

EXAMINATION REPORT

OF

GRANADA INSURANCE COMPANY

MIAMI, FLORIDA

AS OF

DECEMBER 31, 2014

BY THE

FLORIDA OFFICE OF INSURANCE REGULATION

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April 20, 2016

David Altmaier
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, Rule 69O-138.005, Florida Administrative Code, 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, 2014, of the financial condition and corporate affairs of

Granada Insurance Company
4075 SW 83rd Avenue
Miami, Florida 33155

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

SCOPE OF EXAMINATION

This examination covered the period of January 1, 2010 through December 31, 2014. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) covering the period of January 1, 2005 through December 31, 2009. This examination commenced with planning at the Office on October 5, 2015 to October 9, 2015. The fieldwork commenced on October 19, 2015 and concluded as of April 20, 2016.

The examination was a single state examination conducted in accordance with the NAIC Financial Condition Examiners Handbook. The Handbook requires that the examination is planned and performed to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles.

This examination report includes significant findings of fact, as mentioned in Section 624.319, Florida Statutes and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Company.

SUMMARY OF SIGNIFICANT FINDINGS

Current Examination Findings

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

Prior Examination Findings

The following is a summary of material adverse findings, significant non-compliance findings or material changes in the financial statements in the Office's prior examination report as of December 31, 2009, along with resulting action taken by the Company in connection therewith.

Custodial Agreement

The Company's custodial agreement with Oppenheimer Trust Company (Oppenheimer) was not in compliance with Rule 69O-143.042, Florida Administrative Code. **Resolution:** On April 6, 2011, the Company's custodial agreement with Oppenheimer was amended to comply with Rule 69O-143.042, Florida Administrative Code.

Audit Committee

The Company's Audit Committee was comprised of only two members. The Company was not in compliance with Section 624.424(8)(c), Florida Statutes. **Resolution:** At the Board of Directors (Board) meeting on April 7, 2011, the Audit Committee was expanded to four members to comply with Section 624.424(8)(c), Florida Statutes.

Taxes, Licenses and Fees

The Company reported negative liabilities under Taxes, licenses and fees (excluding federal and foreign income taxes) related to State premium tax recoverable due to an over accrual. The Company was not in compliance with Statement of Statutory Accounting Principle (SSAP) No. 10. **Resolution:** The negative liability was reclassified as an asset under Aggregate Write Ins for Other than Invested Assets.

Federal and Foreign Income Taxes

The Company reported negative liabilities for its Current federal and foreign income taxes related to federal tax recoverable. The Company was not in compliance with SSAP No. 10 and SSAP No. 4. **Resolution:** The negative liabilities were reclassified as an asset under Current federal and foreign income tax and interest thereon.

Losses and Loss Adjustment Expenses

In connection with the Examination Actuary's review, recorded loss and loss adjustment expense were under reserved in the amount of \$1,122,000 for the year ending December 31, 2009. The Company's recorded reserves at year end were within the range of reasonable estimates established by both the Company's Independent Actuary and the Examination Actuary; however, the recorded reserves were not at the mid-point. The Company was not in compliance with Section 625.101, Florida Statutes. Additionally, in the Company's 2010 Annual Statement, the reported one year and two year developments were under reserved by \$647,000 and \$653,000, respectively. **Resolution:** On June 22, 2011, the Company agreed to book reserves at the mid-point in future financial statement filings.

COMPANY HISTORY

General

The Company was incorporated in Florida on August 27, 1986, and commenced business on May 20, 1987.

The Company was authorized to transact insurance coverage in Florida on May 20, 1987 and continued to be authorized for the following coverage(s) as of December 31, 2014.

Fire	Other Liability
Allied Lines	Commercial Auto Liability
Commercial Multiple Peril	Commercial Auto Physical Damage
Inland Marine	Glass
PPA Physical Damage	

Dividends

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

Capital Stock and Capital Contributions

As of December 31, 2014, the Company's capitalization was as follows:

Number of authorized common capital shares	1,955,802
Number of shares issued and outstanding	1,955,802
Total common capital stock	\$1,955,800
Par value per share	\$1.00

Control of the Company was maintained by its parent, Hattbert Holdings Inc. (Hattbert), a Florida corporation, which owned 100% of the stock issued by the Company. The parent contributed \$925,000 cash to the Company as of December 31, 2014.

