

REPORT ON EXAMINATION

OF

GULFSTREAM PROPERTY AND

CASUALTY INSURANCE COMPANY

SARASOTA, FLORIDA

AS OF

DECEMBER 31, 2007

BY THE

OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida

June 9, 2008

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

Dear Sir:

Pursuant to your instructions, in compliance with Section 624.316, Florida Statutes, and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted an examination as of December 31, 2007, of the financial condition and corporate affairs of

**GULFSTREAM PROPERTY AND CASUALTY INSURANCE COMPANY
6964 PROFESSIONAL PARKWAY EAST
SARASOTA, FLORIDA 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 1, 2007 through December 31, 2007. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2006. This examination commenced, with planning at the Office, on March 17, 2008, to March 20, 2008. The fieldwork commenced on March 24, 2008, and concluded as of June 9, 2008.

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 NAIC 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 NAIC 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.

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

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.

Status of Adverse Findings from Prior Examination

There were no items of interest and corrective action to be taken by the Company regarding the examination as of December 31, 2006.

HISTORY

General

The Company was incorporated in Florida on October 8, 2004, and commenced business on January 18, 2005 as Gulfstream Property and Casualty Insurance Company. The Company was authorized to transact the following insurance coverage in Florida on November 30, 2004:

- Fire
- Allied lines
- Homeowners multi peril
- Inland marine
- Other liability
- Mobile home multi peril
- Mobile home physical damage

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

Capital Stock

As of December 31, 2007, the Company's capitalization was as follows:

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

Control of the Company was maintained by New Holdings, Inc. (NHI), a Delaware corporation, which owned 100% of the common capital stock issued by the Company.

Ownership of NHI was as follows:

Estate of Charles H. Powers – 64.6%

Seibels, Bruce & Co. (SBC) – 24.6%

Philip L. DeRosa – 10.8% (Mr. DeRosa was President and Chief Executive Officer of the Company)

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.

	2007	2006	2005
Premiums Earned	34,635,393	34,058,282	38,456,157
Net Underwriting Gain/(Loss)	6,722,844	(6,953,048)	(1,482,940)
Net Income (Loss)	7,039,238	(3,113,011)	(2,479,365)
Total Assets	59,029,476	78,043,912	68,489,224
Total Liabilities	38,880,069	65,391,236	54,631,985
Surplus As Regards Policyholders	20,149,407	12,652,676	13,857,239

Dividends to Stockholders

The Company did not declare or pay dividends to its stockholders during the period covered by this examination.

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, 2007, were:

Directors

Name and Location

Principal Occupation

Philip Louis DeRosa
Sarasota, FL

President, Chief Executive Officer and Secretary of the Company, NHI and Gulfstream Property & Casualty MGA, Inc. (GMGA)

Elizabeth Rose Monts
Sarasota, FL

Vice President, Chief Financial Officer and Treasurer of the Company, NHI and GMGA

Bryan Douglas Rivers
Columbia, SC

Chairman of the Board of the Company and of GMGA and NHI; Chief Financial Officer and Treasurer of SBC and Insurance Network Services Inc.

Rex Warren Huggins
Florence, SC

Entrepreneur: Co-Owner Sadisco South &
Habitat 2000, LLC; Owner Palmetto
Financing, LLC

Kyle Lee Redfearn
Florence, SC

Lawyer/General Counsel for Sadisco South

Mr. Huggins was appointed to the Board of Directors effective September 2, 2007. His appointment was due to the vacancy caused by the death of Charles H. Powers who served as Director from January 6, 2005 until his death on September 2, 2007. Mr. Huggins is the son-in-law of the late Mr. Powers whose estate was the owner of 64.6% of NHI, the parent of the Company.

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

Senior Officers

Name

Title

Philip Louis DeRosa
Elizabeth Rose Monts

President, CEO and Secretary
Vice President, CFO & Treasurer

The Company had an audit committee in accordance with Section 624.424(8)(c), Florida Statutes. The following were the members of the audit committee as of December 31, 2007:

Kyle Lee Redfearn - Chairman
Rex Warren Huggins
Bryan Douglas Rivers

Although not directly involved in the management of the Company, all three individuals had a significant interest in or connection with affiliates of the Company.

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 shareholders, Board of Directors, and audit committee 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 acquisitions, mergers, disposals, dissolutions, and purchase or sales through reinsurance during the period under examination.

Surplus Debentures

The Company had no surplus debentures.

