

REPORT ON EXAMINATION
OF
NORMANDY HARBOR INSURANCE
COMPANY
FORT LAUDERDALE, FLORIDA

AS OF
DECEMBER 31, 2010

BY THE
FLORIDA OFFICE OF INSURANCE REGULATION

TABLE OF CONTENTS

LETTER OF TRANSMITTAL	-
SCOPE OF EXAMINATION	1
SUMMARY OF SIGNIFICANT FINDINGS	2
CURRENT EXAM FINDINGS.....	2
PRIOR EXAM FINDINGS.....	2
HISTORY	3
GENERAL	3
DIVIDENDS TO STOCKHOLDERS.....	3
CAPITAL STOCK AND CAPITAL CONTRIBUTIONS.....	4
SURPLUS NOTES	5
ACQUISITIONS, MERGERS, DISPOSALS, DISSOLUTIONS, AND PURCHASE OR SALES THROUGH REINSURANCE	5
CORPORATE RECORDS	5
CONFLICT OF INTEREST.....	6
MANAGEMENT AND CONTROL	6
MANAGEMENT	6
AFFILIATED COMPANIES	7
ORGANIZATIONAL CHART	8
AGENCY AGREEMENT	9
FIDELITY BOND	9
PENSION, STOCK OWNERSHIP AND INSURANCE PLANS	9
TERRITORY AND PLAN OF OPERATIONS	9
TREATMENT OF POLICYHOLDERS	10
COMPANY GROWTH	11
PROFITABILITY OF COMPANY	11
LOSS EXPERIENCE	11
REINSURANCE	12
ASSUMED	12
CEDED	12
ACCOUNTS AND RECORDS	13
POLICY ADMINISTRATION SYSTEMS AGREEMENT	14
INDEPENDENT AUDITOR AGREEMENT	14
INFORMATION TECHNOLOGY REPORT	14
STATUTORY DEPOSITS	15
FINANCIAL STATEMENTS PER EXAMINATION	15
ASSETS.....	16
LIABILITIES, SURPLUS AND OTHER FUNDS	17

STATEMENT OF INCOME	16
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS	17
COMMENTS ON FINANCIAL STATEMENTS.....	20
CAPITAL AND SURPLUS	21
SUBSEQUENT FINANCIAL STATEMENTS	21
ASSETS	22
LIABILITIES, SURPLUS AND OTHER FUNDS	23
STATEMENT OF INCOME	24
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS	25
CONCLUSION.....	26

January 6, 2012

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, 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, 2010, of the financial condition and corporate affairs of:

**NORMANDY HARBOR INSURANCE COMPANY
1 EAST BROWARD BLVD, SUITE 610
FORT LAUDERDALE, FLORIDA 33301**

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, 2010. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2009. This examination commenced with planning at the Office on November 1, 2011, to November 3, 2011. The fieldwork commenced on November 7, 2011, and concluded as of January 6, 2012.

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.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

This report of examination is confined to significant adverse findings, a material change in the financial statements or other information of regulatory significance or requiring regulatory action. The report comments on matters that involved departures from laws, regulations or rules, or which were deemed to require special explanation or description.

SUMMARY OF SIGNIFICANT FINDINGS

Current Exam Findings

There were no material findings or exceptions noted during the examination as of December 31, 2010.

Prior Exam Findings

The following is a summary of significant adverse findings contained in the Office's prior examination report as of December 31, 2009, along with resulting action taken by the Company in connection therewith.

Deferred Tax Assets

The Company inappropriately recorded an income tax benefit of \$242,528 in the Statement of Income. This was a violation of SSAP No. 10.

Resolution: During 2010 and subsequent to the finalization of the prior exam report, the Company made an adjusting journal entry to reverse and correct the inappropriate income tax benefit recorded in 2009.

HISTORY

General

The Company was incorporated in Florida on December 9, 2004, and commenced business on September 14, 2007, as Normandy Harbor Insurance Company.

