

**REPORT ON EXAMINATION**  
**OF**  
**OLD DOMINION INSURANCE COMPANY**  
**JACKSONVILLE, FLORIDA**

**AS OF**  
**DECEMBER 31, 2010**

**BY THE**  
**OFFICE OF INSURANCE REGULATION**

## TABLE OF CONTENTS

<b>LETTER OF TRANSMITTAL</b> .....	<b>-</b>
<b>SCOPE OF EXAMINATION</b> .....	<b>1</b>
<b>SUMMARY OF SIGNIFICANT FINDINGS</b> .....	<b>2</b>
CURRENT EXAM FINDINGS .....	2
PRIOR EXAM FINDINGS .....	2
<b>SUBSEQUENT EVENTS</b> .....	<b>2</b>
<b>HISTORY</b> .....	<b>2</b>
GENERAL .....	2
DIVIDENDS TO STOCKHOLDERS .....	3
CAPITAL STOCK AND CAPITAL CONTRIBUTIONS.....	3
SURPLUS DEBENTURES .....	4
ACQUISITIONS, MERGERS, DISPOSALS, DISSOLUTIONS, AND PURCHASE OR SALES THROUGH REINSURANCE .....	4
<b>CORPORATE RECORDS</b> .....	<b>4</b>
CONFLICT OF INTEREST .....	5
<b>MANAGEMENT AND CONTROL</b> .....	<b>5</b>
MANAGEMENT .....	5
AFFILIATED COMPANIES.....	6
ORGANIZATIONAL CHART .....	8
TAX ALLOCATION AGREEMENT .....	9
COST SHARING AGREEMENT .....	9
<b>FIDELITY BOND AND OTHER INSURANCE</b> .....	<b>10</b>
<b>PENSION, STOCK OWNERSHIP AND INSURANCE PLANS</b> .....	<b>10</b>
<b>TERRITORY AND PLAN OF OPERATIONS</b> .....	<b>10</b>
TREATMENT OF POLICYHOLDERS.....	10
<b>COMPANY GROWTH</b> .....	<b>11</b>
PROFITABILITY OF COMPANY.....	11
<b>LOSS EXPERIENCE</b> .....	<b>11</b>
<b>REINSURANCE</b> .....	<b>12</b>
ASSUMED .....	12
CEDED .....	12
<b>ACCOUNTS AND RECORDS</b> .....	<b>13</b>
CUSTODIAL AGREEMENT .....	13
INVESTMENT MANAGEMENT AGREEMENT.....	14
INDEPENDENT AUDITOR AGREEMENT .....	14
<b>INFORMATION TECHNOLOGY REPORT</b> .....	<b>15</b>
<b>STATUTORY DEPOSITS</b> .....	<b>15</b>

<b>FINANCIAL STATEMENTS PER EXAMINATION.....</b>	<b>15</b>
ASSETS .....	17
LIABILITIES, SURPLUS AND OTHER FUNDS .....	18
STATEMENT OF INCOME .....	19
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS .....	20
<b>COMMENTS ON FINANCIAL STATEMENTS.....</b>	<b>21</b>
LIABILITIES.....	21
CAPITAL AND SURPLUS .....	21
<b>CONCLUSION.....</b>	<b>22</b>

Tallahassee, Florida

October 19, 2011

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

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Honorable Joseph Torti III  
Chairman, NAIC Financial Condition (E) Committee  
Superintendent  
State of Rhode Island  
Department of Business Regulation  
Division of Insurance  
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Dear Sirs and Madam:

Pursuant to your instructions, in compliance with Section 624.316, Florida Statutes; Rule 690-138.005, 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 of December 31, 2010, of the financial condition and corporate affairs of:

**OLD DOMINION INSURANCE COMPANY  
4601 TOUCHTON ROAD EAST, SUITE 3400  
JACKSONVILLE, FLORIDA 32246**

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, 2010. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2005. This examination commenced with planning at the Office on June 13, 2011, to June 17, 2011. The fieldwork commenced on June 20, 2011, and concluded as of October 19, 2011.