Surplus Notes

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

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

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

CORPORATE RECORDS

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

Conflict of Interest

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

MANAGEMENT AND CONTROL

Management

The annual shareholder meeting for the election of directors was held in accordance with Section 628.231, Florida Statutes. Directors serving as of December 31, 2014 are shown below:

Directors

Name and Location	Principal Occupation
Juan M. Diaz-Padron Coral Gables, Florida	Chief Executive Officer Granada Insurance Company
Carmen M. Diaz-Padron Coral Gables, Florida	President Granada Insurance Company
Carlos M. Diaz-Padron, Esq. Coral Gables, Florida	Secretary / General Counsel Granada Insurance Company
Richard S. Friedberg Spartanburg, South Carolina	Retired
Ramon Arias Palmetto Bay, Florida	Independent Management Consultant Intermark American
Alberto N. Parjus Miami, Florida	Budget Coordinator Miami-Dade County
Anthony F. Sierra Coral Gables, Florida	President / CEO Best Meridian Insurance Company

In accordance with the Company's bylaws, the Board appointed the following senior officers:

Senior Officers

Name	Title
Juan M. Diaz-Padron	Chief Executive Officer
Carmen M. Diaz-Padron	President
Carlos M. Diaz-Padron, Esq.	Secretary / General Counsel
Delfin F. Campana	Vice President of Claims
Celia I. Acosta- Galvin	Vice President of Underwriting

The Company's Board appointed an internal audit committee. Following were the principal internal board audit committee members as of December 31, 2014:

Audit Committee

Ramon Arias¹
Richard S. Friedberg
Anthony F. Sierra
Alberto N. Parjus

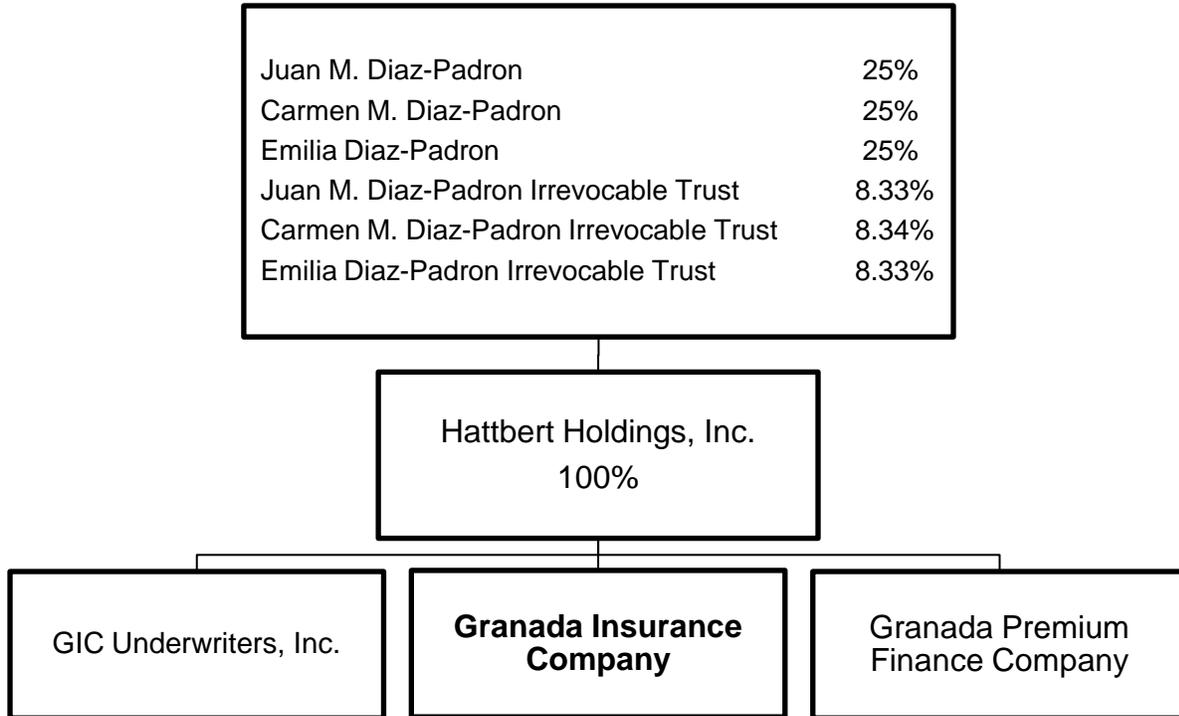
¹ Chairman

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

Affiliated Companies

The most recent holding company registration statement was filed with the Office on April 1, 2016, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