The Company was party to Consent Order 91621-07, regarding the application for the issuance of a Certificate of Authority.

The Company did not have a written agreement with Rogers, Gunter, Vaughn Insurance, Inc. (RGV Insurance)

Subsequent Event: The Company filed an agency agreement with RGV Insurance along with their 2011 Annual Statement.

At December 31, 2010, the Company was authorized to transact workers' compensation coverage only in the State of Florida.

The Articles of Incorporation and the bylaws were not amended during the period covered by this examination.

Dividends to Stockholders

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

Capital Stock and Capital Contributions

As of December 31, 2010, the Company's capitalization was as follows:

Number of authorized common stock shares	1,000
Number of shares issued and outstanding	1,000
Total value of common stock	\$ 1,000
Par value per share	\$ 1.00

Control of the Company was maintained by Simon Ganz, who owned 100% of the stock issued by the Company.

Invested Assets

The Company was in violation of SSAP No. 2 as it improperly classified a \$6,404,945 investment in the CMG Ultra Short Term Bond Fund as Cash Equivalents instead of Common Stock, as further required by SSAP No. 30. The reclassification triggered a portion of the asset to be non-admitted by \$3,719,900, due to Section 625.305 and Section 625.311 of the Florida Statutes, which reduced surplus below the minimum required surplus of \$4 million, effectively causing the Company to be impaired as of December 31, 2010.

Subsequent Event: The Company's March 31, 2011 Quarterly Statement revealed that the investment in the CMG Ultra Short Term Bond Fund was liquidated in January 2011 with the full proceeds returned to cash; thereby reversing the non-admitted amount and returning the Company to compliance with their surplus requirement.

Surplus Notes

On October 12, 2010, the Company issued a second surplus note in the amount of \$3.2 million to Mr. Simon Ganz in exchange for cash. The surplus note bears interest at 7% annually. Regular payments of the principal and/or accrued interest may be payable commencing October 12, 2011, after first having been approved by the Office. At December 31, 2010, the amount of surplus debentures issued by the Company totaled \$4.9 million.

Subsequent Event: On May 16, 2011, the Company issued a third and fourth surplus note in the amounts of \$100,000 and \$750,000 respectively. At December 31, 2011, the amount of surplus notes issued by the Company totaled \$5.75 million.

The Company did not adequately disclose the Surplus Notes in the Notes to Financial Statements of the Annual Statement as required by SSAP No. 41.

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

The Company was not involved in any mergers, disposals, dissolutions or purchase or sales through reinsurance for this period of operations.

CORPORATE RECORDS

The recorded minutes of the shareholder, Board of Directors (Board) 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 compliance with the NAIC Financial Condition Examiners Handbook adopted by Rule 690-

138.001, Florida Administrative Code, including the authorization of investments as required by Section 625.304, Florida Statutes.

Conflict of Interest

The Company adopted a policy statement requiring annual disclosure of conflicts of interest in accordance with the NAIC Financial Condition Examiners Handbook adopted by Rule 690-138.001, 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, 2010, were:

Directors

Name and Location	Principal Occupation
Simon Ganz Miami Beach, Florida	Principal Owner
Kathleen B. Atkins-Gunter Tallahassee, Florida	Insurance Management Consultant
Benjamin Klein Bay Harbor Island, Florida	Real Estate Executive
Edward T. Mylod Concord, New Hampshire	CFO, Platinum HR Management
Michelle N. Lovern Tallahassee, Florida	President of Innovative Edge Consulting
Carol A. Ostapchuk Tallahassee, Florida	President of Ostapchuk & Associates

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

Senior Officers

Name	Title
Therese A. Stevens	President & CEO
Rebecca M. Brocard-Santiago	CFO/Controller

The Company's Board appointed internal committees. The principal internal Board committee and its members as of December 31, 2010 were:

