

REPORT ON EXAMINATION
OF
HOMESITE INSURANCE COMPANY OF
FLORIDA

BOSTON, MASSACHUSETTS

AS OF
DECEMBER 31, 2007

BY THE
OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida

April 30, 2009

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:

**HOMESITE INSURANCE COMPANY OF FLORIDA
99 BEDFORD STREET
BOSTON, MASSACHUSETTS 02111**

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

SCOPE OF EXAMINATION

This examination covered the period of January 1, 2005, through December 31, 2007. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2004. This was a coordinated examination with several other States within the Homesite Group Incorporated (the Group or HGI):

Homesite Insurance Company of the Midwest (North Dakota)
Homesite Indemnity Company (Kansas)
Homesite Insurance Company of California (California)
Homesite Insurance Company of Pennsylvania (Pennsylvania)
Homesite Insurance Company of New York (New York)
Homesite Insurance Company

The lead State on this examination was the State of North Dakota. The fieldwork for the Company commenced on October 20, 2008, and was concluded as of April 30, 2009.

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.

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, 2007. Transactions subsequent to year-end 2007 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 A.M. Best 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

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 in connection therewith.

Contingency Plan

The Company did not test its business contingency plan. **Resolution:** The Company tested its business contingency plan.

Federal Income Taxes

The Company failed to properly compute the 2004 federal income tax expense as required by NAIC annual statement instructions. **Resolution:** The Company computed its federal income taxes in accordance with the NAIC annual statement instructions.

Premium Refunds Due Policyholders

The Company incorrectly reported the premium refunds due policyholders. **Resolution:** The Company properly calculated and reported premium refunds as required by the NAIC annual statement instructions.

Aging of Premium Receivable

The Company did not provide an electronic file of premiums receivable with the necessary data for a recalculation of the Company's aged premiums receivable. **Resolution:** The Company maintained an electronic spreadsheet of its aged premiums. The aged premiums as of December 31, 2007 were provided to the examiner.

HISTORY

General

The Company was incorporated on December 29, 2000 and received its Certificate of Authority in Florida on August 23, 2001, to write various property and casualty lines. The Company was issued a Permit to form as an authorized domestic insurer on December 1, 2000. The

immediate parent of Homesite Insurance Company of Florida was Homesite Securities Company LLC, (“HSC”) a Delaware limited liability company. HSC was wholly owned by Homesite Group Incorporated (“HGI”). HGI was strongly capitalized with over \$100 million. HGI was owned 29.6% by HDC Investors, L.P., 11.6% by the Plymouth Rock Company Incorporated, and 45.6% by Morgan Stanley Capital Partners III, L.P. On December 29, 2006, the Office approved Consent Order #88734-06 for the Purposed Indirect Acquisition of 32.9% of Homesite Insurance Company of Florida, by Alleghany Insurance Holdings, LLC, a Delaware limited liability company.

Other subsidiaries within the holding company include Homesite Indemnity Company, a Kansas domiciled insurer, Homesite Company of the Midwest, a North Dakota company, Homesite Insurance Company of New York, Homesite Insurance Company of Pennsylvania, Homesite Insurance Company of California, Homesite Insurance Company of Illinois, and Homesite Insurance Company, a Connecticut company. All are offering homeowners insurance directly to consumers. The Company’s focus will initially be toward residential homeowners insurance and renters insurance. The Company will market its products in Florida on a direct basis through direct marketing, the Internet, print media, affinity partnerships and referrals. The term “affinity partner,” as used by the Company refers to partners utilized to jointly market a combination of insurance products, as well as partners to whom marketing efforts are directed. At this time, the Company has entered into a joint marketing agreement with GMAC Insurance Holding, Inc.

The Company was authorized to transact Homeowners Multi Peril insurance coverage in Florida on December 31, 2007:

The Articles of Incorporation were amended on February 1, 2005, which was during the period covered by this examination. The amendment to the articles was an address change by the Company for its Tallahassee, Florida location.

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	10,000
Total common capital stock	\$10,000
Par value per share	\$10.00

Control of the Company was maintained by its parent, Homesite Securities Company LLC, who owned 100 percent of the stock issued by the Company, who in turn was 100 percent owned by Homesite Group Incorporated (HGI), a Delaware corporation.

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.

	2007	2006	2005
Premiums Earned	6,611,445	16,467,766	6,103,837
Net Underwriting Gain/(Loss)	1,210,750	1,325,767	(1,451,589)
Net Income	2,168,034	1,402,761	(1,510,088)
Total Assets	13,208,112	32,511,062	23,736,542
Total Liabilities	3,055,966	23,297,809	17,205,650
Surplus As Regards Policyholders	10,152,146	9,213,253	6,530,892

Dividends to Stockholders

The Company paid \$1,313,898 in dividends to stockholders during 2007.