**Granada Insurance Company
Organizational Chart
December 31, 2014**



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

Managing General Agent Agreement

The Company entered into a Managing General Agency (MGA) Agreement with its affiliate, GIC Underwriters, Inc. on September 10, 2003. The MGA Agreement continues in force unless otherwise terminated within the guidelines of the MGA Agreement. MGA fees were based on 22.5% of direct written premium and included a \$25 policy fee. Claims administration services were included in the MGA Agreement. Fees incurred under this MGA Agreement during 2014 amounted to \$6,091,646.

Expense Allocation Agreement

The Company entered into an Expense Allocation Agreement with Hattbert Holdings Inc., GIC Underwriters Inc., and Granada Premium Finance Company on January 1, 2012. The agreement allocated costs based upon the scope of work and responsibilities performed for the benefit of the affiliated company. Costs allocated under this agreement during 2014 amounted to \$930,000.

TERRITORY AND PLAN OF OPERATIONS

The Company was authorized to transact insurance in Florida and Georgia; however, the Company has not written business in Georgia as of December 31, 2014.

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, intermediary clause, transfer of risk, reporting and settlement information deadlines.

Assumed

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

Ceded

The Company ceded risk on a quota share and excess of loss basis to reinsurers under various reinsurance treaties. The Company's retention under its excess of loss treaty was \$300,000. Additionally, the Company ceded risks on a 70/30, 80/20 and 95/5 quota share basis. Quota share treaties covered risks for specific lines of the Company's business in accordance with the reinsurance treaty.

ACCOUNTS AND RECORDS

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

The Company and non-affiliates had the following agreements:

Custodial Agreement

The Company maintained a custodial agreement with Wells Fargo effective August 1, 2014. The agreement complied with Rule 69O-143.042, Florida Administrative Code.

Independent Auditor Agreement

An independent (CPA), GLSC & Company, PLLC., audited the Company's statutory basis financial statements annually for the years 2010, 2011, 2012, 2013, and 2014 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.

INFORMATION TECHNOLOGY REPORT

Francois Houde, CPA, CA, CFE, CISA, AES of Carr, Riggs & Ingram, LLC performed an evaluation of the information technology and computer systems of the Company. Results of the evaluation were noted in the Information Technology Report provided to the Company.

STATUTORY DEPOSITS

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

State	Description	Par Value	Market Value
FL	Cash	<u>\$ 300,000</u>	<u>\$ 300,000</u>
TOTAL FLORIDA DEPOSITS		\$ 300,000	\$ 300,000
GA	Money Market Funds	<u>\$ 28,151</u>	<u>\$ 28,151</u>
TOTAL OTHER DEPOSITS		<u>\$ 28,151</u>	<u>\$ 28,151</u>
TOTAL SPECIAL DEPOSITS		<u><u>\$ 328,151</u></u>	<u><u>\$ 328,151</u></u>

FINANCIAL STATEMENTS

The examination does not attest to the fair presentation of the financial statements included herein. If an adjustment is identified during the course of the examination, the impact of such adjustment will be documented separately following the Company's financial statements. Financial statements, as reported and filed by the Company with the Florida Office of Insurance Regulation, are reflected on the following pages:

Granada Insurance Company

Assets

December 31, 2014

	Per Company	Examination Adjustments	Per Examination
Bonds	\$13,753,287		\$13,753,287
Mortgage loans on real estate:			
First liens	1,632,000		1,632,000
Cash and short-term investments	3,672,276		3,672,276
Investment income due and accrued	54,717		54,717
Agents' balances:			
Deferred premiums	7,961,100		7,961,100
Reinsurance recoverable	593,061		593,061
Federal and foreign income tax recoverable	100,000		100,000
Net deferred tax asset	750,060		750,060
Guaranty funds receivable or on deposit	512		512
EDP equipment	52,278		52,278
Totals	<u>\$28,569,291</u>	<u>\$0</u>	<u>\$28,569,291</u>