Audit and Finance Committee

Edward T. Mylod ¹

Kathleen B. Atkins-Gunter

Carol A. Ostapchuk

¹ Chairman

Affiliated Companies

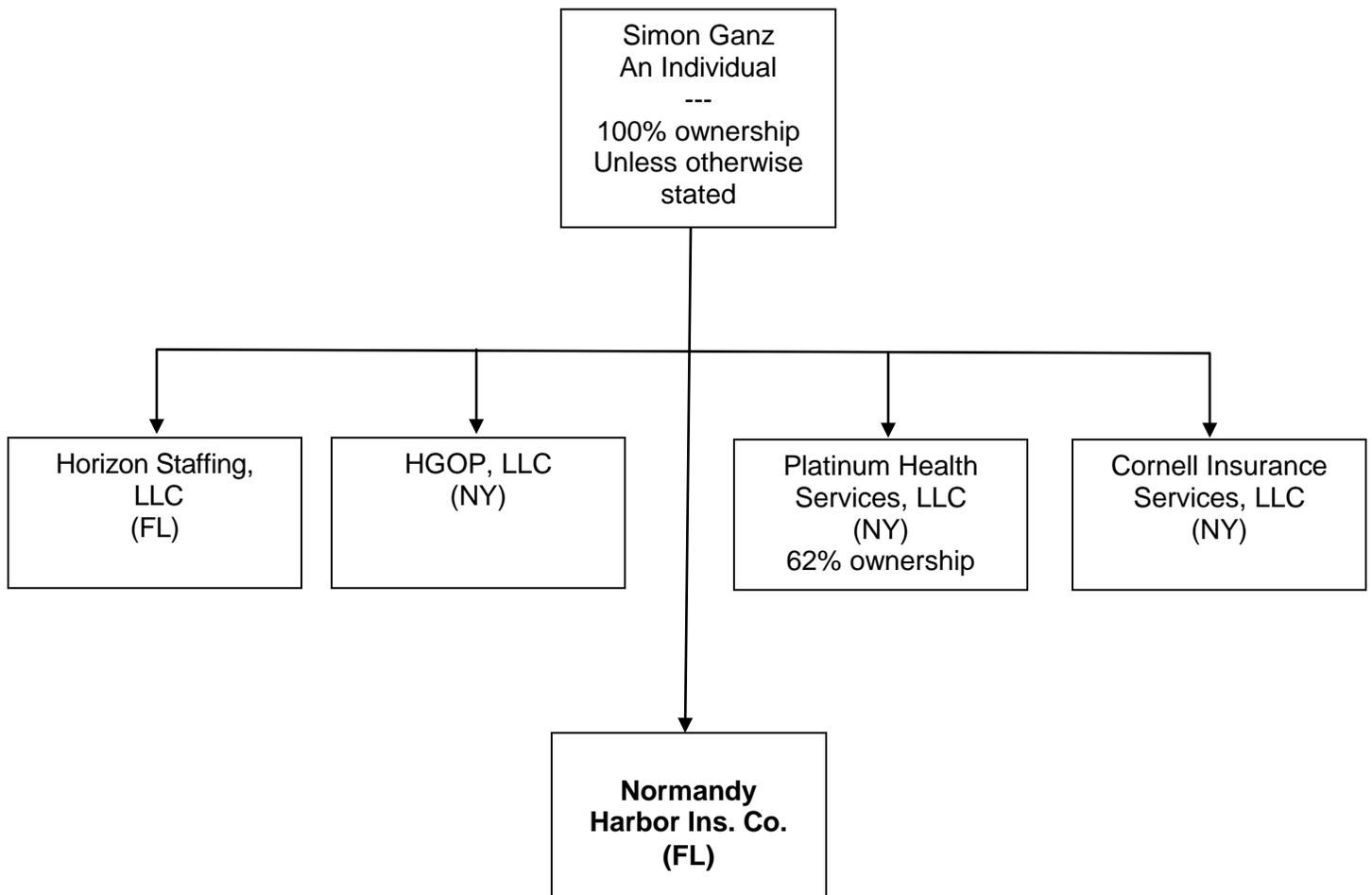
The Company did not file as a member of an insurance holding company system as defined by Rule 690-143.045(3), Florida Administrative Code. However, the Company's sole owner also owned three (3) companies who were policyholders and one (1) company that provided agency services. During 2010, the Company received premiums from HGOP, LLC and Horizon Staffing, LLC in the amounts of \$887,138 and \$506,099 respectively and paid commissions in the amount of \$27,794 to Cornell Insurance Services.

