

REPORT ON EXAMINATION

OF

GULFSTREAM PROPERTY AND

CASUALTY INSURANCE COMPANY

SARASOTA, FLORIDA

AS OF

DECEMBER 31, 2005

BY THE

OFFICE OF INSURANCE REGULATION

TABLE OF CONTENTS

LETTER OF TRANSMITTAL	-
SCOPE OF EXAMINATION.....	1
HISTORY	2
GENERAL	2
CAPITAL STOCK.....	4
PROFITABILITY OF COMPANY.....	4
DIVIDENDS TO STOCKHOLDERS.....	4
MANAGEMENT	5
CONFLICT OF INTEREST PROCEDURES.....	6
CORPORATE RECORDS.....	6
ACQUISITIONS, MEEGERS, DISPOSALS.....	6
SURPLUS DEBENTURES	7
AFFILIATED COMPANIES	7
TAX SHARING AGREEMENT.....	7
MANAGING AGENCY (MGA) CONTRACT.....	8
EXECUTIVE MANAGEMENT AGREEMENT.....	8
UNDERWRITING POLICY ADMINISTRATION AND PROCESSING MANAGEMENT AGREEMENT	8
CLAIMS ADMINISTRATION AGREEMENT	8
ORGANIZATIONAL CHART.....	9
FIDELITY BOND AND OTHER INSURANCE.....	10
PENSION, STOCK OWNERSHIP AND INSURANCE PLANS	10
STATUTORY DEPOSITS.....	10
INSURANCE PRODUCTS AND RELATED PRACTICES.....	10
TERRITORY	10
TREATMENT OF POLICYHOLDERS.....	11
REINSURANCE.....	11
ASSUMED	11
CEDED.....	12
ACCOUNTS AND RECORDS.....	12
INDEPENDENT AUDITOR AGREEMENT.....	13
ACTUARIAL AGREEMENT	13
FINANCIAL STATEMENTS PER EXAMINATION.....	13
ASSETS.....	14
LIABILITIES, SURPLUS AND OTHER FUNDS.....	15
STATEMENT OF INCOME.....	16

COMMENTS ON FINANCIAL STATEMENTS17
ASSETS17
LIABILITIES 18
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS20
SUMMARY OF FINDINGS21
CONCLUSION23

Tallahassee, Florida

February 15, 2007

Kevin M. McCarty
Commissioner
Office of Insurance Regulation
State of Florida
Tallahassee, Florida 32399-0326

Dear Sir:

Pursuant to your instructions, in compliance with Section 624.316, Florida Statutes, and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted an examination as of December 31, 2005, of the financial condition and corporate affairs of:

**GULFSTREAM PROPERTY AND CASUALTY INSURANCE COMPANY
6964 PROFESSIONAL PARKWAY EAST
SARASOTA, FL 34240**

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

SCOPE OF EXAMINATION

This examination covered the period of January 18, 2005 through December 31, 2005. This examination commenced, with planning at the Office of Insurance Regulation (Office), on September 7, 2006. The fieldwork commenced on September 11, 2006, and was concluded as of December 21, 2006. The examination included any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

This financial examination was a statutory financial examination conducted in accordance with the Financial Condition Examiners Handbook, Accounting Practices and Procedures Manual and annual statement instructions promulgated by the NAIC as adopted by Rules 69O-137.001(4) and 69O-138.001, Florida Administrative Code, with due regard to the statutory requirements of the insurance laws and rules of the State of Florida.

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

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

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

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

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

Federal Income Taxes

Status of Adverse Findings from Prior Examination

This is the first examination of the Company.

HISTORY

General

The Company was incorporated in the State of Florida on October 8, 2004, and commenced business on January 18, 2005. The Company received its certificate of authority from the Office on November 30, 2004. The Company is a wholly-owned subsidiary of New Holdings, Inc. (NHI).