Granada Insurance Company
Liabilities, Surplus and Other Funds
December 31, 2014

	Per Company	Examination Adjustments	Per Examination
Losses	\$11,640,046		\$11,640,046
Loss adjustment expenses	1,967,377		1,967,377
Commissions payable	282,682		282,682
Other expenses	225,878		225,878
Taxes, licenses and fees	74,066		74,066
Unearned premium	2,958,759		2,958,759
Ceded reinsurance premiums payable	3,100,000		3,100,000
Total Liabilities	\$20,248,808	\$0	\$20,248,808
Common capital stock	\$1,955,800		\$1,955,800
Gross paid in and contributed surplus	4,470,816		4,470,816
Unassigned funds (surplus)	1,893,739		1,893,739
Surplus as regards policyholders	\$8,320,355	\$0	\$8,320,355
Total liabilities, surplus and other funds	\$28,569,163	\$0	\$28,569,163

Granada Insurance Company
Statement of Income and Capital and Surplus Account
December 31, 2014

Underwriting Income

Premiums earned		\$12,783,961
	Deductions:	
Losses incurred		\$7,960,718
Loss expenses incurred		3,277,149
Other underwriting expenses incurred		2,692,760
Aggregate write-ins for underwriting deductions		0
Total underwriting deductions		<u>\$13,930,627</u>
Net underwriting gain or (loss)		(\$1,146,666)

Investment Income

Net investment income earned		\$241,126
Net realized capital gains or (losses)		0
Net investment gain or (loss)		<u>\$241,126</u>

Other Income

Net gain or (loss) from agents' or premium balances charged off		(\$216,898)
Finance and service charges not included in premiums		843,323
Aggregate write-ins for miscellaneous income		0
Total other income		<u>\$626,425</u>
Net income before dividends to policyholders and before federal & foreign income taxes		(\$279,115)
Dividends to policyholders		0
Net Income, after dividends to policyholders, but before federal & foreign income taxes		(\$279,115)
Federal & foreign income taxes		0
Net Income		<u><u>(\$279,115)</u></u>

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year		\$8,500,782
Net Income (loss)		(\$279,115)
Net unrealized capital gains or losses		0
Change in non-admitted assets		48,250
Change in net deferred income tax		50,438
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>(\$180,427)</u>
Surplus as regards policyholders, December 31 current year		<u><u>\$8,320,355</u></u>

Granada Insurance Company
Comparative Analysis of Changes in Surplus
December 31, 2014

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, 2014, per Annual Statement		\$8,320,355
	<u>PER COMPANY</u>	<u>PER EXAM</u>
		<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:		
No Adjustment		\$0
LIABILITIES:		
No Adjustment		
Net Change in Surplus:		0
Surplus as Regards Policyholders December 31, 2014, Per Examination		\$8,320,355

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses

An actuary appointed by the Board, Anthony J. Grippa, Sr., rendered an opinion that the amounts carried in the balance sheet as of December 31, 2014, 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 consulting actuary, Chris Burkhalter, FCAS, MAAA of Bickerstaff, Whatley, Ryan & Burkhalter, Consulting Actuaries, reviewed the loss and loss adjustment expense work papers provided by the Company and he was in concurrence with this opinion.

Capital and Surplus

The amount of capital and surplus reported by the Company of \$8,320,355, exceeded the minimum of \$5,000,000 required by Section 624.408, Florida Statutes.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Granada Insurance Company** as of December 31, 2014, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's surplus as regards policyholders was \$8,320,355, which exceeded the minimum of \$5,000,000 required by Section 624.408, Florida Statutes.

In addition to the undersigned, Dale Miller, CPA, CFE, Examiner-in-Charge, Sharon Stuber, CPA, and Beth Duncan, Participating Examiners, of Carr, Riggs and Ingram, LLC, also participated in the examination. Members of the Office who participated in the examination include, Jeff Rockwell, Financial Examiner/Analyst Supervisor, Examination Manager, and Marie Stuhlmuller, Financial Specialist, Participating Examiner. Additionally, Chris Burkhalter, FCAS, MAAA of Bickerstaff, Whatley, Ryan & Burkhalter, Consulting Actuaries, and Francois Houde, CPA, CA, CFE, CISA, AES, IT Specialist of Carr, Riggs and Ingram, LLC are recognized for participation in the examination.

Respectfully submitted,

Lamar Downs, CPA
Deputy Chief Examiner
Florida Office of Insurance Regulation