Subsequent Event: The Company filed the Insurance Company Holding System Registration Statement with the Office on February 29, 2012.

An organizational chart as of December 31, 2010, reflecting control of the Company, is reflected below:

**NORMANDY HARBOR INSURANCE COMPANY
ORGANIZATIONAL CHART**

DECEMBER 31, 2010



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

Agency Agreement

The Company had no written agreement with its affiliate, Cornell for agency services; however, the Company and the affiliate transacted business throughout the exam period. The Company was in violation of SSAP No. 25, by not having a written agreement with its affiliate, and Consent Order 91621-07 that required prior written approval from the Office.

Subsequent Event: The Company entered into a written Agency Agreement with Cornell on January 17, 2011, to provide certain policy acquisition and premium administration services. The agreement continues in force indefinitely, unless otherwise terminated within the guidelines of the agreement. The agency fee paid by the Company is equal to 15% of written premium on new business and 12% of written premium on renewed business.

FIDELITY BOND

The Company maintained fidelity bond coverage up to \$200,000 with a deductible of \$10,000, which reached the suggested minimum as recommended by the NAIC.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

There was not any pension, stock ownership or insurance plans in place at the Company during the period of this examination.

TERRITORY AND PLAN OF OPERATIONS

The Company was authorized to transact insurance only in the State of Florida. For the period of operations, the Company provided workers' compensation insurance to the health care industry,

primarily through affiliated Professional Employer Organizations (PEO). Written premiums were received in 2009 from the following companies owned or controlled by the Company's owner: Horizon Staffing, LLC and HGOP LLC.

In October 2010, the Company obtained written approval from the Office to write business outside of its affiliated professional employer organization (PEO) customer base for written premiums up to \$2.2 million per year. The Company exceeded the granted \$2.2 million outside affiliate premium writing limit for the year ending December 31, 2010.

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.

COMPANY GROWTH

The Company's premiums have increased consistently from its inception. The Company incurred net losses in 2007, 2008 and 2009.

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.

	2010	2009	2008	2007
Premiums Earned	2,556,654	1,880,100	1,559,408	-
Net Underwriting Gain/(Loss)	(2,576,978)	(838,786)	(489,409)	(475,132)
Net Income	(2,503,267)	(436,998)	(298,322)	(203,712)
Total Assets	11,113,931	8,336,147	6,165,210	5,392,118
Total Liabilities	4,428,886	2,353,961	1,091,199	33,774
Surplus As Regards Policyholders	6,685,045	5,982,186	5,074,011	5,358,344

LOSS EXPERIENCE

The Company did not experience significant changes to loss development. The one-year net loss development at the end of the current examination period was unfavorable at \$298,000. The two-year loss development at the end of the current examination period was favorable at \$88,000. The Company's combined ratio increased over the period under review, ending at 150%. The increase in the combined ratio was primarily due to the Company's investment in personnel staffing and additional technology to grow the business.

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

Ceded

The Company ceded risk on an excess of loss basis to various Lloyd's Syndicates and to Aspen Insurance UK LTD, all authorized non-US insurers. Under terms of the agreements, the Company retained the first \$1 million of each loss occurrence and ceded up to \$4 million, per occurrence, with an \$8 million annual aggregate.

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 Ft. Lauderdale, Florida, where this examination was conducted.

An independent CPA audited the Company's statutory basis financial statements annually for the years 2008, 2009 and 2010, 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 computerized systems hosted and managed by third-party service companies.