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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
Fabian John Fondriest Boston, MA	CEO, Homesite of Florida CEO, Homesite Group, Inc.
James Thomas Morahan, Jr. Boston, MA	Treasurer, Homesite of Florida VP-Finance and Administration Homesite Group, Inc.
Douglas Andrew Batting Boston, MA	President, Homesite of Florida COO, Homesite Group, Inc.
Anthony Matthew Scavongelli Boston, MA	Secretary and General Counsel, Homesite of Florida VP and General Counsel Homesite Group, Inc.
Brendon Gerard Voss Boston, MA	VP-Claims, Homesite Group, Inc.
Peter Benjamin Settel Boston, MA	VP, Homesite Group, Inc.
Preston Breckenridge Kavangh, III Boston, MA	CFO and VP, Homesite of Florida

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

Senior Officers

Name	Title
Fabian John Fondriest	CEO
Douglas Andrew Batting	President
Preston Breckenridge Kavanagh	CFO and Vice President
James Thomas Morahan, Jr.	Treasurer and Vice President
Anthony Matthew Scavongelli	Secretary and Vice President
Christopher Lewis Conti	Vice President
Peter Benjamin Settel	Vice President
Stephen Douglas Stayton	Vice President
Steven John Walsh	Vice President
Sheryl Jenkins Little	Vice President
Brendan Gerard Voss	Vice President

The Company's Board appointed several internal committees in accordance with Section 607.0825, Florida Statutes. Following are the principal internal committees and their members as of December 31, 2007:

Reinsurance Committee	Audit Committee	Investment Committee
Alan Lange ¹	James Morahan ¹	Preston Kavanagh ¹
Fabian Fondriest	Douglas Batting	Fabian Fondriest
Preston Kavanagh	Anthony Scavongelli	James Morahan
James Morahan		Anthony Scavongelli
Anthony Scavongelli		
¹ Chairman		

The Company's audit committee was not independent as required by Section 624.424(8)(c), Florida Statutes. All of the audit committee members were both directors and officers of the Company. It was also noted that the other companies within the Homesite Group did not have an audit committee charter for the committees formed through Board of Director's (Board) resolutions.

Subsequent Event: A copy of the Board minutes dated June 11, 2008 at the Group level were provided by the Company evidencing the formation of an Audit Committee to serve all

companies within the Group. The Audit Committee at the insurance company level was dissolved.

In Board minutes dated June 19, 2008, a proposed Audit Committee charter was formed. The document was provided for review.

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. The Company did not have signed conflict of interest statements for year-end 2007.

Subsequent Event: The conflict of interest statements for year end 2007 were signed and filed on December 30, 2008.

Corporate Records

The recorded minutes of the shareholder, Board of Directors, 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, 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, or significantly different purchases or sales through reinsurance in the period under examination.

Surplus Debentures

The Company did not have any surplus debentures.