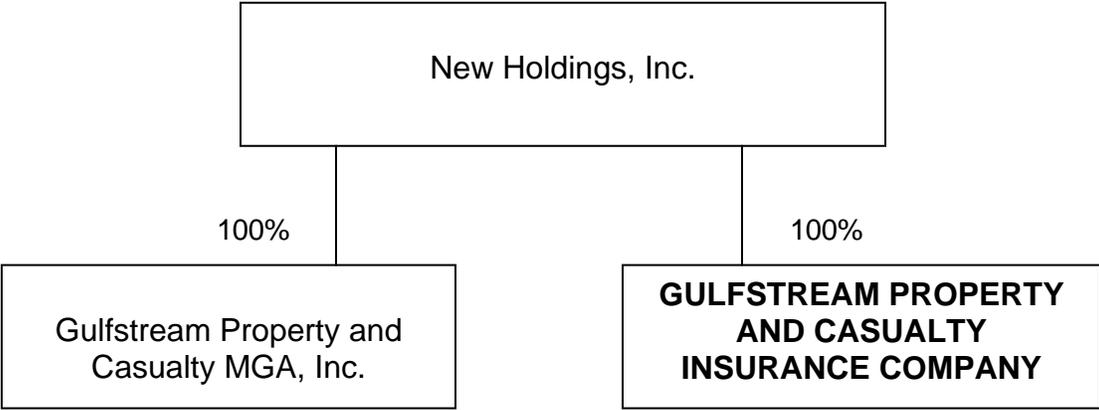
AFFILIATED COMPANIES

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

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

**GULFSTREAM PROPERTY AND CASUALTY INSURANCE COMPANY
ORGANIZATIONAL CHART**

DECEMBER 31, 2007



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

Tax Allocation Agreement

The Company had a tax allocation agreement with NHI and GMGA, entered into on October 1, 2004. The parties were members of an affiliated group. NHI was required to file a consolidated federal income tax return. The method of allocation of tax liability between the companies was based upon calculations on a separate return basis, including current credit for net losses.

Managing General Agent (MGA) Agreement

The Company entered into a MGA agreement with GMGA effective October 15, 2004. The agreement indicated that GMGA was the MGA for the insurance policies issued in the State of Florida and also had the authority to handle claims and negotiate reinsurance on behalf of the Company.

Executive Management Agreement

The Company maintained an executive management agreement with NHI to provide the Company with management and administration services as of October 15, 2004.

Underwriting Policy Administration and Processing Management Agreement

GMGA subcontracted policy administration and processing to SBC, an affiliate of NHI, through common ownership. The agreement was effective on 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 Insurance Network Services, Inc., an affiliate of SBC and NHI, through common ownership. The agreement was effective on November 1, 2004, and required Insurance Network Services, Inc. to provide claims administration for the Company.

FIDELITY BOND

The Company provided a standard financial institution bond that was in effect at December 31, 2007. However, the Company was not listed as an insured on the declarations page.

Subsequent Event: During the course of this examination, the Company amended the declarations page to indicate that the Company was a named insured at December 31, 2007 and the bond amount was adequate in accordance with the NAIC Handbook suggested minimum amount.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company had no employees, no pension plans, stock ownership or insurance plans. All employees providing the services were employed by either GMGA or the parent Company, NHI.

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 Deposit	\$ 300,000	\$ 300,000
TOTAL FL DEPOSITS		<u>\$ 300,000</u>	<u>\$ 300,000</u>

PLAN OF OPERATION

Territory

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

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 on a quota share basis from Citizens Property Insurance Corporation (Citizens) as approved by the Office in Consent Order No. 79430-04, dated December 8, 2004. The Company did not assume any new business in 2007 but did receive \$1.3 million from Citizens during 2007 to adjust for amounts previously assumed.

Ceded

The Company maintained quota share and catastrophe reinsurance to protect against a one in 100 year event. Reinsurance was ceded to various authorized and unauthorized reinsurers.

All reinsurance agreements 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 office in Sarasota, Florida, where this examination was conducted.

An independent CPA audited the Company's statutory basis financial statements for the current examination year, 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:

Independent Auditor Agreement

The Company had an agreement with Thomas Howell Ferguson, P.A. of Tallahassee, Florida to perform an audit of its statutory financial statements for 2007.

Independent Actuarial Agreement

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

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2007, and the results of its operations for the year then ended as determined by this examination. Adjustments made as a result of the examination are noted in the section of the report captioned, "Comparative Analysis of Changes in Surplus."