This financial examination was a multi-state 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**

There were no findings, exceptions or corrective action to be taken by the Company for the examination as of December 31, 2005.

## **SUBSEQUENT EVENTS**

On September 15, 2011, an agreement was finalized with affiliate Spring Valley Mutual Insurance Company of Minnesota (Spring Valley). Effective January 1, 2012, Spring Valley will begin participation in the Intercompany Quota Share Reinsurance arrangement, under which the Company is a participate.

## **HISTORY**

### **General**

The Company was incorporated in Florida on April 22, 1981, and commenced business on June 3, 1981. The Company has changed names and ownership numerous times since then, however

there has been no changes since the prior examination and the Company remained part of the Main Street America Group as of December 31, 2010.

The Company was authorized to transact the following insurance coverage in Florida on December 31, 2010:

Fire	Allied Lines
Farmowners Multi Peril	Homeowners Multi Peril
Commercial Multi Peril	Ocean Marine
Inland Marine	Earthquake
Workers' Compensation	Other Liability
Private Passenger Auto Liability	Commercial Automobile Liability
Private Passenger Auto Physical Damage	Commercial Auto Physical Damage
Fidelity	Surety
Glass	Burglary and Theft

The Articles of Incorporation were amended on June 6, 2008 to change the par value of the Company's common stock from \$1.00 per share to \$1.50 per share. 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 capital shares	2,500,000
Number of shares issued and outstanding	2,000,000
Total common capital stock	\$3,000,000
Par value per share	\$1.50

At December 31, 2010, the Company was wholly owned by Main Street America Financial Corporation (MSAFC), which in turn, was wholly owned by NGM Insurance Company (NGM), a Florida domestic property and casualty insurer and the lead insurer in the affiliated group. NGM was 100% owned by Main Street America Group, Inc. (MSA Group), which was approximately 95%, owned by Main Street America Group Mutual Holdings, Inc., a Florida mutual insurance holding company.

### **Surplus Debentures**

The Company did not have any surplus debentures during the period of this examination.

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

The Company had no acquisitions, mergers, disposals, and purchase or sales through reinsurance during the period of this examination.

## **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, 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 69O-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**

<b>Name and Location</b>	<b>Principal Occupation</b>
Terry Lawrence Baxter Lyme, New Hampshire	Retired Insurance Executive
Cotton Mather Cleveland New London, New Hampshire	Sr. Associate/Mgt. Consulting, Mather Associates
John Adrian Delaney Neptune Beach, Florida	University President, University of North Florida
Albert Henry Elfner III Boston, Massachusetts	Retired Investment Management
David (NMN) Freeman Canton, Connecticut	Retired President and CEO, Lydall, Inc.
William Dawson Gunter, Jr. Tallahassee, Florida	Insurance Agency Executive and Consultant
Karl Thomas Kemp Hanover, New Hampshire	Retired Insurance Executive
Philip Donald Koerner Tipp City, Ohio	Retired Insurance Executive

James Everitt Morley, Jr.  
Annapolis, Maryland

Retired President and CEO, Nat'l. Assoc. for  
College and University Business Officers

Thomas Mark Van Berkel  
Ponta Vedra Beach, Florida

Chairman, CEO and President, all Main  
Street America Group affiliated companies

Idalene Fay Kesner  
Bloomington, Indiana

Associate Dean of Faculty & Research and  
Professor of Strategic Management,  
Indiana University

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

### Senior Officers

Name	Title
Gregg Alan Effner	President
Edward John Kuhl	Treasurer and Controller
Bruce Robert Fox	Secretary

The Company's Board appointed several internal committees. Following were the principal internal board committees and their members as of December 31, 2010:

#### Executive Committee

Thomas M. Van Berkel<sup>1</sup>  
John A. Delaney  
Albert H. Elfner III  
David Freeman  
William D. Gunter, Jr.

<sup>1</sup> Chairman

#### Audit Committee

David Freeman<sup>1</sup>  
John A. Delaney  
William D. Gunter, Jr.  
Philip D. Koerner

#### Finance Committee

Albert H. Elfner III<sup>1</sup>  
Terry L. Baxter  
Cotton M. Cleveland  
James E. Morley, Jr.