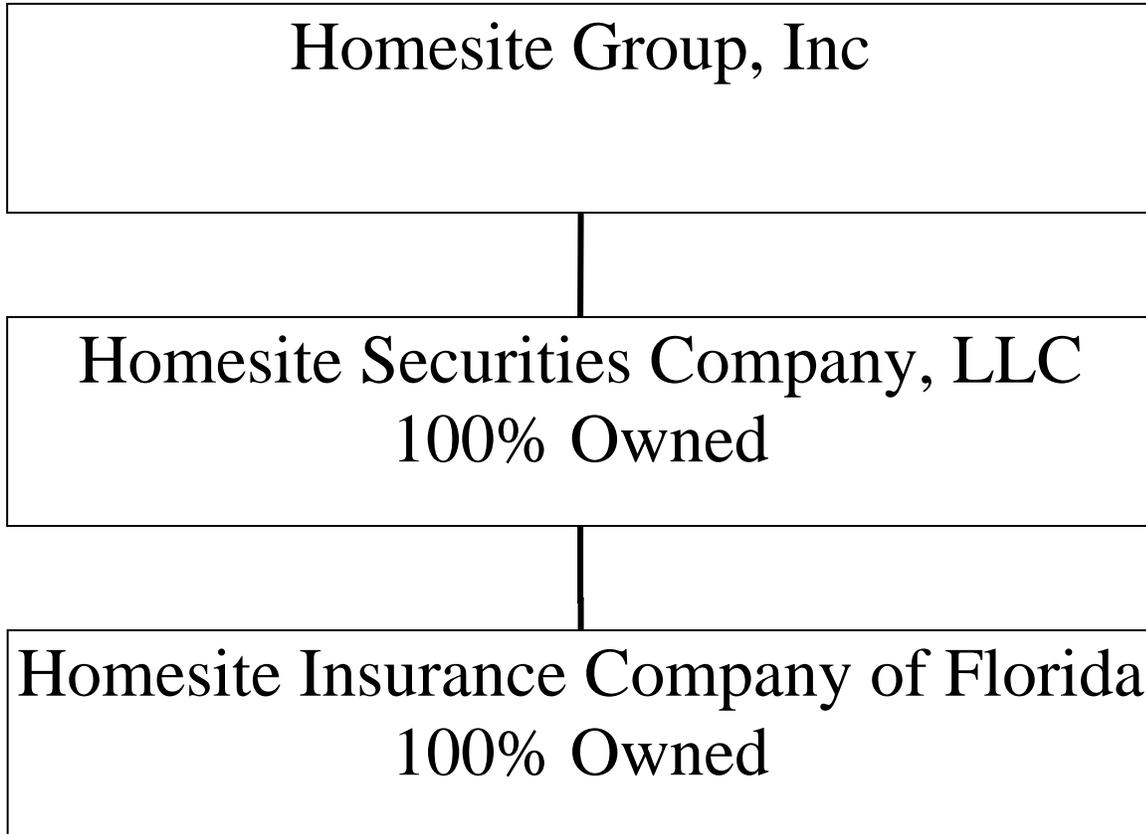
AFFILIATED COMPANIES

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 July 15, 2008, 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.

HOMESITE INSURANCE COMPANY OF FLORIDA
ORGANIZATIONAL CHART

DECEMBER 31, 2007



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

Tax Allocation Agreement

The Company and all affiliated companies along with the parent company filed a consolidated federal income tax return. On December 31, 2007, the method of allocation between each respective company was based on the proportionate amount of each company's income taxes computed on a separate company basis.

Commutation Agreement

The Company entered into a commutation agreement with its affiliate, Homesite of the Midwest (HMW) on June 30, 2007. The agreement states that the company shall pay HMW \$2,093,000 in full and final satisfaction of all past, present and future liabilities and obligations, whether known or unknown.

Intercompany Service Agreement

The Company entered into an intercompany service agreement with HGI on February 12, 2001. HGI provided personnel, management information systems support, facilities support, procurement support, legal services and other such services mutually agreed upon. All transactions were subject to the ultimate authority of the Company. During the contract period services were provided on a cost allocation/reimbursement basis. HGI was responsible for maintaining accounting records of all services rendered. Premiums of the Company were received by HGI and deposited into a HGI account along with premiums of other Company affiliates.

FIDELITY BOND AND OTHER INSURANCE

The Company maintained fidelity bond coverage up to \$2,000,000 with a deductible of \$25,000, which adequately covered the suggested minimum amount of coverage for the Company as recommended by the NAIC.

The Company also maintained Directors and Officers (D&O) liability insurance coverage with limits of \$5,000,000 and deductibles ranging from \$10,000 to \$100,000.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

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

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	TSY INFL IX N/B	\$ 384,354	\$ 418,946
	TOTAL FLORIDA DEPOSITS	\$ 384,354	\$ 418,946
	TOTAL SPECIAL DEPOSITS	<u>\$ 384,354</u>	<u>\$ 418,946</u>

INSURANCE PRODUCTS

Territory

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.

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's Quota Share Assumed Business with High Point was commuted on January 1, 2005 and the reserve was settled over a predetermined schedule through 2007. The December, 2007, final settlement of the commuted Quota Share treaty was documented in the CPA workpapers.

The Company assumed risk under a quota share agreement with Homesite Insurance Company of the Midwest. This agreement was terminated on 3/31/07 and all losses were commuted as of 6/30/07.

Ceded

The Company ceded risk on an excess of loss basis. The excess of Loss treaty was contracted each year with a start date of July 1st and was effective for a term of one year. The treaty was made up of two parts, a Property Damage coverage agreement and a Liability coverage agreement. The contract in effect from 7/1/06-6/30/07 was a 92% cession of the company's subject earned premium. The Property Damage agreement has 2 layers, with Homesite's retention at \$750,000. The first layer was a 250,000 excess 750,000, ceded to Genre, the 2nd layer was one million excess one million, ceded to Lloyd's Re.

The Company also ceded risk on a quota share basis. The Ceded Quota Share agreement with AXA Reassurance was terminated on 3/31/05. An unearned premium adjustment was done at this time and only the runoff of the ceded losses is settled each month. Each month a report was sent to AXA summarizing paid losses and outstanding reserves. When the payments were received from AXA, they were recorded in the general ledger.

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 Boston, Massachusetts, where this examination was conducted.

An independent CPA audited the Company's statutory basis financial statements annually for the years 2005, 2006 and 2007, 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 had the following agreements:

Custodial Agreement

The Company had a custodial agreement with SRB Corporation and Wachovia Bank. The agreement was in compliance with Rule 69O-143.042, Florida Administrative Code. There was also a written investment management agreement between the Company and SRB Corporation (SRB). SRB was the investment manager for the Company.