The Company was authorized to transact the following insurance coverage in Florida on December 31, 2005:

Fire	Allied Lines
Homeowners Multi Peril	Inland Marine
Other Liability	Mobile Home Multi Peril
Mobile Home Physical Damage	

The Company was approved by the Office for a take-out plan of operation which provided for the assumption of up to 120,000 policies in stages from Citizens Property Insurance Corporation (Citizens) over an eighteen month period. The initial take-out was performed on January 18, 2005, totaling 58,893 policies. A second take-out was completed in March of 2005, totaling 18,212 policies and the third and final take-out was in October of 2005 totaling 2,530 policies. In April of 2005, as the policies came up for renewal, the Company renewed the assumed policies as direct business.

Preferred (Voluntary) Program: The program was filed on October 23, 2006 with expectations to begin writing homeowners business (forms HO-3, HO-4 and HO-6) in late January of 2007. The goal of the program was to reduce the Company's overall reinsurance costs, when measured on a 'per policy' basis, by focusing on geographic areas that complimented their current exposure. The program used Citizens territory codes consistent with their current takeout program.

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

Capital Stock

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

Number of authorized common capital shares	100,000
Number of common shares issued and outstanding	100
Total common capital stock issued	\$100
Par value per share	\$1.00

All 100 outstanding shares of common stock of the Company were owned by NHI, an insurance holding company domiciled in the State of Delaware. NHI was owned 60% by Charles Powers, 20% by Philip DeRosa, and 20% by Seibels, Bruce & Company (SBC).

Profitability of Company

The following table shows the profitability trend (in dollars) of the Company for the period of examination.

	2005	2004
Premiums Earned	38,456,157	0
Net Underwriting Gain/(Loss)	(1,048,885)	(\$3,265)
Net Income	(2,479,365)	14,091
Total Assets	68,055,169	10,019,843
Total Liabilities	54,197,930	5,752
Surplus As Regards Policyholders	13,857,239	10,014,091

Dividends to Stockholders

The Company did not declare or pay dividends to its stockholder in 2004 and 2005.

Management

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

Directors

Name and Location	Principal Occupation
Elizabeth Rose Monts Nokomis, FL	VP, CFO and Treasurer of Company, Gulfstream Property and Casualty MGA, Inc. (GMGA) and NHI
Charles Heath Powers Florence, SC	Ownership interest in SBC and Insurance Network Services, Inc. (INS) and NHI
Bryan Douglas Rivers Lexington, SC	Chairman Director/Chairman of GMGA and NHI Controller & Treasurer of SBC and INS
Philip Louis DeRosa Sarasota, FL	President, CEO and Secretary of Company, GMGA and NHI
Kyle Lee Redfearn Tallahassee, FL	Director of GMGA and NHI

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

Senior Officers

Name	Title
Philip Louis DeRosa	President, CEO and Secretary
Elizabeth Rose Monts	VP, CFO and Treasurer

The Company had an audit committee in accordance with Section 624.424, Florida Statutes.

Following are the audit committee members as of December 31, 2005:

Audit Committee

Charles Powers
Kyle Redfearn¹
Bryan Rivers

¹Chairman

Conflict of Interest Procedure

The Company did not adopt a policy statement requiring annual disclosure of conflicts of interest which was not in compliance with the NAIC Financial Condition Examiners Handbook.

Subsequent event: In 2006 the Company established a conflict of interest policy, requiring annual disclosure of conflicts of interest.

Corporate Records

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

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

There were no mergers, disposals, dissolutions, purchase or sales through reinsurance.

Surplus Debentures

The Company had no surplus debentures.

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 August 1, 2006, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046(4), Florida Administrative Code.

The Company did not timely report changes in ownership shares of NHI on their holding company registration statement. The Company was not in compliance with Rule 69O-143.046(4), Florida Administrative Code, which requires changes to be reported within 15 days after the end of the month in which the Company learns of each change.

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

Tax Sharing Agreement

The Company had a Tax Sharing Agreement with NHI and GMGA entered into on October 1, 2004. The parties were members of an affiliated group as defined in Section 1504(a) of the Internal Revenue Code of 1986. NHI filed a consolidated federal income tax return in 2005.

