examination:

James C. Williams, CFE, CIE, CPA, Senior Audit Manager, Eide Bailly LLP; Ryan Donahue, CISA, CPA, Manager, Eide Bailly LLP; Timothy Klemz, Associate, Eide Bailly LLP; Glenn Evans, FCAS, MAAA, Pacific Actuarial Consultants.

Respectfully submitted,

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