

REPORT ON EXAMINATION

OF

PENINSULAR SURETY COMPANY

MIAMI, FLORIDA

AS OF

DECEMBER 31, 2008

BY THE

OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida

October 29, 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 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, 2008, of the financial condition and corporate affairs of:

**PENINSULAR SURETY COMPANY
7005 NW 41ST STREET
Miami, Florida 33166**

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

SCOPE OF EXAMINATION

This examination covered the period of March 07, 2007, through December 31, 2008. This was the first examination by representatives of the Florida Office of Insurance Regulation (Office) and commenced with planning at the Office from July 27, 2009, to July 30, 2009. The fieldwork commenced September 7, 2009, and was concluded on October 29, 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.

Risk-focused examinations consist of a seven-phase process that can be used to identify and assess risk, assess the adequacy and effectiveness of strategies/controls used to mitigate risk and assist in determining the extent and nature of procedures and testing to be utilized in order to complete the review of that activity. The process should generally include a determination of the

quality and reliability of the corporate governance structure and risk management programs. In addition, it can be used for verification of specific portions of the financial statements or other limited-scope reviews, increased focus on and increased substantive testing of accounts identified as being at high risk of misstatement. Conversely, the risk assessment process should result in decreased focus on and fewer substantive tests on the accounts identified as being at low risk of misstatement. The risk-focused surveillance process can be used to assist examiners in targeting areas of high-risk.

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, 2008. Transactions subsequent to year-end 2008 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 Company's independent audit report 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

This was the first-year examination of the Company; therefore, no follow-up on prior examination findings was necessary.

HISTORY

General

The Company was incorporated in Florida on March 07, 2007, and commenced business on August 17, 2007, as Peninsular Surety Company.

The Company was party to two Consent Orders, Number 89163-07-CO, filed February 09, 2007, and 91247-07-CO, filed August 09, 2007, regarding the application for and issuance of a Certificate of Authority. The Company was in compliance with the Consent Orders.

The Company was authorized to transact the business of Surety insurance only in Florida, as of December 31, 2008.

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

Capital Stock

As of December 31, 2008, the Company's capitalization was as follows:

Number of authorized common capital shares	25,000
Number of shares issued and outstanding	25,000
Total common capital stock	\$2,500,000
Par value per share	\$100.00

Control of the Company was maintained by its two shareholders; John F. Troy and Sheri L. Dwyer. Each had an ownership interest of 50% of the Company's issued and outstanding stock.

Profitability of Company

The following table shows the net income trend (in dollars) of the Company for the period of operations, as reported in the 2008 and 2007 year-end annual statements.

	2008	2007
Premiums Earned	485,839	-
Net Underwriting Gain/(Loss)	(122,091)	(98,656)
Net Income	(63,038)	(40,030)
Net Admitted Assets	2,680,235	2,559,970
Total Liabilities	251,351	-
Surplus As Regards Policyholders	2,428,884	2,559,970

As noted above, the Company experienced Underwriting Losses during its first two years of operations.

Dividends to Stockholders

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

Management

The annual shareholder meeting for the election of directors was held in accordance with Sections 607.1601 and 628.231, Florida Statutes. Directors serving as of December 31, 2008, were:

Directors	
Name and Location	Principal Occupation
John F. Troy Naples, Florida	Officer, Peninsular Surety Company
Sarah Burt Tallahassee, Florida	Officer, Peninsular Surety Company
Sheri Dwyer Parkland, Florida	Assistant Treasurer, Peninsular Surety Company
Marshall Dore Louis Miami, Florida	Attorney
Joseph S. Rosenbaum Miami, Florida	Attorney

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

Senior Officers

Name	Title
John F. Troy	CEO/President & Treasurer, Peninsular Surety Company
Sarah Burt	Secretary, Peninsular Surety Company
Sheri Dwyer	Assistant Treasurer, Peninsular Surety Company

Following were the principal internal board committees and their members as of December 31, 2008:

Executive Committee	Audit Committee	Compensation Committee
John F. Troy *	John F. Troy *	John F. Troy *
Sarah Burt	Joseph s. Rosenbaum	Joseph S. Rosenbaum
Sheri Dwyer	Marshall Dore Louis	Marshall Dore Louis

* Chairman

The required Audit Committee was established by the Board.

Conflict of Interest Procedure

The Company adopted a Code of Business Conduct which includes a Conflict of Interest Policy statement requiring all personnel to disclose all actual or potential conflicts of interest in accordance with the NAIC Financial Condition Examiners Handbook.

Corporate Records

The recorded minutes of the shareholders and Board of Directors (Board) were reviewed for the period under examination. The recorded minutes of the Board did not adequately document its meetings and approval of Company transactions and events in accordance with Section 607.1601, Florida Statutes. The Company did not record in the minutes of the Board the authorization of investments as required by Section 625.304, Florida Statutes.