Managing Agency (MGA) Contract

The Company had an MGA agreement, effective October 15, 2004, with GMGA. GMGA was to provide comprehensive management and administration of the Company's business. On November 1, 2004, GMGA subcontracted claims servicing to INS and policy servicing to SBC.

GMGA was not abiding by the terms of the MGA agreement with regard to settlement of amounts due within the timeframe specified and the Company should take action to address this with GMGA.

Executive Management Agreement

The Company maintained an Executive Management Agreement with NHI, as of October 15, 2004. NHI contracted to provide the Company with management and administration services.

Underwriting Policy Administration and Processing Management Agreement

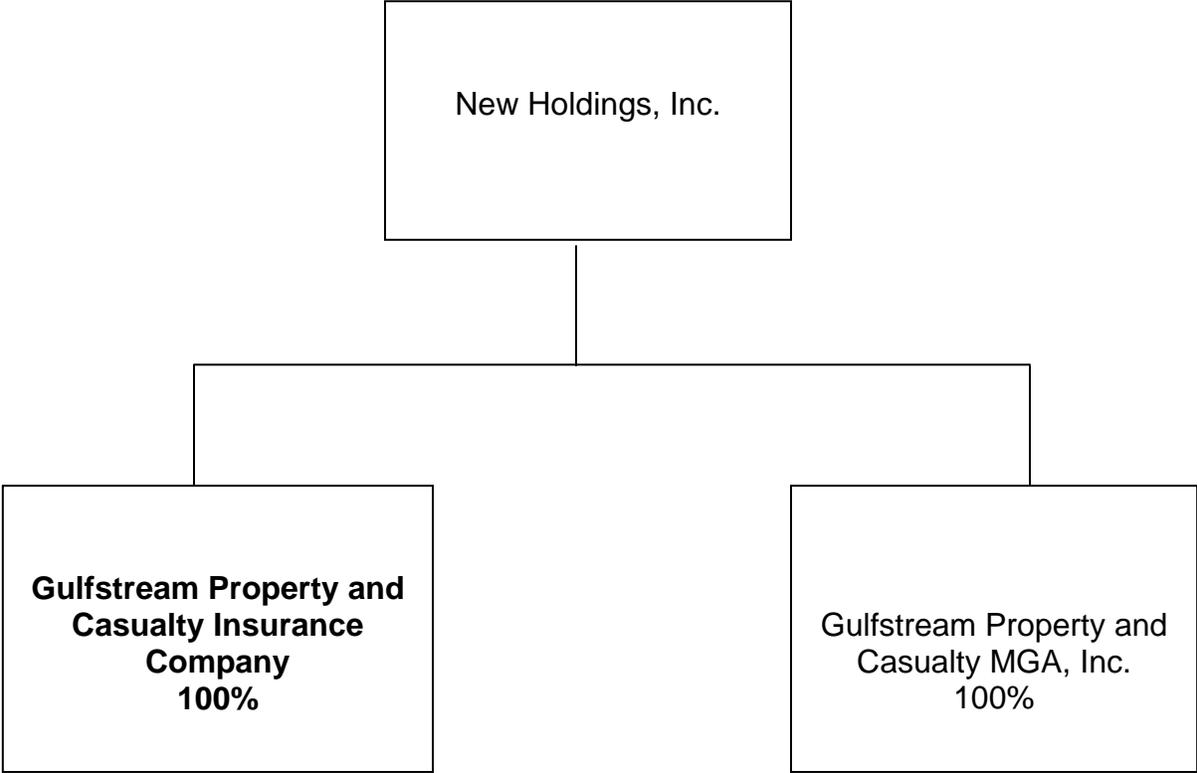
GMGA subcontracted policy administration and processing to SBC. SBC was affiliated with NHI through common ownership. The agreement was effective November 1, 2004 and required SBC to provide certain policy administration, underwriting and information technology services.

Claims Administration Services Agreement

GMGA subcontracted claims servicing to INS. INS was affiliated with SBC and NHI through common ownership. The agreement was effective November 1, 2004, and required INS to provide claims administration for the Company.