The Company and non-affiliates had the following agreements:

Managing General Agent Agreement

The Company had an agreement with United Self Insured Services, Inc. of Orlando, Florida (USIS) to provide risk management and claims handling services and to act as its sole managing general underwriter. The fees under this agreement were based on a percentage of direct, premium earned, and for certain services, based on the scope of work performed. In August 2010, the Company discontinued the MGA service with USIS and brought those functions in-house. USIS continued to provide third party claims administration services.

Policy Administration Systems Agreement

In August 2010, the Company entered into an agreement with Midwest Insurance Services of Maitland, Florida to provide policy administration systems and statistical reporting. The fees under this arrangement were also based on a percentage of direct premiums.

Subsequent event: Midwest Insurance Services, Inc. was administratively dissolved and all responsibilities of Midwest Insurance Services, Inc. per the terms of the agreement were assumed by MIS Insurance Services, LLC, a Florida limited liability company. The effective date of this change was November 4, 2010.

Independent Auditor Agreement

The Company contracted with an external independent CPA firm to perform the annual audit of its financial statements as required by Rule 69O-137.002 (7) (c), Florida Administrative Code.

INFORMATION TECHNOLOGY REPORT

Highland Clark, 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>\$ 251,795</u>	<u>\$ 251,795</u>
TOTAL FLORIDA DEPOSITS		<u>\$ 251,795</u>	<u>\$ 251,795</u>

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2010, 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."

NORMANDY HARBOR INSURANCE COMPANY
Assets

DECEMBER 31, 2010

	Per Company	Examination Adjustments	Per Examination
Stocks:			
Common	\$ -	\$2,685,045	\$2,685,045
Cash	9,728,803	(6,404,945)	3,323,858
Premiums and considerations:			-
Uncollected premiums and agents' balances in course of collection	196,947		196,947
Deferred premiums	1,184,051		1,184,051
Receivables from parent, subsidiaries and affiliates	4,130		4,130
Total	<u>\$ 11,113,931</u>	<u>\$ (3,719,900)</u>	<u>\$ 7,394,031</u>

NORMANDY HARBOR INSURANCE COMPANY
Liabilities, Surplus and Other Funds

DECEMBER 31, 2010

	Per Company	Examination Adjustments	Per Examination
Losses	\$ 2,137,173		\$ 2,137,173
Loss adjustment expenses	326,000		326,000
Commissions payable, contingent commissions and other similar charges	(41,766)		(41,766)
Other expenses (excluding taxes licenses and fees)	182,199		182,199
Taxes, licenses and fees	142,543		142,543
Unearned premiums	1,520,105		1,520,105
Advance premiums	175,332		175,332
Ceded reinsurance payable	(12,700)		(12,700)
Total liabilities	\$ 4,428,886		\$ 4,428,886
Common capital stock	\$ 1,000		\$ 1,000
Surplus notes	4,900,000		4,900,000
Gross paid in and contributed surplus	5,711,558		5,711,558
Unassigned funds (surplus)	(3,927,513)		(3,927,513)
Surplus as regards policyholders	\$ 6,685,045	\$ (3,719,900)	\$ 10,404,945
Totals	\$ 11,113,931	\$ (3,719,900)	\$ 14,833,831

NORMANDY HARBOR INSURANCE COMPANY
Statement of Income

DECEMBER 31, 2010

Underwriting Income

Premiums earned	\$	2,556,654
Deductions:		
Losses incurred	\$	2,229,465
Loss adjustment expenses incurred		462,643
Other underwriting expenses incurred		2,441,524
Total underwriting deductions	\$	<u>5,133,632</u>
Net underwriting gain (loss)	\$	(2,576,978)

Investment Income

Net investment income earned	\$	73,711
Net realized capital gains (losses)		0
Total investment income (loss)	\$	<u>73,711</u>

Other Income

Aggregate write-ins for miscellaneous income	\$	-
Total other income (loss)	\$	<u>-</u>

Net income before dividends to policyholders	\$	(2,503,267)
Dividends to policyholders		0
Net income after dividends to policyholders, but before federal & foreign income taxes	\$	(2,503,267)
Federal and foreign income taxes incurred		0
Net income	\$	<u><u>(2,503,267)</u></u>