GULFSTREAM PROPERTY AND CASUALTY INSURANCE COMPANY
Assets

DECEMBER 31, 2007

	Per Company	Examination Adjustments	Per Examination
Cash and short-term investments	\$40,569,335		\$40,569,335
Investment income due and accrued	44,826		44,826
Premiums and considerations:			
Uncollected premiums and agents' balances	4,374,959		4,374,959
Deferred premiums and installments	3,095,373		3,095,373
Amounts recoverable from reinsurers	2,540,272		2,540,272
Current federal income tax recoverable	1,690,677		1,690,677
Net deferred tax asset	2,019,719		2,019,719
Aggregate write-ins for other than invested assets	4,694,315		4,694,315
Totals	\$59,029,476	\$0	\$59,029,476

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

DECEMBER 31, 2007

	Per Company	Examination Adjustments	Per Examination
Losses	\$7,273,144		\$7,273,144
Loss adjustment expenses	2,244,601		2,244,601
Other expenses	238,807		238,807
Taxes, licenses and fees	328,038		328,038
Unearned premiums	30,318,462		30,318,462
Ceded reinsurance premiums payable	(3,980,562)		(3,980,562)
Provision for reinsurance	0		0
Payable to parent, subsidiaries and affiliates	1,324,630		1,324,630
Aggregate write-ins for liabilities	1,132,949		1,132,949
Total Liabilities	\$38,880,069	\$0	\$38,880,069
Common capital stock	\$100		\$100
Gross paid in and contributed surplus	16,999,900		16,999,900
Unassigned funds (surplus)	3,149,407		3,149,407
Surplus as regards policyholders	\$20,149,407	\$0	\$20,149,407
Total Liabilities, Surplus and Other Funds	\$59,029,476	\$0	\$59,029,476

GULFSTREAM PROPERTY AND CASUALTY INSURANCE COMPANY
Statement of Income

DECEMBER 31, 2007

Underwriting Income	
Premiums earned	\$34,635,393
DEDUCTIONS:	
Losses incurred	11,057,297
Loss expenses incurred	4,697,675
Other underwriting expenses incurred	12,157,577
Aggregate write-ins for underwriting deductions	0
Total underwriting deductions	<u>\$27,912,549</u>
Net underwriting gain or (loss)	\$6,722,844
Investment Income	
Net investment income earned	\$2,559,432
Net realized capital gains or (losses)	0
Net investment gain or (loss)	<u>\$2,559,432</u>
Other Income	
Net gain or (loss) from agents' or premium balances charged off	(\$76,253)
Aggregate write-ins for miscellaneous income	0
Total other income	<u>(\$76,253)</u>
Net income before dividends to policyholders and before federal & foreign income taxes	\$9,206,023
Dividends to policyholders	0
Net Income, after dividends to policyholders, but before federal & foreign income taxes	\$9,206,023
Federal & foreign income taxes incurred	<u>2,166,785</u>
Net Income	\$7,039,238
Capital and Surplus Account	
Surplus as regards policyholders, December 31 prior year	\$12,652,676
Gains and (Losses) in Surplus	
Net Income	\$7,039,238
Change in net deferred income tax	(1,070,510)
Change in non-admitted assets	1,476,003
Change in provision for reinsurance	52,000
Change in surplus as regards policyholders for the year	<u>\$7,496,731</u>
Surplus as regards policyholders, December 31 current year	<u><u>\$20,149,407</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses

\$9,517,745

An outside actuarial firm appointed by the Board of Directors, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2007, made a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

INS Consultants, Inc. was retained by the Office to conduct a review of the Company's loss and loss adjustment expense reserves as of December 31, 2007, in conjunction with the financial condition examination.

INS Consultants, Inc. found the Company's gross and net loss and loss adjustment expense reserves at December 31, 2007 to be reasonably stated.

Capital and Surplus

The amount reported by the Company \$20,149,407, exceeded the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

A comparative analysis of changes in surplus is shown below.

**GULFSTREAM PROPERTY AND CASUALTY INSURANCE COMPANY
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS**

DECEMBER 31, 2007

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

Surplus as regards policyholders per December 31, 2007, Annual Statement			\$ 20,149,407
	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:			
No adjustment needed			0
LIABILITIES:			
No adjustment needed.			0
Net Change in Surplus:			\$0
Surplus as regards policyholders December 31, 2007, Per Examination			<u><u>\$ 20,149,407</u></u>

SUMMARY OF FINDINGS

Current examination comments and corrective action

There were no items of interest and corrective action to be taken by the Company regarding findings in the examination as of December 31, 2007.

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, 2007, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was \$20,149,407, which was in compliance with Section 624.408, Florida Statutes.

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

Donna Letterio, CPA, MS, CFE, Financial Specialist, Office; Barry Armstrong, CPA, CFE, Supervising Insurance Examiner, INS Regulatory Insurance Services, Inc.; James Russo, CFE, CFE, CPCU, FLMI, CIE, CFSA, Insurance Examiner, INS Regulatory Insurance Services, Inc.; Beverly Dale, CFE, CPA, FLMI, CIE, Insurance Examiner, INS Regulatory Insurance Services, Inc.; Eugene G. Thompson, ACAS, MAAA, Actuary, INS Consultants, Inc.; and Lawrence R. Lentini, CPA, President, INS Services, Inc.

Respectfully submitted,

James Collins
Reinsurance/Financial Specialist
Florida Office of Insurance Regulation