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

**GULFSTREAM PROPERTY AND CASUALTY INSURANCE COMPANY
ORGANIZATIONAL CHART
DECEMBER 31, 2005**



FIDELITY BOND

In 2005, the Company did not maintain a fidelity bond as recommended by the NAIC. The Company was not in compliance with Rule 69O-142.011, (11), (b)(16), Florida Administrative Code, which states that a fine will be assessed for the failure to secure a fidelity bond in the recommended amount as established by the NAIC. **Subsequent event:** In March of 2006, Company obtained adequate coverage as recommended by the NAIC for the 2006 policy year.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company had no pension, stock ownership or employee insurance plans.

STATUTORY DEPOSITS

The following cash was deposited with the State of Florida as required by Section 624.411, Florida Statutes.

<u>State</u>	<u>Description</u>	<u>Par Value</u>	<u>Market Value</u>
FL	Cash	<u>\$300,000</u>	<u>\$300,000</u>
TOTAL FLORIDA DEPOSITS		<u>\$300,000</u>	<u>\$300,000</u>

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory

The Company was authorized to transact insurance in Florida only.

Treatment of Policyholders

The Company established procedures for handling written complaints in accordance with Section 626.9541(1)(j), 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 business from Citizens Property Insurance Corporation as approved by the Office provided in Consent Order No. 79430-04-CO, dated December 8, 2004. The Company assumed \$63,657,000 in premiums in 2005.

The Company had four letters of credit (LOC), which secured unauthorized reinsurance balances, that were not in compliance with the evergreen clause timeframe requirement as required in Rule 69O-144.005(6)(d), Florida Administrative Code.

Subsequent event: The Company updated their letters of credit to be in compliance before the end of this examination.

Ceded

The Company ceded risk on an excess of loss and quota share basis to various authorized and unauthorized reinsurers as listed on Schedule F, Part 3 of the annual statement. The three top reinsurers and their respective percentage of total assumed premiums were: Transatlantic Reinsurance Company (34%), AXA Re (17%) and PXRE Reinsurance Ltd. (34%).

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's accounting records were maintained on a computerized system. The Company's balance sheet accounts were verified with the line items of the annual statement submitted to the Office.

The Company maintained its principal operational office in Sarasota, Florida, where this examination was conducted.

An independent CPA audited the Company's statutory basis financial statements annually for the year's 2004 and 2005, in accordance with Section 624.424(8), Florida Statutes. Supporting work papers were prepared by the CPA as required by Rule 69O-137.002, Florida Administrative Code.

The Company and non-affiliates had the following agreements:

Independent Auditor Agreement

The Company had an agreement with Thomas Howell Ferguson, P.A., Tallahassee, Florida, to perform the independent statutory audit of the Company for 2005.

Independent Actuarial Agreement

The Company had an agreement with Milliman Consultants and Actuaries, San Francisco, CA, for actuarial services.

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2005, and the results of its operations for the year then ended as determined by this examination. Adjustments made as a result of the examination are noted in the section of this report captioned, "Comparative Analysis of Changes in Surplus."

GULFSTREAM PROPERTY AND CASUALTY INSURANCE COMPANY
Assets

DECEMBER 31, 2005

	Per Company	Examination Adjustments	Per Examination
Cash:			
On hand	\$45,404,525		\$45,404,525
Interest and dividend income due & accrued	475,636		475,636
Agents' Balances:			
Uncollected premium	8,282,378	(\$679,015)	7,603,363
Deferred premium	3,159,465		3,159,465
Federal income tax recoverable	287,000	434,055	721,055
Reinsurance recoverables	7,894,145		7,894,145
Net deferred tax asset	2,552,020		2,552,020
Receivable from parents, subsidiaries and affiliates	0	522,129	522,129
Totals	<u>\$68,055,169</u>	<u>\$277,169</u>	<u>\$68,332,338</u>