### Affiliated Companies

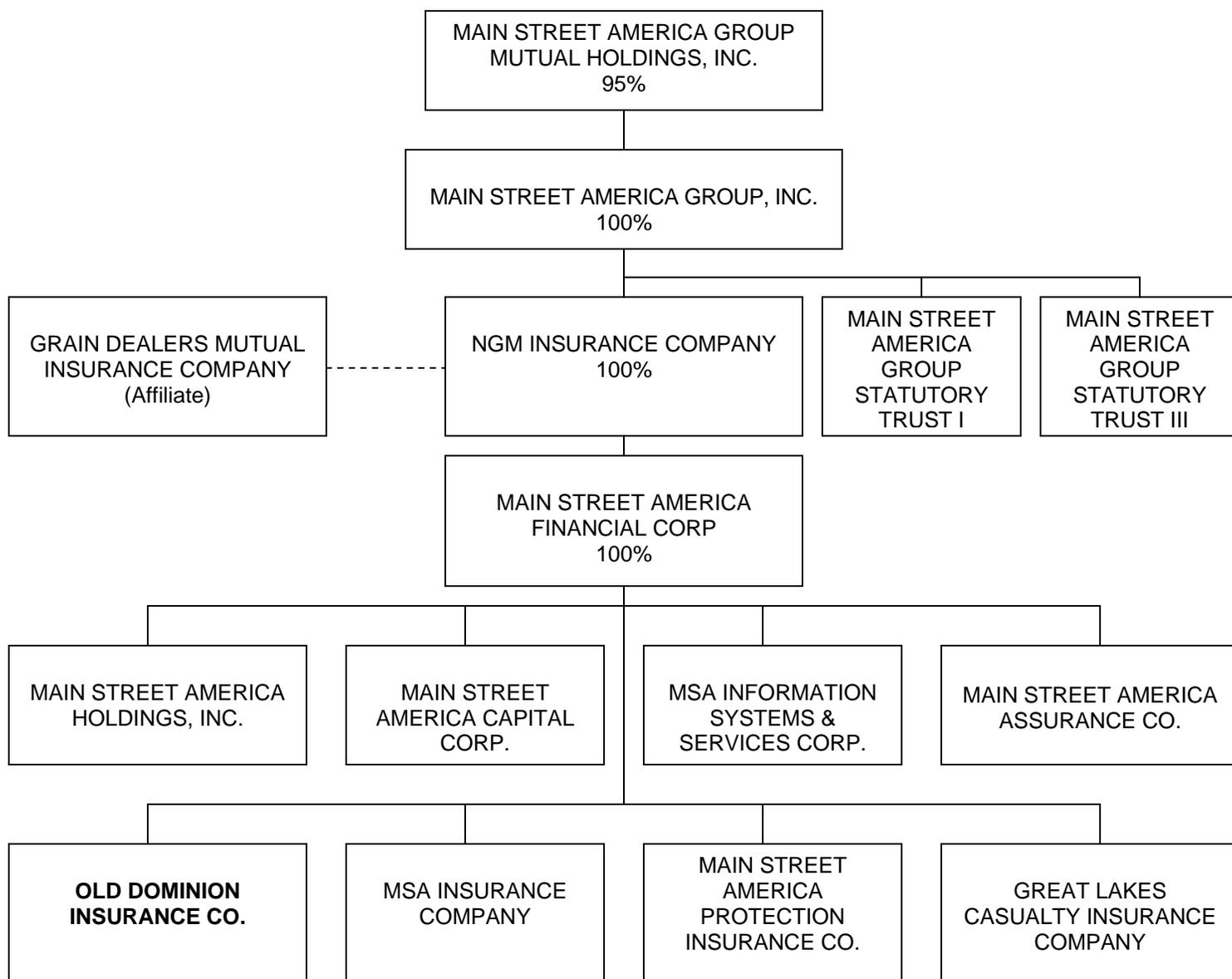
The Company was a member of an insurance holding company system as defined by Rule 690-143.045(3), Florida Administrative Code. The latest holding company registration

statement was filed with the State of Florida on February 15, 2011, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

An organizational chart as of December 31, 2010, reflecting the holding company system, is shown below. Schedule Y of the Company's 2010 annual statement provided a list of all related companies of the holding company group.

