

EXAMINATION REPORT

OF

**ROCHE SURETY AND CASUALTY**

**COMPANY, INC.**

TAMPA, FLORIDA

AS OF

DECEMBER 31, 2014

BY THE

FLORIDA OFFICE OF INSURANCE REGULATION

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September 28, 2015

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, 2014, of the financial condition and corporate affairs of

Roche Surety and Casualty Company, Inc.  
1910 Orient Road  
Tampa, Florida 33619

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, 2011 through December 31, 2014. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) covering the period of January 1, 2006 through December 31, 2010. This examination commenced with planning at the Office on April 6, 2015. The fieldwork commenced on April 27, 2015 and concluded as of September 28, 2015.

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 is planned and performed to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company, and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles.

This examination report includes significant findings of fact, as mentioned in Section 624.319, Florida Statutes and general information about the Company and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Company.

## **SUMMARY OF SIGNIFICANT FINDINGS**

### **Current Examination Findings**

The following is a summary of material adverse findings, significant non-compliance findings, or material changes in the financial statements.

#### **Election of Directors**

The Company did not annually elect Board Members for the period under examination. This was in violation of the Company's Bylaws and Section 628.231(2), Florida Statutes.

#### **Timely Filing of CPA Awareness Letters**

The Company did not timely file the 2011 and 2014 CPA Awareness Letters. This was in violation of Rule 69O-137.002(6) (b), Florida Administrative Code.

#### **Changes in Principal Management**

The Company did not provide written notification to the Office for all changes among principal officers and directors. This was in violation of Section 628.261, Florida Statutes.

### **Valuation of Common Stock**

The Company did not value a common stock investment at fair market value. This was in violation of Statements on Statutory Accounting Principles (SSAP) 97 Investments in Subsidiary, Controlled, and Affiliated Entities.

### **Mortgage Loans**

The Company invested in a mortgage loan receivable whereby the amount invested was greater than 75 percent of the property's value at the time of the investment, and the Company did not acquire mortgage insurance on the loan. This was in violation of Section 625.327, Florida Statutes.

### **Custodial Agreement**

During the examination period, the Company maintained bonds with a custodian and did not execute a custodial agreement with the required provisions set forth by the NAIC and Rule 69O-143.042(2), paragraphs (a)-(o), Florida Administrative Code.

### **Prior Examination Findings**

There were no findings, exceptions, or corrective action to be taken by the Company for the Office's prior examination report as of December 31, 2010.

## **COMPANY HISTORY**

### **General**

The Company was incorporated in Florida on March 27, 1981, and commenced business on March 2, 1982, as American Pioneer Casualty Insurance Company. The Company has been

conducting business as Roche Surety and Casualty Company, Inc. since 1996. The Company was authorized to transact insurance coverage in Florida on March 2, 1982 and continued to be authorized for the following coverages as of December 31, 2014:

Surety  
Bail Bonds

### **Dividends**

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

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

As of December 31, 2014, the Company's capitalization was as follows:

Number of authorized common capital shares	2,000,000
Number of shares issued and outstanding	500,000
Total common capital stock	\$2,000,000
Par value per share	\$4.00

Roche Family Holdings, Inc. (RFH), who owned 100 percent of the stock issued by the Company, maintained control of the Company. RFH was 100 percent owned by Armando O. Roche.

### **Surplus Notes**

The Company did not issue any surplus notes during the period under examination. On January 31, 2012, the Company obtained approval from the Office to pay off a surplus note and accrued interest in the amount of \$800,000. Subsequent to the exam, the Company issued a surplus note in the amount of \$500,000 that was approved by the Office on August 12, 2015.

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

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

## **CORPORATE RECORDS**

The recorded minutes of the Board of Directors (Board) and certain internal committees were reviewed for the period under examination. Shareholder minutes were not maintained for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions and events, in compliance with the NAIC Financial Condition Examiners Handbook adopted by Rule 69O-138.001, Florida Administrative Code, including the authorization of investments as required by Section 625.304, Florida Statutes.

### **Conflict of Interest**

The Company adopted a conflict of interest policy statement; however, the policy was not in accordance with the NAIC Financial Condition Examiners Handbook adopted by Rule 69O-138.001, Florida Administrative Code, regarding periodic signing of conflict of interest statements and review of conflicts of interest by the Board.

## MANAGEMENT AND CONTROL

### Management

The annual shareholder meeting for the election of directors was not held in accordance with the Company's Bylaws and Section 628.231(2), Florida Statutes. Directors serving as of December 31, 2014 are shown below.

