

REPORT ON EXAMINATION
OF
NORTHERN CAPITAL INSURANCE
COMPANY
MIAMI, FLORIDA

AS OF
DECEMBER 31, 2007

BY THE
OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida

July 3, 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 of December 31, 2007, of the financial condition and corporate affairs of:

NORTHERN CAPITAL INSURANCE COMPANY
7200 Corporate Center Drive, Suite 505
Miami, Florida 33126

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, 2006 through December 31, 2007. The Company has not been examined by representatives of the Florida Office of Insurance Regulation (Office) prior to this examination. This examination commenced, with planning at the Office, on March 17, 2008, to March 21, 2008. The fieldwork commenced on March 24, 2008, and was concluded as of July 3, 2008.

This financial examination was a statutory financial examination conducted in accordance with the NAIC Financial Condition Examiners Handbook (NAIC 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 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 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 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 CPAs, after verifying the statutory requirements, for the following accounts:

- Investment income due and accrued
- Net deferred tax asset
- Electronic data processing equipment and software
- Commissions payable, contingent commissions and other similar charges
- Taxes licenses and fees
- Current federal and foreign income taxes
- Amounts withheld or retained by company for account of others
- Provision for reinsurance

HISTORY

General

The Company was incorporated in Florida on December 9, 2004 and commenced business on May 4, 2006 as Northern Capital Insurance Company.

The Company was party to Consent Order No. 85975-06-CO filed May 4, 2004 with the Office regarding the application for the issuance of a Certificate of Authority. The Company was in compliance with the Consent Order.

The Company was authorized to transact the following insurance coverage in Florida on December 31, 2007:

Homeowner's multi peril

The articles of incorporation were amended during the period covered by this examination to accept and agree to be bound by the terms conditions and representations stated in the consent order dated October 12, 2004 and the amended consent order dated October 7, 2005 issued by the Office.

Capital Stock

As of December 31, 2003, the Company's capitalization was as follows:

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

Control of the Company was maintained by its parent, Northern Capital Inc. which owned 100% of the stock issued by 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
Premiums Earned	21,985,635	(192,968)
Net Underwriting Gain/(Loss)	(1,409,807)	(2,938,336)
Net Income	99,336	123,085
Total Assets	35,563,166	11,222,660
Total Liabilities	20,043,935	6,922,520
Surplus As Regards Policyholders	15,519,231	4,300,140

Dividends to Stockholders

No dividends were declared or paid during the period of examination.

Management

The annual shareholders 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

Alexander Anthony
Miami Springs, Florida

Wayne Fletcher
Weston, Florida

Juan Carlos Miguez
Miami, Florida

Principal Occupation

Chairman, Northern Capital, Inc.

CEO, Northern Capital Insurance Company

C00, Northern Capital Insurance Company

Maria DiGiorgio
Miami, Florida

Corporate Secretary, Northern Capital
Insurance Company

Albert Fernandez
Miami, Florida

Vice Chairman, Northern Capital, Inc.

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

Senior Officers

Name	Title
Wayne Fletcher	President
Juan Carlos Miguelez	Chief Operating Officer
Maria DiGiorgio	Corporate Secretary
Abraham Garzon	Treasurer/Chief Financial Officer

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

Executive Committee

Wayne Fletcher ¹
Alexander Anthony
Albert Fernandez
JC Miguelez
¹ Chairman

Audit Committee

John Laurie ¹
Wayne Fletcher
Abraham Garzon
Maria DiGiorgio
JC Miguelez

Investment Committee

John Laurie ¹
Alexander Anthony
Wayne Fletcher
Abraham Garzon

Conflict of Interest Procedure

The Company adopted a policy statement requiring annual disclosure of conflicts of interest in accordance with the NAIC Handbook.

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, for the authorization of investments as required by Section 625.304, Florida Statutes.

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

The Company was not subject to acquisitions, mergers, disposals, or purchase or sales through reinsurance.

Surplus Debentures

Two surplus notes in the amount of \$5 million and \$3 million were issued in 2007 by and between the Company and Northern Capital, Inc. (the holding company) in exchange for Cash pursuant to Rule 144a under the Securities Act of 1933. Each payment of principal and interest was made only with the prior approval of the Office and only to the extent the Company has sufficient Surplus to make such payment.

Paid In Capital Contributions

Northern Capital, Inc. contributed \$2 million into the Company as Paid in capital contributions. A resolution was adopted by the directors of Northern Capital, Inc. on February 7, 2007 approving the capital contribution.

Northern Capital, Inc. contributed \$800,000 to the Company as paid in capital contributions. A resolution was adopted by the directors of Northern Capital, Inc. on February 13, 2008 approving the capital contribution.