## OLD DOMINION INSURANCE COMPANY ORGANIZATIONAL CHART

**DECEMBER 31, 2010**



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

### **Quota Share Reinsurance Agreement**

The Company was a participant in the intercompany pooling arrangement for the MSA Group of insurers. Pursuant to the agreement, the Company ceded 100% of its net underwriting results to the lead company, NGM. Facultative reinsurance cessions to non-affiliated reinsurers occur prior to cessions to the Pool.

### **Tax Allocation Agreement**

The Company, along with its parent and affiliates, filed a consolidated federal income tax return. On December 31, 2010, the method of allocation between the companies was subject to a written agreement dated March 30, 1998, and was approved by the Board. Allocation was based upon separate return calculations with current credit for net losses recoverable on a consolidated basis.

### **Cost Sharing Agreement**

The Company entered into an intercompany expense allocation agreement with its indirect parent company, NGM, and affiliates to receive administrative and managerial services. Indirect costs were allocated based upon a uniform and reasonable basis for all affiliated companies. On a quarterly basis, NGM furnished all affiliated companies with an accounting of costs and expenses paid on behalf of each affiliate named as a party to the agreement.

## **FIDELITY BOND AND OTHER INSURANCE**

The Company was a named insured on a fidelity bond providing coverage up to \$10,000,000 with a deductible of \$150,000, per loss, which reached the suggested minimum as recommended by the NAIC. In addition, the Company was a named insured for fiduciary liability coverage with limits up to \$10,000,000 with a \$150,000 deductible, per loss. The Company also maintained other property and liability insurance coverage necessary for the operation of the business.

## **PENSION, STOCK OWNERSHIP AND INSURANCE PLANS**

The Company had no employees and therefore no pension stock ownership or insurance plans.

## **TERRITORY AND PLAN OF OPERATIONS**

The Company was authorized to transact insurance in the following states:

Connecticut	Massachusetts	Rhode Island
Delaware	New Hampshire	South Carolina
Florida	New York	Tennessee
Georgia	North Carolina	Vermont
Maine	Pennsylvania	Virginia
Maryland		

### **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 Surplus as Regards Policyholders has grown by approximately 14% since the last examination date. During the examination period, the net premiums and net underwriting income decreased to \$0 as a result of the Company entering into a reinsurance arrangement with an affiliate whereby 100% of premiums written and underwriting results are ceded. Total Assets and Liabilities decreased significantly during the examination period. This was also a direct result of the reinsurance arrangement with the affiliate, which included the transfer of liabilities incurred in prior years.

### 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	2006
Premiums Earned	0	0	0	0	40,756,874
Net Underwriting Gain/(Loss)	0	0	0	0	1,255,976
Net Income	968,510	1,605,605	(898,588)	3,439,918	3,931,338
Total Assets	29,640,451	28,563,868	26,297,000	28,408,903	80,601,226
Total Liabilities	753,908	726,704	147,525	502,930	55,257,046
Surplus As Regards Policyholders	28,886,543	27,837,164	26,149,475	27,905,973	25,344,180

## LOSS EXPERIENCE

During the current examination period, the Company showed favorable loss development. This was a result of entering into an affiliated reinsurance agreement in 2008, whereby all underwriting results were 100% reinsured. Accordingly, the net loss ratio for the past two years was 0% and the

one and two-year net loss developments at the end of the current examination period were both \$0.

## **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 as of December 31, 2010.

### **Ceded**

The Company ceded premium both on a quota share and facultative basis. The vast majority of the premium ceded was through an intercompany quota share reinsurance agreement. Under the terms of the agreement, all direct and assumed business and underwriting income/loss, net of the facultative business of the participating companies was pooled and assumed 100% by the group's lead insurer.

The reinsurance contract was reviewed by the Company's appointed actuary and was utilized in determining the ultimate loss opinion.