Capital and Surplus Account

Surplus as regards policyholders December 31 prior year	\$	5,982,186
Net income	\$	(2,503,267)
Change in unrealized capital gains or (losses)		-
Change in deferred income tax		869,381
Change in non-admitted assets		(863,255)
Change in surplus notes		3,200,000
Examination Adjustment		(3,719,900)
Change in Surplus as regards policyholders	\$	<u>(3,017,041)</u>
Surplus as regards policyholders December 31 current year	\$	<u><u>2,965,145</u></u>

A comparative analysis of changes in surplus is shown below.

NORMANDY HARBOR INSURANCE COMPANY
Comparative Analysis of Changes in Surplus

DECEMBER 31, 2010

Surplus as regards policyholders
 December 31, 2010 per Annual Statement

\$ 6,685,045

	PER COMPANY		PER EXAM		INCREASE (DECREASE) IN SURPLUS
ASSETS:					
Common Stock	\$ -		\$ 2,685,045		\$ 2,685,045
Cash	\$ 9,728,803		\$ 3,323,858		\$ (6,404,945)
LIABILITIES:					
No Adjustment					
Net Change in Surplus:					\$ (3,719,900)
Surplus as regards policyholders December 31, 2010 per Examination					\$ 2,965,145

COMMENTS ON FINANCIAL STATEMENTS

Assets

Common Stock \$2,685,045

The investment in CMG Ultra Short Term Bond Fund of \$6,404,945 was incorrectly listed as “Cash Equivalents” and should have been reported as “Common Stock”, per SSAP No. 30, of which \$3,719,900 was a non-admitted asset, per Sections 625.305 and 625.311, Florida Statutes.

Cash \$3,323,858

The investment in CMG Ultra Short Term Fund of \$6,404,945 was incorrectly listed as “Cash Equivalents” and should have been reported as “Common Stock” per SSAP No. 30.

Liabilities

Losses and Loss Adjustment Expenses \$2,463,173

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, 2010, 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, Dennis Henry, FCAS, MAAA of The Actuarial Advantage, reviewed the loss and loss adjustment expense work papers provided by the Company and was in concurrence with this opinion.

Capital and Surplus\$2,965,145

The amount of Surplus recalculated by the examination as of December 31, 2010 in the amount of \$2,965,145, did not meet or exceed the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

Subsequent Event:\$6,319,471

The amount of Surplus reported by the Company as of March 31, 2011 in the amount of \$6,319,471, exceeded the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

SUBSEQUENT FINANCIAL STATEMENTS

The following pages contain financial statements showing the Company's financial position as of March 31, 2011, and the results of its operations for the quarter then ended as determined by this examination. The purpose of including these subsequent financial statements is to show the remediation of the December 31, 2010 impairment caused by the reclassification of an investment from cash equivalents to common stock that additionally required a portion to be non-admitted. In January of 2011, the Company sold the investment in question and returned the proceeds to cash, thereby resolving the impairment position. As of March 31, 2011, the Company is properly capitalized and solvent per Florida Law.

NORMANDY HARBOR INSURANCE COMPANY
Assets

MARCH 31, 2011

	Per Company	Examination Adjustments	Per Examination
Stocks:			
Common	\$ -		\$ -
Cash	9,942,006		9,942,006
Premiums and considerations:			-
Uncollected premiums and agents' balances in course of collection	886,549		886,549
Deferred premiums	4,214,306		4,214,306
Receivables from parent, subsidiaries and affiliates			-
Total	\$ 15,042,861	\$ -	\$ 15,042,861