### Directors

<b>Name and Location</b>	<b>Principal Occupation</b>
Armando O. Roche Thonotosassa, Florida	Chairman and CEO, Roche Surety and Casualty Co., Inc.
Linda J. Roche Thonotosassa, Florida	Treasurer, Roche Surety and Casualty Co., Inc.
George A. Pollock, Sr. Brandon, Florida	Retired
Melisa M. Martin Tampa, Florida	Secretary, Roche Surety and Casualty Co., Inc.
Shannon M. Roche Tampa, Florida	President, Roche Surety and Casualty Co., Inc.
George A. Pollock, Jr. Valrico, Florida	Senior VP, CFO, and Treasurer vXchnge Operating, LLC
Luciano L. Prida, Jr. Tampa, Florida	Partner, Prida, Guida and Co. P.A.
Andres S. Prida Tampa, Florida	Partner, Prida, Guida and Co. P.A.
Joseph L. Caballero Tampa, Florida	President, GulfShore Bank

In accordance with the Company's Bylaws, the Board appointed the following senior officers:

### Senior Officers

<b>Name</b>	<b>Title</b>
Shannon M. Roche	President
Melisa M. Martin	Secretary
Linda J. Roche	Treasurer
Armando O. Roche	Chairman and CEO

The Company's Board appointed several internal committees. Following were the principal internal board committees and their members as of December 31, 2014:

#### **Audit Committee**

George A. Pollock, Jr. <sup>1</sup>  
Andres S. Prida  
Joseph L. Caballero

#### **Investment Committee**

Joseph L. Caballero <sup>1</sup>  
Armando O. Roche  
Linda J. Roche  
Shannon M. Roche  
Edward Diliberto

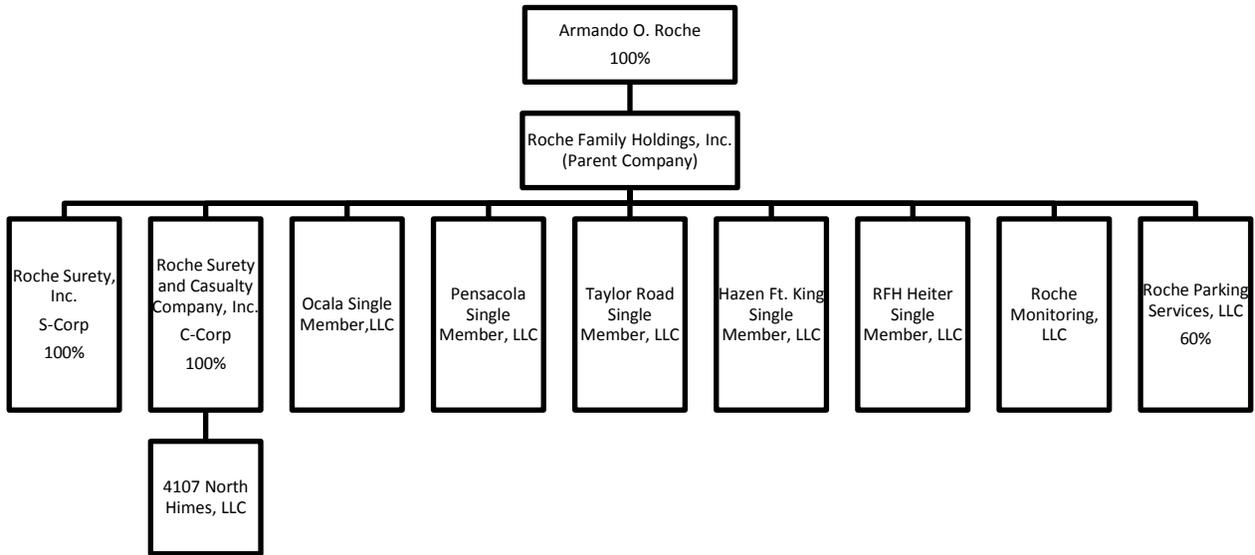
<sup>1</sup> Chairman

#### **Affiliated Companies**

The most recent holding company registration statement was filed with the Office on February 24, 2015, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code. The Company shared a common management team with GulfShore Bank and Prida Guida & Company, PA. This relationship was not disclosed on Schedule Y. These companies were considered affiliated through common managerial control per Section 624.10(1) (b), Florida Statutes.

## ORGANIZATIONAL CHART

### Roche Surety and Casualty Company, Inc. December 31, 2014



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

#### **Managing General Agent Agreement**

The Company contracted with an affiliate MGA, Roche Surety, Inc. (RSI). The agreement became effective on January 25, 2011 for the purpose of appointing and supervising the Company's surety agents in compliance with Section 648.388, Florida Statutes. RSI provided underwriting, administrative, and other services, and acted as the Company's legally designated manager and managing general agent. RSI remitted seven percent of the gross direct written

premium to the Company and retained the balance of the gross direct written premium in consideration for performing the services required.

**Note:** The following agreements related to the 4107 North Himes, LLC (Himes) transaction:

#### **Mortgage and Security Agreement**

The Company executed a Mortgage and Security Agreement on June 23, 2014, which became effective on June 24, 2014 with Synovus Bank. The Mortgage and Security Agreement was executed in order to secure the payment of indebtedness for the aggregate sum of \$3.4 million, to be paid in accordance with the Promissory Note made by Himes and RFH.

#### **Mortgage Modification Agreement**

The Company executed a Mortgage Modification Agreement to the original Mortgage and Security Agreement on June 24, 2014. The modification limited Synovus Bank's recovery under the mortgage to the principal sum of \$605,000.