GULFSTREAM PROPERTY AND CASUALTY INSURANCE COMPANY
Liabilities, Surplus and Other Funds

DECEMBER 31, 2005

	Per Company	Examination Adjustments	Per Examination
Losses	\$6,467,699		\$6,467,699
Loss adjustment expenses	1,524,022		1,524,022
Other expenses	252,659		252,659
Taxes, licenses and fees	737,503	\$434,055	1,171,558
Unearned premium	35,978,877		35,978,877
Ceded reinsurance premiums	6,543,976		6,543,976
Provision for reinsurance	128,000		128,000
Payable to parent, subsidiaries and affiliates	1,989,780		1,989,780
Aggregate write-ins for liabilities	575,414		575,414
Total Liabilities	\$54,197,930	434,055	\$54,631,985
Common capital stock	\$100		100
Gross paid in and contributed surplus	13,999,900		13,999,900
Unassigned funds (surplus)	(142,761)	(156,886)	(299,647)
Surplus as regards policyholders	\$13,857,239	(156,886)	\$13,700,353
Total liabilities, capital and surplus	\$68,055,169	277,169	\$68,332,338

GULFSTREAM PROPERTY AND CASUALTY INSURANCE COMPANY
Statement of Income

DECEMBER 31, 2005

Underwriting Income

Premiums earned	\$38,456,157
DEDUCTIONS:	
Losses incurred	22,052,898
Loss expenses incurred	3,928,403
Other underwriting expenses incurred	13,523,741
Aggregate write-ins for underwriting deductions	0
Total underwriting deductions	<u>\$39,505,042</u>
Net underwriting gain or (loss)	(\$1,048,885)

Investment Income

Net investment income earned	\$1,763,369
Net realized capital gains or (losses)	0
Net investment gain or (loss)	<u>\$1,763,369</u>

Other Income

Net gain or (loss) from agents' or premium balances charged off	(\$18,874)
Finance and service charges not included in premiums	0
Aggregate write-ins for miscellaneous income	25
Total other income	<u>(\$18,849)</u>
Net income before dividends to policyholders and before federal & foreign income taxes	\$695,635
Dividends to policyholders	0
Net Income, after dividends to policyholders, but before federal & foreign income taxes	<u>\$695,635</u>
Federal & foreign income taxes	<u>3,175,000</u>
Net Income	(\$2,479,365)

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year	\$10,014,091
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Gains and (Losses) in Surplus

Net Income	(\$2,479,365)
Net unrealized capital gains or losses	0
Change in non-admitted assets	(233,261)
Change in provision for reinsurance	(128,000)
Change in net deferred income tax	2,683,774
Surplus adjustments: Paid in	4,000,000
Aggregate write-ins for gains and losses in surplus	0
Examination Adjustments	(156,886)
Change in surplus as regards policyholders for the year	<u>\$3,686,262</u>
Surplus as regards policyholders, December 31 current year	<u><u>\$13,700,353</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Assets

Cash \$45,404,525

The Company's was maintaining their cash in BB&T Bank in South Carolina. On December 31, 2006, all of BB&T banking entities became one legal entity with Florida branch offices.

The Company held its premium deposit account in the name of the MGA, Gulfstream Property and Casualty MGA, Inc., in BB&T Bank, which is a non-member Federal Reserve System Bank – in noncompliance with Section 626.7451(3), Florida Statutes; which requires the bank to be a member of the Federal Reserve System. Pursuant to Section 625.012(5)(a)1., the Office has approved the use of BB&T Bank.

The Company did not have a trust agreement for the governance of the premium deposit trust account although the MGA agreement addresses a fiduciary account. Section 625.012(5)(a)(1), Florida Statutes, requires the Company to file a written copy of a trust agreement prior to its becoming effective.

Agents' Balances \$7,603,363

The Company incorrectly reported Agents' Balances on the annual statement. The balance incorrectly included service fees due/from related parties and did not account for amounts due over 90 days. Amounts which were misclassified totaled \$522,129 and were credited by this examination to Agents' Balances and debited the Receivable from parent, subsidiaries and affiliates.