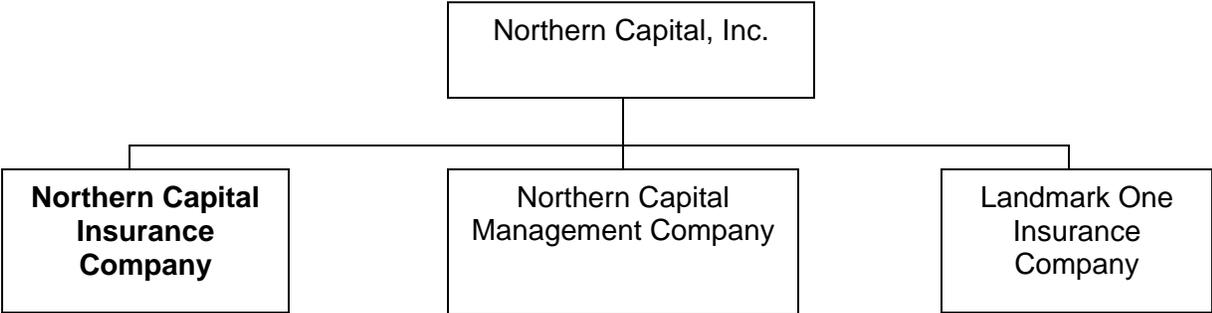
AFFILIATED COMPANIES

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 September 30, 2007, 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.

**NORTHERN CAPITAL INSURANCE COMPANY
ORGANIZATIONAL CHART**

DECEMBER 31, 2007



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

Tax Allocation Agreement

The Company, along with its parent, filed a consolidated federal income tax return. On December 31, 2007, the method of allocation between the Company and its parent was based upon separate return calculations with current credit for net losses. Intercompany balances were settled quarterly.

The Company's federal income tax return was consolidated with the following entities:

Northern Capital, Inc.
Northern Capital Management, Inc.
Landmark One Insurance Company
Keystone Adjusters, Inc.
Fox Morgan Insurance Agency

Cost Sharing Agreement

Effective October 1, 2006, the Company implemented a cost sharing agreement with Northern Capital, Inc., Landmark One Insurance Company, Keystone Adjusters, Inc., Northern Capital Insurance Company, Northern Capital Management, Inc. and Fox Morgan Insurance Agency, Inc. Under this agreement the parties were to share in the cost of certain services incurred by one party on behalf of another of the other parties. These costs were determined, allocated and charged to each party in accordance with SSAP 70 and were settled on a quarterly basis. The agreement was to remain in effect until terminated by written notice by any one of the parties involved.

Managing General Agreement

The Company had a managing general agency (MGA) contract with an affiliate, Northern Capital Management, Inc., of which the parent was the direct owner. Under the terms of the contract, Northern Capital Management, Inc. solicited Homeowner's insurance policies on behalf of the Company from independent insurance agencies, and paid agent commissions, policy processing

fees and other acquisition related costs. The MGA received a portion of the policy premium as commission and retained a policy fee charged to each policyholder.

FIDELITY BOND AND OTHER INSURANCE

The Company did not have a fidelity bond as required by the NAIC Handbook. The Company also maintained professional liability insurance. The policy term was from July 1, 2007 to July 1, 2008. The limited liability was \$3 million for each wrongful act or series of continuous repeated or interrelated wrongful acts. The aggregate liability was \$3 million. The Company's retention was originally \$150,000 for each wrongful act or series of continuous repeated or interrelated wrongful acts. The retention was amended to \$250,000 by an amendment to the contract.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company had no defined benefit plans. The Company had no multiemployer plans, consolidated holding company plans, or postemployment benefits and compensation absence plan. As of October 2007, Northern Capital Insurance Group offered a 401(k) plan to all Northern Capital Insurance Group employees.

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	<u>\$ 300,000</u>	<u>\$300,000</u>
	TOTAL FLORIDA DEPOSITS	<u>\$ 300,000</u>	<u>\$ 300,000</u>

INSURANCE PRODUCTS AND RELATED PRACTICES

The Company sold homeowners multiple peril policies.

Territory

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

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. The Company secured reinsurance effective June 1, 2007 with NAIC authorized insurers.

The Company used unauthorized reinsurers which had recoverable balances that were secured by a letter of credit or had ceded payable balances that were greater than the amount of the recoverable. The authorized reinsurers had their balance secured by a letter of credit in the amount of \$84,000.

Assumed

The Company did not assume reinsurance.

Ceded

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 Miami, Florida, where this examination was conducted.

An independent CPA audited the Company's statutory basis financial statements annually for the years 2006 and 2007. 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:

Custodial Agreement

The Company entered into a custodial agreement, which was effective on May 24, 2007. The agreement was between US Bank and Northern Capital Insurance Company. The agreement was in compliance with the provisions of Rule 69O-143.042, Florida Administrative Code.

Independent Auditor Agreement

The Company entered into a customary independent auditor agreement. The Company has been audited by the same firm for the previous two years.

Information Technology Report

INS Services, Inc. performed a computer systems evaluation on the Company. Results of the evaluation were noted in the Information Technology (IT) report provided to the Company.

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."

