

**REPORT ON EXAMINATION**  
**OF**  
**PEOPLE'S TRUST INSURANCE**  
**COMPANY**  
**BOCA RATON, 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>3</b>
GENERAL .....	3
DIVIDENDS TO STOCKHOLDERS .....	4
CAPITAL STOCK AND CAPITAL CONTRIBUTIONS.....	4
SURPLUS DEBENTURES .....	4
ACQUISITIONS, MERGERS, DISPOSALS, DISSOLUTIONS, AND PURCHASE OR SALES THROUGH REINSURANCE .....	5
<b>CORPORATE RECORDS</b> .....	<b>5</b>
CONFLICT OF INTEREST .....	5
<b>MANAGEMENT AND CONTROL</b> .....	<b>5</b>
MANAGEMENT .....	5
AFFILIATED COMPANIES.....	7
ORGANIZATIONAL CHART .....	8
COST ALLOCATION AGREEMENT.....	9
MANAGEMENT SERVICES AGREEMENT .....	9
MANAGING GENERAL AGENT AGREEMENT.....	10
PROPERTY INSPECTIONS AND SERVICES AGREEMENTS.....	10
<b>FIDELITY BOND AND OTHER INSURANCE</b> .....	<b>11</b>
<b>PENSION, STOCK OWNERSHIP AND INSURANCE PLANS</b> .....	<b>11</b>
<b>TERRITORY AND PLAN OF OPERATIONS</b> .....	<b>11</b>
TREATMENT OF POLICYHOLDERS.....	11
<b>COMPANY GROWTH</b> .....	<b>11</b>
PROFITABILITY OF COMPANY .....	12
<b>LOSS EXPERIENCE</b> .....	<b>13</b>
<b>REINSURANCE</b> .....	<b>13</b>
ASSUMED .....	13
CEDED .....	13
<b>ACCOUNTS AND RECORDS</b> .....	<b>14</b>
CUSTODIAL AGREEMENT .....	14
INDEPENDENT AUDITOR AGREEMENT .....	15

**INFORMATION TECHNOLOGY REPORT ..... 15**  
**STATUTORY DEPOSITS..... 15**  
**FINANCIAL STATEMENTS PER EXAMINATION..... 15**  
ASSETS ..... 16  
LIABILITIES, SURPLUS AND OTHER FUNDS ..... 17  
STATEMENT OF INCOME ..... 18  
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS ..... 19  
**COMMENTS ON FINANCIAL STATEMENTS ..... 20**  
LIABILITIES..... 20  
CAPITAL AND SURPLUS ..... 20  
**CONCLUSION ..... 21**

June 17, 2011

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 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 as of December 31, 2010, of the financial condition and corporate affairs of:

**PEOPLE'S TRUST INSURANCE COMPANY  
6001 BROKEN SOUND PARKWAY, SUITE 200  
BOCA RATON, FLORIDA 33487**

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 March 28, 2011, to April 1, 2011. The fieldwork commenced on April 4, 2011, and concluded as of June 17, 2011.

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.

### **Losses and LAE Reserves**

The Company's Loss and LAE reserves fell below the low end of the reasonable range of estimates prepared by an independent actuary. Based on the mid-point estimate, the Company was under reserved by \$694,000 as of December 31, 2009. **Resolution:** The Company made a subsequent adjustment to increase reserves by \$694,000 for their December 31, 2009 financials.

## **SUBSEQUENT EVENTS**

The Company experienced events subsequent to the examination date. In late April 2011, \$6 million was contributed via loan to the Company's Parent, People's Trust Holding, LLC (PTH),

by George Schaeffer, an individual, 50% owner of PTH. This capital contribution was included in the \$16 million that was then loaned from PTH to the affiliate company GS Two, LLC (GS2). GS2 then contributed the \$16 million to the newly formed DEL Re Holdings, Inc., which was used to fund the newly formed captive reinsurance company, DEL Re Ltd (DEL). DEL was wholly owned by DEL Re Holdings, Inc., which in turn was wholly owned by GS2. The Company was currently seeking approval from the Office for DEL to reinsure a portion of the catastrophe risks of the Company.

During February 2011, the Company executed and filed a Custody Agreement with UBS Financial Services Inc.

In January 2011, Mark Bowsher joined the Company as Chief Underwriting Officer.

## **HISTORY**

### **General**

The Company was incorporated in Florida on January 17, 2008, and commenced business on March 6, 2008, as People's Trust Insurance Company.