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

The Company had no acquisitions, mergers, disposals, dissolutions, purchases or sales through reinsurance.

Surplus Debentures

The Company had no surplus debentures.

AFFILIATED COMPANIES

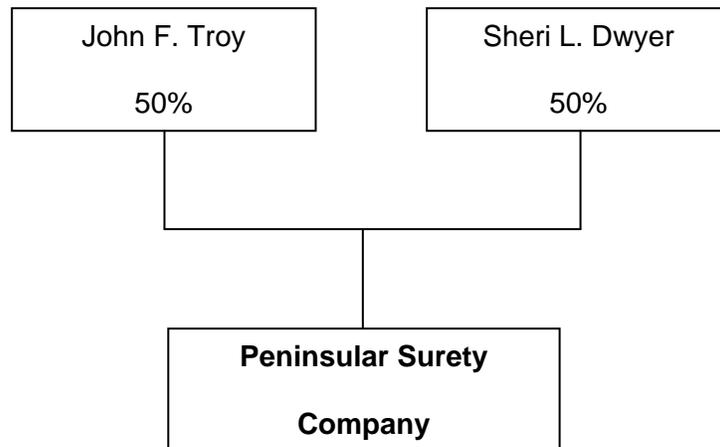
The Company was not a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code.

A simplified organizational chart as of December 31, 2008, reflecting the ownership structure, is shown below.

PENINSULAR SURETY INSURANCE COMPANY

ORGANIZATIONAL CHART

DECEMBER 31, 2008



FIDELITY BOND AND OTHER INSURANCE

The Company did not have the NAIC recommended Fidelity Bond coverage during the period covered by this examination. Per examination, the minimum required coverage as of December 31, 2008, would range between \$50,000 and \$75,000.

Subsequent Event: The Company obtained Fidelity Bond coverage in the amount of \$250,000, with a deductible of \$5,000 on January 1, 2010, considered adequate by NAIC guidelines.

The Company had a \$3,000,000 Directors and Officers liability policy.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company had no direct employees; therefore, it had no employee retirement or stock ownership 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
Florida	Cash	\$100,000	\$100,000
Total Florida Deposits		\$100,000	\$100,000
Total Special Deposits		<u>\$100,000</u>	<u>\$100,000</u>

INSURANCE PRODUCTS AND RELATED PRACTICES

The Company only issued Surety insurance products.

Territory

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

Treatment of Policyholders

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.

The Company failed to establish procedures for handling written complaints in accordance with Section 626.9541(1) (j), Florida Statutes.

REINSURANCE

Assumed

The Company had no assumed insurance risk.

Ceded

The Company ceded no risk.

ACCOUNTS AND RECORDS

The Company maintained its principal operational offices in Miami, Florida, where this examination was conducted.

Under Section 624.424(8)(b), Florida Statutes, the Company was exempt from filing audited financial statements in 2007 due to premium volume and policy count. In 2008, an independent

CPA audited the Company's statutory basis financial statements for the year ending December 31, 2008, 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 two standard computers. Microsoft Excel spreadsheet software was utilized to maintain the general ledger and required statutory financial reports. The CPA prepared general ledger accounts were reconciled to the line items of the annual statement submitted to the Office.

The Company and non-affiliates had the following agreements:

Managing General Agents Bail Bond Agreement

The Company was party to a Managing General Agents Bail Bond Agreement with Luis Tousent for the purpose of supervising and conducting the writing of bail bond insurance in the state of Florida. Under the terms of the agreement, the agency was specifically excluded from authority to settle claims on behalf of the Company or bind reinsurance or retrocession. The Office approved this Agreement effective February 01, 2007.

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2008, 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."

PENINSULAR SURETY COMPANY

DECEMBER 31, 2008

Assets

	Per Company (Admitted)	Examination Adjustments	Per Examination (Admitted)
Cash and cash equivalents	<u>\$ 2,650,924</u>		<u>\$ 2,650,924</u>
Investment income due and accrued	20,119		20,119
Uncollected premiums and agents balances	9,192		9,192
Total assets	<u>\$ 2,680,235</u>	<u>\$ -</u>	<u>\$ 2,680,235</u>

PENINSULAR SURETY COMPANY

DECEMBER 31, 2008

Liabilities and Surplus

	Per Company	Examination Adjustments	Per Examination
Loss adjustment expenses	\$ 97,168		\$ 97,168
Other expenses	66,989		66,989
Taxes licenses and fees	6,603		6,603
Unearned premiums	80,591		80,591
Total liabilities	<u>251,351</u>	-	<u>251,351</u>
Common capital stock	\$ 2,500,000		\$ 2,500,000
Unassigned funds (surplus)	(71,116)		(71,116)
Surplus as regards policyholders	2,428,884		2,428,884
Total liabilities captial and surplus	<u>\$ 2,680,235</u>	<u>\$ -</u>	<u>\$ 2,680,235</u>