NORTHERN CAPITAL INSURANCE COMPANY
Assets

DECEMBER 31, 2007

	Per Company	Examination	Per Examination
		Adjustments	
Bonds	\$ 6,228,964		\$ 6,228,964
Cash and short term investments	24,906,746		24,906,746
Investment income due and accrued	60,790		60,790
Uncollected premiums and agents' balances	1,389,726		1,389,726
Deferred premiums and installments	1,217,027		1,217,027
Net deferred tax asset	688,087		688,087
Guarantee funds on deposit	122,911		122,911
Receivable from parent, subsidiaries and affiliates	948,915		948,915
Totals	\$ 35,563,166	-	\$ 35,563,166

NORTHERN CAPITAL INSURANCE COMPANY
Liabilities, Surplus and Other Funds

DECEMBER 31, 2007

	Per Company	Examination Adjustment	Per Examination
Losses	\$ 2,160,111		\$ 2,160,111
Loss adjustment expenses	739,327		739,327
Commissions payable, contingent commissions	577,219		577,219
Other expenses	842,139		842,139
Taxes, Licenses and fees	136,235		136,235
Current federal and foreign income taxes	(69,356)		(69,356)
Unearned premiums	10,426,444		10,426,444
Advanced premiums payable	358,749		358,749
Ceded reinsurance premiums payable	4,715,623		4,715,623
Amounts withheld by company for account others	73,444		73,444
Provision for reinsurance	84,000		84,000
Total Liabilities	<u>\$ 20,043,935</u>	<u>\$ -</u>	<u>\$ 20,043,935</u>
Common capital stock	\$1,000,000		\$1,000,000
Surplus notes	8,000,000		8,000,000
Gross paid-in and contributed surplus	8,800,000		8,800,000
Unassigned funds	<u>(2,280,769)</u>		<u>(2,280,769)</u>
Surplus as regards policyholders	<u>\$ 15,519,231</u>	<u>\$ -</u>	<u>\$ 15,519,231</u>
Total liabilities and surplus	<u><u>\$ 35,563,166</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 35,563,166</u></u>

NORTHERN CAPITAL INSURANCE COMPANY
Statement of Income

DECEMBER 31, 2007

Underwriting Income	
Premiums earned	\$ 21,985,635
Deductions:	
Losses incurred	4,492,996
Loss expenses incurred	2,288,257
Other underwriting expenses incurred	16,614,189
Total underwriting deductions	<u>\$ 23,395,442</u>
Net underwriting gain(loss)	<u>\$ (1,409,807)</u>
Investment Income	
Net investment income earned	\$ 1,439,787
Net investment gain(loss)	<u>\$ 1,439,787</u>
Other Income	
Net income before dividends to policyholders after capital gains and before federal and foreign income taxes	\$ 29,980
Dividends to policyholders	0
Net income after dividends to policyholders but before federal and foreign income taxes	<u>\$ 29,980</u>
Federal and foreign income taxes incurred	<u>(69,356)</u>
Net income	<u>\$ 99,336</u>
Capital and Surplus Account	
Surplus regards policyholders prior year	\$ 4,300,140
Gains(losses) to Surplus	
Net income	99,336
Change in net deferred income tax	(60,553)
Change in non admitted assets	464,312
Change in provision for reinsurance	(84,000)
Change in surplus note	8,000,000
Examination adjustment	-
Additional paid-in capital	<u>2,800,000</u>
Change in surplus regards to policyholders current year	<u>\$ 11,219,095</u>
Surplus regards policyholders current year	<u><u>\$ 15,519,235</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses \$2,160,111

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, 2006, 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 an independent review of the Company's stated reserves. INS Consultants, Inc. was in concurrence with that opinion.

Capital and Surplus

The amount reported by the Company of \$15,519,231, exceeds the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

A comparative analysis of changes in surplus is shown below.

**NORTHEN CAPITAL 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 regards policyholders December 31, 2007 per Annual Statement			\$ 15,519,231
	Per Company	Per Examination	Increase (Decrease)
ASSETS:			
No adjustments			0
LIABILITIES:			
No adjustments			0
Net change in Surplus			<u>0</u>
Surplus regards policyholders December 31, 2007 per Examination			<u><u>\$ 15,519,231</u></u>

SUMMARY OF FINDINGS

Compliance with previous directives

This is the first examination of the Company.

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, 2007.

General

The Company did not have in place a fidelity bond as required by the NAIC Handbook. **We recommend that the Company obtain a fidelity bond for at least the suggested coverage as recommended by the NAIC Handbook.**

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of Northern Capital 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 \$15,519,231, in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned, Barry Armstrong, CFE, Supervisor, and Max Vega, CFE Examiner in Charge, both of INS Regulatory Insurance Services, Inc., and Owen Anderson, Financial Examiner/Analyst II, of the Office participated in this examination. We also recognize the participation of INS Consultants, Inc. and INS Services, Inc. in the examination.

Respectfully submitted,

James Collins
Reinsurance/Financial Specialist
Florida Office of Insurance Regulation