## **ACCOUNTS AND RECORDS**

The Company maintained its principal operational offices in Jacksonville, Florida and Keene, New Hampshire. The current examination was conducted from both locations.

An independent CPA audited the Company's statutory basis financial statements annually for the years 2006, 2007, 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 a computerized system and several subsystems which were able to generate reports and statements sufficient for management of the Company.

The Company and non-affiliates had the following agreements:

### **Custodial Agreement**

The Company had a custodial agreement for the safekeeping of the securities. The Agreement was in compliance with all requirements of Rule 69O-143.042, Florida Administrative Code.

## **Investment Management Agreements**

The Company was a party to multiple investment advisory agreements for this period of operations. NGM, as the ultimate controlling insurer of the MSA Group, had a Chief Financial Officer and support staff to oversee the management of the MSA Group's investments. The Chief Investment Officer, operating under the investment guidelines set by the Finance Committee of the Board, invested Company assets through third party, unaffiliated investment managers.

The third party investment managers and the investment management agreements included Prospector Partners, LLC, Asset Allocation and Management Co., LLC and Municrest. MSA Group also invests in certain mutual funds with Vanguard.

Subsequent to December 31, 2010, the Company amended its Investment Management Agreements to reflect the name change of the ultimate controlling insurer to NGM Insurance Company dating retroactively to August 2005. The amendments for the Prospector Partners, LLC, Asset Allocation and Management Co., LLC and Municrest agreements were dated August 31, 2011, August, 24, 2011 and September 20, 2011, respectively.

## **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

Samuel BowerCraft, MSIS, CISA of McKonly & Asbury, LLP 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	NJ Eco Dev, 5.2%, 04/01/17	\$ 1,000,000	\$ 1,017,030
FL	Merrill Lynch, 6.875%, 11/15/18	50,000	53,849
FL	USTreas, 6.25%, 08/15/23	<u>700,000</u>	<u>879,816</u>
TOTAL FLORIDA DEPOSITS		\$ 1,750,000	\$ 1,950,695
DE	USTreas, 7.5%, 11/15/16	\$ 100,000	\$ 128,523
GA	NJ Eco Dev, 5.2%, 04/01/17	85,000	86,448
MA	USTreas, 7.5%, 11/15/16	100,000	128,523
NH	USTreas, 6.25%, 08/15/23	525,000	659,862
NC	USTreas, 7.5%, 11/15/16	325,000	417,700
SC	Merrill Lynch, 6.875%, 11/15/18	125,000	134,623
SC	USTreas, 7.5%, 11/15/16	100,000	128,523
VA	NJ Eco Dev, 5.2%, 04/01/17	550,000	559,367
TOTAL OTHER DEPOSITS		<u>\$ 1,910,000</u>	<u>\$ 2,243,569</u>
TOTAL SPECIAL DEPOSITS		<u>\$ 3,660,000</u>	<u>\$ 4,194,264</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."

**OLD DOMINION INSURANCE COMPANY**  
**Assets**

**DECEMBER 31, 2010**

	<b>Per Company</b>	<b>Examination Adjustments</b>	<b>Per Examination</b>
Bonds	\$28,323,216	\$0	\$28,323,216
Cash and Short-Term Investments	323,204		323,204
Receivable for securities	12,187		12,187
Investment income due and accrued	365,917		365,917
Reinsurance: Amounts recoverable from reinsurers	343,616		343,616
Aggregate write-in for other than invested assets	272,311		272,311
Totals	<u>\$29,640,451</u>	<u>\$0</u>	<u>\$29,640,451</u>

**OLD DOMINION INSURANCE COMPANY**  
**Liabilities, Surplus and Other Funds**

**DECEMBER 31, 2010**

	<b>Per Company</b>	<b>Examination Adjustments</b>	<b>Per Examination</b>
Losses	\$0	\$0	\$0
Loss adjustment expenses	0		0
Current FIT income taxes	351,352		351,352
Payable to parent, subsidiaries and affiliates	389,857		389,857
Aggregate write-ins for liabilities	12,699		12,699
<b>Total Liabilities</b>	<b>\$753,908</b>	<b>\$0</b>	<b>\$753,908</b>
Common capital stock	\$3,000,000		\$3,000,000
Gross paid in and contributed surplus	32,577,677		32,577,677
Unassigned funds (surplus)	(6,691,134)	\$0	(6,691,134)
<b>Surplus as regards policyholders</b>	<b>\$28,886,543</b>	<b>\$0</b>	<b>\$28,886,543</b>
<b>Total liabilities, surplus and other funds</b>	<b>\$29,640,451</b>	<b>\$0</b>	<b>\$29,640,451</b>