PENINSULAR SURETY COMPANY

DECEMBER 31, 2008

Statement of Income

	Per Company	Examination Adjustments	Per Examination
Underwriting Income			
Premiums earned	\$ 485,839		\$ 485,839
Deductions			
Loss adjustment expenses incurred	97,168		97,168
Other underwriting expenses incurred	510,762		510,762
			-
Total underwriting deductions	<u>607,930</u>		<u>607,930</u>
Net underwriting gain or (loss)	\$ (122,091)	\$ -	\$ (122,091)
Investment Income			
Net investment income earned	59,053		59,053
			-
Net investment gain (loss)	<u>\$ 59,053</u>		<u>\$ 59,053</u>
			-
Net income before before taxes	<u>(63,038)</u>		<u>(63,038)</u>
Net income	<u>\$ (63,038)</u>		<u>\$ (63,038)</u>
Capital and Surplus Account			
Surplus as regard policyholders, December 31 prior year	\$ 2,559,970		\$ 2,559,970
Net income for current year	(63,038)		(63,038)
Change in net deferred income tax	36,630		36,630
Change in non-admitted assets	(42,391)		(42,391)
Aggregate write-ins for gains and losses in surplus - Unassigned Deficit	(62,287)		(62,287)
Change in surplus as regards policyholders	<u>(131,086)</u>		<u>(131,086)</u>
Surplus as regards policyholders	<u><u>\$ 2,428,884</u></u>		<u><u>\$ 2,428,884</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Assets

Cash	<u>\$2,650,924</u>
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Cash reported in the amount of \$2,650,924, was accepted for examination purposes. The cash account included \$14.00 in petty cash and a special deposit on behalf of the Bureau of Collateral Management in the amount of \$100,000.

Liabilities

Loss Adjustment Expenses	<u>\$97,168</u>
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The Company reported LAE in the amount of \$97,168. The examination actuary reviewed the Company's reserves and concluded that they were reasonable and the amount was accepted without adjustment. The LAE account included a provision for Losses, but was combined together for 2008. Since the Company incurred no claims for 2008, this amount was also accepted without adjustment.

Unearned Premium Reserves

\$80,591

The Company's reported Unearned Premium Reserves in the amount of \$80,591, was accepted for examination purposes as calculated in accordance with Section 625.011, Florida Statutes.

Capital and Surplus

The amount reported by the Company of \$2,428,884 exceeded the minimum of \$1,500,000 required by Section 624.408, Florida Statutes.

A comparative analysis of changes in surplus is shown below.

PENINSULAR SURETY COMPANY
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS
DECEMBER 31, 2008

Surplus as Regards Policyholders as of December 31, 2008 per Company				\$ 2,428,884
	Per Company (Admitted)	Per Examination (Admitted)	Increase (Decrease) in Surplus	
Assets No adjustment			-	
Liabilities No adjustment			-	
Net Change in Surplus				-
Surplus as Regards Policyholders as of December 31, 2008 per Examination				<u>\$ 2,428,884</u>

SUMMARY OF FINDINGS

This was a first-year examination of the Company; therefore, there were no previous directives.

Current examination comments and corrective action:

The following is a brief summary of the item of interest and corrective action to be taken by the Company regarding findings in the examination as of December 31, 2008.

Claims Handling Procedures Manual

The Company failed to establish procedures for handling written complaints in accordance with Section 626.9541(1) (j), Florida Statutes. **We recommend that the Company develop and maintain procedures for handling written complaints in accordance with Section 626.9541(1) (j), Florida Statutes.**

Corporate Records

The Company failed to maintain recorded minutes of the Board of Directors meetings and approval of Company transactions and events in accordance with Section 607.1601, Florida Statutes. **We recommend that the Company maintain recorded minutes of the Board of Directors meetings and approval of Company transactions and events in accordance with Section 607.1601, Florida Statutes.**

The Company failed to maintain recorded minutes of the Board of Directors approval and authorization of investments in accordance with Section 625.304, Florida Statutes. **We recommend that the Company maintain recorded minutes of the Board of Directors approval and authorization of investments in accordance with Section 625.304, Florida Statutes.**

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Peninsular Surety Company** as of December 31, 2008, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was \$2,428,884, in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned, Brent Sallay, FCAS, Actuary; Joe Peiso, CPA, ARe Examiner; John M. Coleman, CFE Examiner in Charge; and Tracy Gates, CISA Examiner, participated in the examination. We also recognize Highland Clark, LLC and Taylor Walker & Associates for participation in the examination.

Respectfully submitted,

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