The Company was party to Consent Order 93269-07-CO, filed January 2, 2008, regarding the application for the issuance of a Certificate of Authority (COA); Consent Order 94519-08-CO, filed March 6, 2008, also regarding the application for the issuance of a COA; Consent Order 110951-10-CO, filed June 29, 2010, ordering suspension of the COA; and Consent Order 111379-10-CO, filed July 8, 2010, rescinding the order of suspension. The Company was in compliance with all Consent Orders.

The Company was authorized to transact the homeowner's multi peril coverage in Florida as of December 31, 2010.

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

### **Dividends to Stockholders**

In accordance with Section 628.371, Florida Statutes, the Company did not declare or pay dividends to its stockholder(s) in 2010.

### **Capital Stock and Capital Contributions**

As of December 31, 2010, 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, People's Trust Holdings, LLC, who owned 100% of the stock issued by the Company, who in turn was 50% owned by Michael Gold and 50% owned by George Schaeffer.

The parent contributed \$17,000,000 in cash to the Company as of December 31, 2010.

### **Surplus Debentures**

The Company had no surplus debentures during the examination period.

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

The Company had no acquisitions, mergers, disposals, dissolutions, or purchases or sales through reinsurance during the examination period.

## **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 accordance with Section 607.1601, 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 Sections 607.1601 and 628.231, Florida Statutes. Directors serving as of December 31, 2010, were:

## Directors

<b>Name and Location</b>	<b>Principal Occupation</b>
Adam Frankel Delray Beach, Florida	Partner, Frankel & Cohen, Attorneys at Law
Eilene Gold Delray Beach, Florida	Retired
George Schaeffer Beverly Hills, California	President & CEO, OPI Products, Inc.
Gerald Levy Boca Raton, Florida	Retired
Michael Gold Delray Beach, Florida	CEO, People's Trust Insurance Company and its related entities
Mitchell Politzer West Palm Beach, Florida	President, People's Trust Insurance Company and its related entities
Roland Baker Chicago, Illinois	Retired
Stephen Giliotti West Palm Beach, Florida	Retired
Stephen Rohde Delray Beach, Florida	CFO, People's Trust Insurance Company and its related entities

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

## Senior Officers

<b>Name</b>	<b>Title</b>
Michael Gold	Chief Executive Officer & Secretary
Mitchell Politzer	President
Stephen Rohde	Chief Financial Officer
Joyce Wright	Chief Claims Officer
Mark Bowsher (a)	Chief Underwriting Officer

(a) Was appointed an officer on February 9, 2011 through a Board of Directors Informal Action.

The Company's Board appointed several internal committees in accordance with Section 607.0825, Florida Statutes. Following were the principal internal Board committees and their members as of December 31, 2010:

<b>Audit Committee</b>	<b>Investment Committee</b>	<b>Compensation Committee</b>	<b>Capital Alternatives Committee</b>
Gerald Levy <sup>1</sup>	Michael Gold <sup>1</sup>	Stephen Giliotti <sup>1</sup>	Roland Baker <sup>1</sup>
Roland Baker	George Schaeffer	Roland Baker	Stephen Giliotti
Stephen Giliotti	Stephen Rohde	Gerald Levy	Gerald Levy
	Mitchell Politzer		