An amount for Agents' Balances over 90 days old totaling \$156,886 was credited by this examination to Agents' Balances and debited to Surplus. The reporting errors were not in compliance with the NAIC Annual Statement Instructions. In September 2006, the Company began nonadmitting its Agents' Balances over 90 days past due.

Federal Income Tax Recoverable \$721,055

The Company incorrectly reported its state income tax payable against its Federal income tax recoverable. An adjustment was made to increase Taxes, licenses and fees and Federal income tax by \$434,055. The reporting errors were not in compliance with the NAIC Annual Statement Instructions.

Receivable from Parent, Subsidiaries and Affiliates \$522,129

An amount due from Parent, subsidiaries and affiliates, totaling \$522,129 was incorrectly reported on the line item for Agents' Balances and was credited by this examination to Agents' Balances and debited to this line item. The reporting errors were not in compliance with the NAIC Annual Statement Instructions.

Liabilities

Losses and Loss Adjustment Expenses \$7,991,721

An outside actuarial firm appointed by the Board of Directors, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2005, 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 actuary reviewed work papers provided by the Company and was in agreement with the outside actuary's opinion.

Taxes, Licenses and Fees \$1,171,558

The Company improperly reported state income tax payable against Federal income tax recoverable. An adjustment was made by this examination to increase Taxes, licenses and fees and Federal income tax by \$434,055. The reporting errors were not in compliance with the NAIC Annual Statement Instructions.

Unassigned Surplus \$299,647

An amount for Agents' Balances over 90 days old totaling \$156,886 was credited by this examination to Agents' Balances and debited to Surplus as regards policyholders. The reporting error was not in compliance with NAIC Annual Statement Instructions.

GULFSTREAM PROPERTY AND CASUALTY INSURANCE COMPANY
Comparative Analysis Of Changes In Surplus

DECEMBER 31, 2005

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

Surplus as Regards Policyholders
per December 31, 2005, Annual Statement \$13,857,239

	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:			
Uncollected Premium	8,282,378	7,603,363	(679,015)
Fed. Inc. Tax	287,000	721,055	434,055
Rec. From PSA	0	522,129	522,129
LIABILITIES:			
Taxes, Lic. Fees	737,503	1,171,558	(434,055)
Net Change in Surplus:			(156,886)
Surplus as Regards Policyholders December 31, 2005, Per Examination			\$13,700,353

SUMMARY OF FINDINGS

Current examination comments and corrective action

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

General

Holding Company Registration Statement

The Company did not timely report changes as required on their holding company registration statement. **We recommend the Company comply with Rule 690-143.046(4), Florida Administrative Code, which requires the Company to report changes within 15 days after the end of the month in which the Company learns of a change.**

MGA Agreement

GMGA did not comply with the terms of the MGA agreement with regard to timely settlement of amounts due the Company. **We recommend the Company take action to address this with GMGA.**

Financial

Cash

The Company did not have a trust agreement for the governance of the premium deposit account. **We recommend the Company enter into a trust agreement to comply with Section 625.012(5)(a)(1), Florida Statutes; and file a written copy of the trust agreement with the Office prior to its becoming effective.**

Agents' Balances

The Company reported various errors within the amount recorded for Agents' Balances. The Company reported an incorrect balance, did not account for balances due over (90) days and included various line items which should have been recorded on the line item for Receivable due from Parent, subsidiaries and affiliate. A net adjustment to Surplus as regards policyholders was made in the amount of \$156,886. In September 2006, the Company began nonadmitting its Agents' Balances over 90 days past due. **We recommend that the Company comply with the NAIC Annual Statement Instructions, and properly report account balances.**

CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **GULFSTREAM PROPERTY AND CASUALTY INSURANCE COMPANY** as of December 31, 2005, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was \$13,700,353 which was in compliance with Section 624.408, Florida Statutes.

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

Respectfully submitted,

Miriam Bleakley
Financial Examiner/Analyst II
Florida Office of Insurance Regulation