**OLD DOMINION INSURANCE COMPANY**  
**Statement of Income**

**DECEMBER 31, 2010**

**Underwriting Income**

Premiums earned		\$0
	<b>Deductions:</b>	
Losses incurred		\$0
Loss expenses incurred		0
Other underwriting expenses incurred		0
Aggregate write-ins for underwriting deductions		0
Total underwriting deductions		\$0
Net underwriting gain or (loss)		\$0

**Investment Income**

Net investment income earned		\$1,053,408
Net realized capital gains or (losses)		175,917
Net investment gain or (loss)		\$1,229,325

**Other Income**

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

Net income before dividends to policyholders and before federal & foreign income taxes		\$1,229,325
Dividends to policyholders		0
Net Income, after dividends to policyholders, but before federal & foreign income taxes		\$1,229,325
Federal & foreign income taxes		260,815
Net Income		\$968,510

**Capital and Surplus Account**

Surplus as regards policyholders, December 31 prior year		\$27,837,164
Net Income		\$968,510
Net unrealized capital gains or losses		0
Change in net deferred income tax		68,321
Change in non-admitted assets		12,548
Change in provision for reinsurance		0
Change in excess statutory over statement reserves		0
Surplus adjustments: Paid in		0
Aggregate write-ins for gains and losses in surplus		0
Examination Adjustment		0
Change in surplus as regards policyholders for the year		\$1,049,379
Surplus as regards policyholders, December 31 current year		\$28,886,543

A comparative analysis of changes in surplus is shown below.

**OLD DOMINION INSURANCE COMPANY**  
**Comparative Analysis of Changes in Surplus**

**DECEMBER 31, 2010**

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, 2010, per Annual Statement \$28,886,543

	<u>PER</u> <u>COMPANY</u>	<u>PER</u> <u>EXAM</u>	<u>INCREASE</u> <u>(DECREASE)</u> <u>IN SURPLUS</u>
ASSETS:			
No Adjustment			
LIABILITIES:			
No Adjustment			
Net Change in Surplus:			<u>0</u>
Surplus as Regards Policyholders December 31, 2010, Per Examination			<u><u>\$28,886,543</u></u>

## COMMENTS ON FINANCIAL STATEMENTS

### Liabilities

#### Losses and Loss Adjustment Expenses \$            0

The Company's actuary 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, Richard Lo, FCAS, MAAA, FCS of Alliance Actuarial Services, Inc. reviewed the loss and loss adjustment expense work papers provided by the Company and was in concurrence with this opinion.

### Capital and Surplus

The amount reported by the Company of \$28,886,543, exceeded the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

## CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Old Dominion 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 was \$28,886,543, which exceeded the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

In addition to the undersigned, James E. Salter, CFE, CPA, Examiner-In-Charge and Roshanak Fekrat, CPA, CFE, CIA, MCM; Cynthia Sikorski, CFE, MCM; Charles Black, CFE; Randall Dillow; and Aram Morvari, MCM, Participating Examiners, of Global Insurance Enterprises, Inc. participated in the examination. In addition, Richard Lo, FCAS MAAA, FCS consulting actuary of Alliance Actuarial Services Inc., and Samuel BowerCraft, CISA, IT Manager, and Diane Rudy, CPA, CIA of McKonly & Asbury LLP participated in the examination. Kethessa Carpenter, CPA, Financial Examiner/Analyst Supervisor, and Samita Lamsal, Financial Examiner/Analyst II, of the Office also participated in the examination.

Respectfully submitted,

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Mary M. James, CFE, CPM  
Chief Examiner  
Florida Office of Insurance Regulation