<sup>1</sup>Chairman

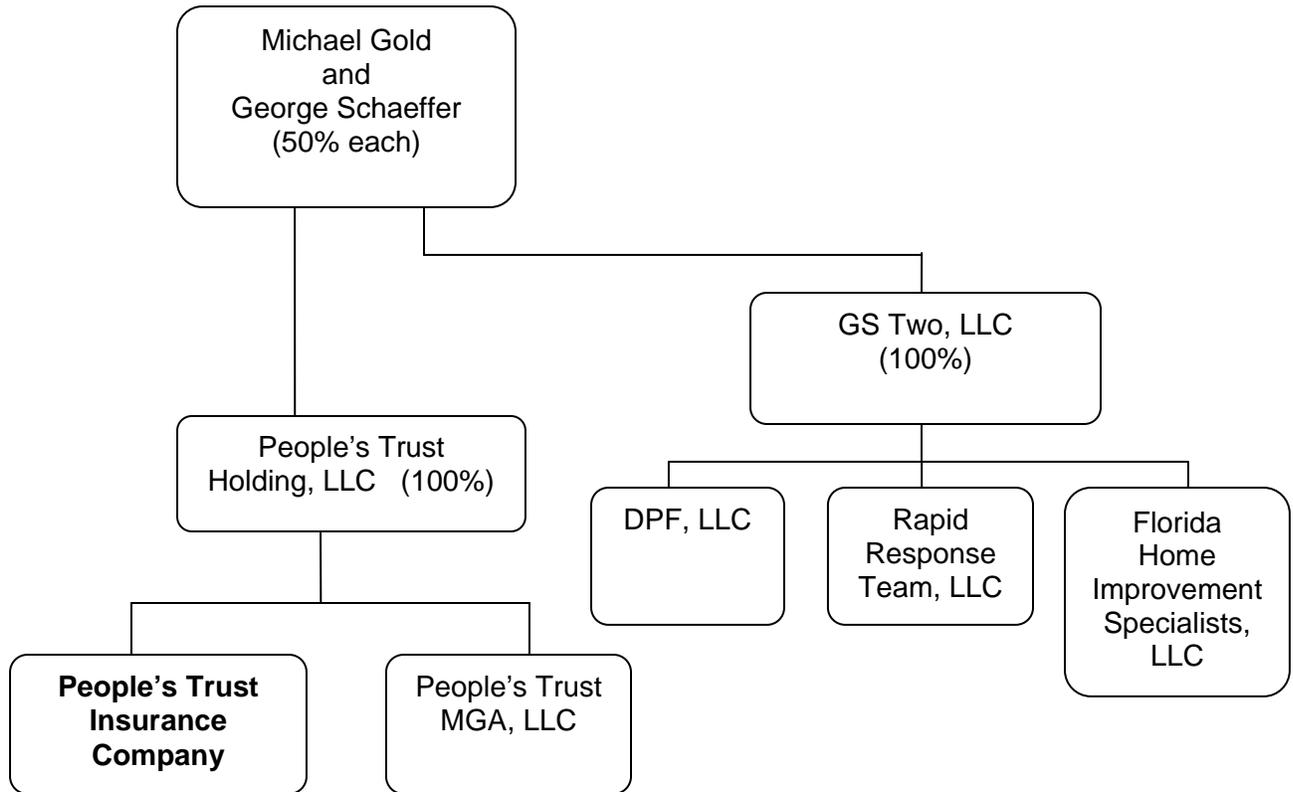
### **Affiliated Companies**

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 March 24, 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.

**PEOPLE'S TRUST INSURANCE COMPANY  
ORGANIZATIONAL CHART**

**DECEMBER 31, 2010**



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

### **Cost Allocation Agreement**

On March 6, 2008, the Company, its parent, PTH, and its affiliate, People's Trust MGA, LLC (PTMGA), executed a cost allocation agreement. On November 30, 2010, a new agreement was entered into adding the following affiliates: GS2, DPF Store, LLC, Rapid Response Team, LLC (RRT) and Florida Home Improvement Specialists, LLC. This agreement established the methodology by which joint expenses were allocated among members of the holding company. Those expenses paid by one member for the benefit of other members would be reimbursed based on the proportional benefit derived by the other members. In most instances, the basis of allocation used was a reasonably quantifiable measure as defined by generally accepted accounting principles. However, in those instances in which a quantifiable measure was not easily determined, management determined the allocation. Fees incurred under this agreement during 2010 amounted to \$5,773,815.

### **Management Services Agreement**

Concurrent with its incorporation in January 2008, the Company executed a management/service agreement with PTH. Under the terms of this agreement, PTH provided certain administrative services for the Company. These services included the preparation of federal and state income and similar tax returns; the administration of certain human resource functions; the use of information systems; the procurement of corporate insurance coverage; the use of office space and other business equipment; and other administrative services. In exchange for these services, PTH received 1% of the Company's direct written premium payable monthly on the 15th day after month end. The agreement may be terminated by either

party with a 90 day advance written notice. Fees incurred under this agreement in 2010 amounted to \$372,072.

### **Managing General Agent Agreement**

On February 1, 2008, the Company appointed PTMGA as managing general agent. The agency contract provided that PTMGA would underwrite the policies, administer claim settlement, negotiate reinsurance on behalf of the Company, provide consulting services, as well as other administrative services. All of the Company's business was written exclusively through PTMGA. In return for the services provided, the Company paid PTMGA 30% of direct written premium. Fees incurred under this agreement during 2010 amounted to \$9,162,158.