Actuarial Agreement

The Company had an actuarial agreement with EMB America, LLC to render an actuarial opinion for the year 2007.

Independent Auditor Agreement

The Company had an agreement with PriceWaterhouseCoopers to conduct an annual audit of their financial statements. Documentation in the form of Board of Director minutes was provided to evidence that the CPA was hired in accordance with Section 624.424(8)(c), Florida Statutes.

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 this report captioned, "Comparative Analysis of Changes in Surplus."

HOMESITE INSURANCE COMPANY OF FLORIDA
Assets

DECEMBER 31, 2007

	Per Company	Examination Adjustments	Per Examination
Bonds	\$10,287,290		\$10,287,290
Stocks:			
Common	1,354,325		1,354,325
Cash:	663,482		663,482
Investment Income due and accrued	103,631		103,631
Agents' Balances:			
Uncollected premium	74,795		74,795
Deferred premium	296,237		296,237
Reinsurance recoverable	28,816		28,816
Current federal income taxes recoverable	184,087		184,087
Net deferred tax asset	83,918		83,918
Receivable from parents, subsidiaries and affiliates	131,531		131,531
Totals	\$13,208,112	\$0	\$13,208,112

HOMESITE INSURANCE COMPANY OF FLORIDA
Liabilities, Surplus and Other Funds

DECEMBER 31, 2007

	Per Company	Examination Adjustments	Per Examination
Losses	\$799,242		\$799,242
Loss adjustment expenses	248,244		248,244
Commissions payable	42,954		42,954
Other expenses	14,800		14,800
Taxes, licenses and fees	78,672		78,672
Unearned premium	1,728,698		1,728,698
Advanced premium	43,576		43,576
Ceded reinsurance premiums payable	63,429		63,429
Amounts withheld	1,351		1,351
Provision for reinsurance	35,000		35,000
Total Liabilities	\$3,055,966	\$0	\$3,055,966
Common capital stock	\$100,000		\$100,000
Gross paid in and contributed surplus	9,804,780		9,804,780
Unassigned funds (surplus)	247,366		247,366
Surplus as regards policyholders	\$10,152,146		\$10,152,146

HOMESITE INSURANCE COMPANY OF FLORIDA
Statement of Income

DECEMBER 31, 2007

Underwriting Income

Premiums earned		\$6,611,445
	Deductions:	
Losses incurred		2,714,787
Loss expenses incurred		300,709
Other underwriting expenses incurred		2,385,199
Aggregate write-ins for underwriting deductions		0
Total underwriting deductions		\$5,400,695
Net underwriting gain or (loss)		\$1,210,750

Investment Income

Net investment income earned		\$880,786
Net realized capital gains or (losses)		77,464
Net investment gain or (loss)		\$958,250

Other Income

Net gain or (loss) from agents' or premium balances charged off		(\$647)
Finance and service charges not included in premiums		5,786
Aggregate write-ins for miscellaneous income		0
Total other income		\$5,139

Net income before dividends to policyholders and before federal & foreign income taxes		\$2,174,139
Dividends to policyholders		0
Net Income, after dividends to policyholders, but before federal & foreign income taxes		\$2,174,139
Federal & foreign income taxes		6,105
Net Income		\$2,168,034

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year		\$9,213,253
Net Income		\$2,168,034
Net unrealized capital gains or losses		23,654
Change in net deferred income tax		(732,627)
Change in non-admitted assets		846,219
Change in provision for reinsurance		(35,000)
Change in excess statutory over statement reserves		0
Surplus adjustments: Paid in		0
Dividends to stockholders		(1,313,898)
Aggregate write-ins for gains and losses in surplus		(17,489)
Examination Adjustment		0
Change in surplus as regards policyholders for the year		\$938,893
Surplus as regards policyholders, December 31 current year		\$10,152,146

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses \$1,047,486

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

The lead State's actuary reviewed work papers provided by the Company and was in concurrence with this opinion.

Capital and Surplus

The amount reported by the Company of \$10,152,146, exceeded the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

A comparative analysis of changes in surplus was shown below.

**HOMESITE INSURANCE COMPANY OF FLORIDA
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 December 31, 2007, per Annual Statement	\$10,152,146
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	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:			
No Adjustment			\$0
LIABILITIES:			
No Adjustment			\$0
Net Change in Surplus:			0
Surplus as Regards Policyholders December 31, 2007, Per Examination			\$10,152,146

SUMMARY OF FINDINGS

Compliance with previous directives

The Company has taken the necessary actions to comply with the comments made in the 2004 examination report issued by the Office.

Current examination comments and corrective action

There are 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 insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Homesite Insurance Company of Florida** 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 \$10,152,146, which was in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned, Owen Anderson, Financial Examiner/Analyst II, participated in the examination.

Respectfully submitted,

|

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