NORMANDY HARBOR INSURANCE COMPANY
Liabilities, Surplus and Other Funds

MARCH 31, 2011

	Per Company	Examination Adjustments	Per Examination
Losses	\$ 2,584,293		\$ 2,584,293
Loss adjustment expenses	491,509		491,509
Commissions payable, contingent commissions and other similar charges	147,492		147,492
Other expenses (excluding taxes, licenses and fees)	17,099		17,099
Taxes, licenses and fees	168,092		168,092
Unearned premiums	4,872,700		4,872,700
Advance premiums	175,332		175,332
Ceded reinsurance payable	266,073		266,073
Payable to parent, subs & affiliates	800		800
Total liabilities	\$ 8,723,390	-	\$ 8,723,390
Common capital stock	\$ 1,000	-	\$ 1,000
Surplus Notes	4,900,000	-	4,900,000
Gross paid in and contributed surplus	5,711,558	-	5,711,558
Unassigned funds (surplus)	(4,293,087)	-	(4,293,087)
Surplus as regards policyholders	\$ 6,319,471		\$ 6,319,471
Totals	\$ 15,042,861	\$ -	\$ 15,042,861

NORMANDY HARBOR INSURANCE COMPANY
Statement of Income

MARCH 31, 2011

Underwriting Income

Premiums earned	\$	1,792,598
Deductions:		
Losses incurred	\$	857,227
Loss adjustment expenses incurred		343,454
Other underwriting expenses incurred		913,442
Total underwriting deductions	<u>\$</u>	<u>2,114,123</u>
Net underwriting gain (loss)	\$	(321,525)

Investment Income

Net investment income earned		14,357
Net realized capital gains (losses)		<u>0</u>
Total investment income (loss)	\$	14,357

Other Income

Aggregate write-ins for miscellaneous income		<u>0</u>
Total other income (loss)		<u>0</u>

Net income before dividends to policyholders	\$	(307,168)
Dividends to policyholders		<u>0</u>
Net income after dividends to policyholders, but before federal & foreign income taxes	\$	(307,168)
Federal and foreign income taxes incurred		<u>0</u>
Net income	<u>\$</u>	<u>(307,168)</u>

Capital and Surplus Account

Examination Adjusted Surplus as regards policyholders December 31 prior year	\$	2,965,145
Net income	\$	(307,168)
Change in unrealized capital gains or (losses)		-
Change in deferred income tax		-
Change in non-admitted assets		3,661,494
Change in surplus notes		-
Examination Adjustment		<u>-</u>
Change in Surplus as regards policyholders	<u>\$</u>	<u>3,354,326</u>
Surplus as regards policyholders March 31, current year	<u>\$</u>	<u>6,319,471</u>

A comparative analysis of changes in surplus is shown below.

NORMANDY HARBOR INSURANCE COMPANY
Comparative Analysis of Changes in Surplus

MARCH 31, 2011

Surplus as regards policyholders
March 31, 2011 per Annual Statement

\$ 6,319,471

PER COMPANY	PER EXAM	INCREASE (DECREASE) IN SURPLUS
----------------	-------------	--------------------------------------

ASSETS:

No Adjustment

LIABILITIES:

No Adjustment

Net Change in Surplus:

\$ -

Surplus as regards policyholders
March 31, 2011 per Examination

\$ 6,319,471

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Normandy Harbor Insurance Company** as of December 31, 2010, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's surplus as regards policyholders at December 31, 2010 was \$2,965,145, which did not meet or exceed the minimum of \$4,000,000 required by Section 624.408, Florida Statutes. Subsequently, the Company remediated an issue with a misclassified investment discovered during the examination which also caused a significant non-admitting of an invested asset. The amount reported by the Company surplus as regards policyholders at March 31, 2011 was \$6,319,471, which exceeded the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

In addition to the undersigned, Steven R. Sigler, CFE, Examiner-in-Charge, Tracy Gates, CISA, IT Specialist and Bradley Hazelwood, CPA, participating examiner, all of Highland Clark, LLC, participated in the examination. In addition, Jonathan Frisard, Financial Examiner/Analyst Supervisor, of the Office and Dennis R. Henry, FCAS, MAAA, consulting actuary of The Actuarial Advantage, Inc. also participated in the examination.

Respectfully submitted,

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