### **Property Inspections and Services Agreements**

The Company executed a Services Agreement on September 14, 2009, and a Property Inspections Agreement on January 21, 2010, with RRT. Under the terms of the Services Agreement, RRT performs residential property inspections or property loss mitigation remediation and repair. Within 15 days of the end of each month, RRT invoices the Company for services rendered during the preceding month and the Company then remits payment within 15 days of receipt of the invoice. The Property Inspections contract dictates that RRT agrees to perform approximately one thousand inspections per year at a discounted rate and the Company agrees to pay \$100,000 prior to January 13, 2010. Fees incurred under these agreements during 2010 amounted to \$114,036 and \$100,000 for the Services and Property Inspections agreements, respectively.

## **FIDELITY BOND AND OTHER INSURANCE**

The Company maintained fidelity bond coverage up to \$1,000,000 with a deductible of \$25,000, which reached the suggested minimum as recommended by the NAIC. The Company also maintained Directors and Officers (D&O) liability insurance coverage with a limit of \$5,000,000 and a deductible of \$25,000.

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

The Company did not offer pension plans or stock ownership plans to its directors, officers or employees.

## **TERRITORY AND PLAN OF OPERATIONS**

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.

## **COMPANY GROWTH**

During the period under examination, direct earned premiums increased by \$410,337, or approximately 1%, from \$36,584,291 to \$36,994,628. The modest increase in direct earned

premium was primarily the result of an approved rate change implemented in 2010 offset by a decline in policies in force due to re-underwriting efforts. The Company was working to improve underwriting results by diversifying its writings, inspecting all new business, and reducing the overall size of its portfolio to manage reinsurance costs in relation to premiums.

Net underwriting losses increased from 2,990,332 to 10,457,724. The Company experienced net underwriting losses primarily as a result of reinsurance costs in relation to premiums. As noted previously, the Company in 2010 was taking underwriting actions to improve results.

### **Profitability of Company**

The following table shows the profitability trend (in dollars) of the Company for the period of operations, as reported in the filed annual statements.

	<b>2010</b>	<b>2009</b>	<b>2008</b>
Premiums Earned	13,286,300	19,244,547	4,637,752
Net Underwriting Gain/(Loss)	(10,457,724)	(2,990,332)	(3,720,365)
Net Income	(9,974,524)	(2,639,374)	(3,646,340)
Total Assets	39,391,519	26,580,391	25,957,874
Total Liabilities	22,833,969	17,146,359	18,921,240
Surplus As Regards Policyholders	16,557,550	9,434,032	7,036,633

## **LOSS EXPERIENCE**

The 2010 reporting year was the Company's third year of operations. Loss and Loss Adjustment Expense reserves increased significantly in 2010, due largely to the longer average time to pay a claim resulting from the Company's stance on repairing the property, one large loss still open at year end, unfavorable development on prior year reserves, and increased litigation expenses.

## **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 risk during 2010.

### **Ceded**

The Company had four layers of property catastrophe excess of loss reinsurance in place. Additionally, the Company had two layers of reinstatement premium protection and a facultative agreement in place. The largest reinsurer of the Company is the Florida Hurricane Catastrophe Fund, with approximately 38% of premiums ceded to it by the Company. Reinsurance with private reinsurers was purchased through intermediary Guy Carpenter and consists of seventeen unaffiliated reinsurers, of which nine are authorized and eight are unauthorized. The Company cedes approximately 11% of premiums to the largest private reinsurer.

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 Boca Raton, 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 utilized third-party providers for their core information technology functions relating to underwriting, premium and claims processing. The applications were outsourced web-based applications where the third-party provider maintains the application, performs systems development and change management, as well as handles the method of access to these applications.

The Company and non-affiliates had the following agreements:

### **Custodial Agreement**

The Company entered into a custodial agreement with SunTrust Bank on June 3, 2009. The agreement contained the required safeguards and controls as provided by Rule 69O-143.042, Florida Administrative Code.

## 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

Scott Langstein, CISA, IT Manager, of Cerebres, LLC (subcontractor of L&E) 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:

STATE	Description	Par Value	Market Value
FL	Cash	<u>\$ 800,000</u>	<u>\$ 800,000</u>
	TOTAL FLORIDA DEPOSITS	<u>\$ 800,000</u>	<u>\$ 800,000</u>
	TOTAL SPECIAL DEPOSITS	<u>\$ 800,000</u>	<u>\$ 800,000</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."

**PEOPLE'S TRUST INSURANCE COMPANY**  
**Assets**

**DECEMBER 31, 2010**

	<b>Per Company</b>	<b>Examination Adjustments</b>	<b>Per Examination</b>
Bonds	\$ 3,871,828		\$ 3,871,828
Cash and Short Term Investments	31,766,140		31,766,140
Investment Income due and accrued due and accrued	57,264		57,264
Premiums and considerations:			
Uncollected premiums	276,372		276,372
Deferred premium	2,568,275		2,568,275
Net deferred tax asset	648,185		648,185
Guaranty funds receivable	108,251		108,251
Electronic data processing equipment and software	67,016		67,016
Receivables from parent, subsidiaries and affiliates	28,187		28,187
Totals	<u>\$ 39,391,519</u>		<u>\$ 39,391,519</u>

**PEOPLE'S TRUST INSURANCE COMPANY**  
**Liabilities, Surplus and Other Funds**  
**DECEMBER 31, 2010**

	<b>Per Company</b>	<b>Examination Adjustments</b>	<b>Per Examination</b>
Losses:	\$ 5,168,556		\$ 5,168,556
Loss adjustment expenses	2,036,835		2,036,835
Other Expenses	214,359		214,359
Taxes, licenses and fees	551,233		551,233
Unearned premium	9,076,464		9,076,464
Advance premium	2,289,083		2,289,083
Ceded insurance premiums payable	2,926,021		2,926,021
Funds held by company under reinsurance treaties	6,173		6,173
Payable to parent, subsidiaries and affiliates	565,245		565,245
<b>Total Liabilities</b>	<b>\$ 22,833,969</b>		<b>\$ 22,833,969</b>
Common capital stock	\$ 1,000,000		\$ 1,000,000
Gross paid in and contributed surplus	31,900,000		31,900,000
Unassigned funds (surplus)	(16,342,450)		(16,342,450)
Surplus as regards policyholders	\$ 16,557,550		\$ 16,557,550
<b>Totals</b>	<b>\$ 39,391,519</b>		<b>\$ 39,391,519</b>

**PEOPLE'S TRUST INSURANCE COMPANY**  
**Statement of Income**  
**DECEMBER 31, 2010**

<b>Underwriting Income</b>			
Premiums Earned		\$	13,286,300
	<b>Deductions:</b>		
Losses incurred			8,442,760
Loss adjustment expenses incurred			3,579,686
Other underwriting expenses incurred			11,721,578
Total underwriting deductions		<u>\$</u>	<u>23,744,024</u>
Net underwriting gain or (loss)		\$	(10,457,724)
<b>Investment Income</b>			
Net investment income earned		\$	338,804
Net realized capital gains(losses)			144,396
Net investment gain or (loss)		<u>\$</u>	<u>483,200</u>
<b>Other Income</b>			
Net income before dividends to policyholders and before federal & foreign income taxes			(9,974,524)
Net Income		<u>\$</u>	<u>(9,974,524)</u>
<b>Capital and Surplus Account</b>			
Surplus as regards policyholders, December 31, prior year		\$	9,434,032
Net Income		\$	(9,974,524)
Change in net deferred income tax			409,284
Change in non-admitted assets			319,155
Surplus adjustments : Paid In			17,000,000
Aggregate write-ins for gains and losses in surplus			(630,396)
Change in surplus as regards policyholders for the year		<u>\$</u>	<u>7,123,519</u>
Surplus as regards policyholders, December 31 current year		<u>\$</u>	<u>16,557,550</u>

A comparative analysis of changes in surplus is shown below.

**PEOPLE'S TRUST 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 \$16,557,550

	<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>\$16,557,550</u></u>

## COMMENTS ON FINANCIAL STATEMENTS

### Liabilities

#### Losses and Loss Adjustment Expenses \$7,205,391

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.

An independent actuarial firm, Lewis & Ellis, Inc. (L&E), was engaged to review the Statutory Loss and Loss Adjustment Expense reserves carried on the Company's balance sheet as of December 31, 2010. L&E utilized hind sight analysis (with data as of March 31, 2011) and concluded that the amounts carried on the balance sheet as of December 31, 2010, were reasonably stated.

The Office consulting actuary, Greg Wilson, FACS, MAAA of L&E, 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 \$16,557,550, 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 **People's Trust Insurance Company, Inc.** 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 \$16,557,550, which exceeded the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

In addition to the undersigned, Sarah Lucibello, CFE, Examiner-In-Charge; Greg Wilson, FCAS MAAA, consulting actuary; and Patrick Glenn, ACAS, ASA, MAAA, consulting actuary of Lewis & Ellis, Inc. and Scott Langstein, CISA, IT Manager of Cerebres, LLC participated in the examination. Connie Hare, Insurance Examiner II of the Office also participated in the examination.

Respectfully submitted,

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