#### **Loan Agreement**

RFH entered into a loan agreement with Himes and Synovus Bank on June 24, 2014 to purchase the property at 4107 North Himes Avenue, Tampa, Florida 33607. The Company joined into the agreement for consenting and agreement to the terms. The loan was for \$3.4 million, with a term of ten years and a maturity date of June 24, 2024. Collateral included a first priority mortgage lien and security interest covering the Himes property and Orient Road property (located at 1910 Orient Road, Tampa, Florida 33619), and certain Assignments of Leases and Rents.

## **Promissory Note**

Himes and RFH executed a promissory note with Synovus Bank for \$3.4 million on June 24, 2014 for the purpose of purchasing the Himes property. The note had a fixed interest rate of 3.85 percent per annum, monthly payments of \$17,741, and a maturity date of June 24, 2024. The note was secured by separate Mortgage and Security Agreements and separate Assignments of Leases and Rents from both Himes and the Company.

## **TERRITORY AND PLAN OF OPERATIONS**

The Company was authorized to transact insurance in the following thirty-eight states.

Alaska	Kansas	New Jersey	Texas
Arizona	Louisiana	New Mexico	Utah
Arkansas	Maryland	New York	Vermont
Connecticut	Michigan	North Carolina	Virginia
Delaware	Minnesota	North Dakota	Washington
Florida	Mississippi	Ohio	
Georgia	Missouri	Oklahoma	
Hawaii	Montana	Oregon	
Idaho	Nebraska	South Carolina	
Indiana	Nevada	South Dakota	
Iowa	New Hampshire	Tennessee	

## **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**

### **Assumed**

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

**Ceded**

The Company did not cede any reinsurance during the period of this examination.

**ACCOUNTS AND RECORDS**

The Company maintained its principal operational offices in Tampa, Florida.

The Company and non-affiliates had the following agreements:

**IT Services**

The Company contracted with Infinity Technology Solutions for various IT services. The agreement was effective August 9, 2012 and was for a period of five years and two months. Services included FlexTime, IT Strategy Management, PC Management, Server Management, Network & Security Management, Comprehensive Network Audit and Documentation, and Managed Services Installation. Services cost \$3,595 per month and there was a standard onboarding fee of \$4,081, which was discounted to \$1,107.

**Promissory Note**

The Company executed a mortgage loan on a personal residence on April 30, 2014, in the amount of \$145,000. Payments were amortized and paid monthly. The loan had a maturity date of May 1, 2021.

**Independent Auditor Agreement**

An independent CPA audited the Company's statutory basis financial statements annually for the years 2011, 2012, 2013 and 2014, in accordance with Section 624.424(8), Florida Statutes.

Supporting workpapers were prepared by the CPA, as required by Rule 69O-137.002, Florida Administrative Code.

### INFORMATION TECHNOLOGY REPORT

Francois Houde, CPA, CFE, CISA, AES, performed the review and Rafaela Boehm, CPA, CISA, 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.

<u>State</u>	<u>Description</u>	<u>Par Value</u>	<u>Market Value</u>
FL	USTNTS 0.13% 12/31/14	205,128	205,000
FL	USTNTS 0.25% 1/31/15	300,000	300,060
FL	Cash	500,000	500,000
	TOTAL FLORIDA DEPOSITS	<u>\$ 1,005,128</u>	<u>\$ 1,005,060</u>

(continued on next page)

<u>State</u>	<u>Description</u>	<u>Par Value</u>	<u>Market Value</u>
DE	Cash	10,000	10,000
GA	Cash	32,021	32,021
IN	Cash	100,035	100,035
NV	BMOHBCD 0.3% 8/21/15	200,000	200,000
NH	RBSCD .40% 3/13/15	250,000	250,000
NM	USTNTS 0.125% 12/31/14	103,000	103,000
NC	USTNTS 1.625% 6/30/19	1,000,000	1,002,500
NC	Cash	207,284	207,278
OK	STWCD 1.16%	100,000	100,000
OK	STWCD 0.55%	100,000	100,000
OK	BOACD 0.1% 10/16/16	75,000	75,000
OK	BOACD 0.15% 8/10/15	75,000	75,000
OK	ONBCD 1.00%	125,000	125,000
OK	ONBCD 1.00%	100,000	100,000
OK	BOOCD 0.25%	100,000	100,000
OK	PPCD 0.35%	100,000	100,000
OK	PPCD 0.30%	75,000	75,000
OK	PPCD 0.45%	50,000	50,000
OK	PPCD 12/24/14	105,000	105,000
PA	USBCD 0.66% 12/12/16	260,000	260,000
PA	Cash	10,355	10,355
PA	Cash	25,000	25,000
PA	Cash	25,003	25,003
SC	Cash	1,536	1,536
SC	Cash	166	166
SC	SALLIECD 1.5%	100,000	99,138
SC	USTNTS 0.25% 5/15/15	150,000	150,105
TN	Cash	75,000	75,000
TN	Cash	35,046	35,054
TN	BOTCD 0.3%	50,000	50,000
TN	BOTCD 0.25%	25,259	25,278
TN	Cash	25,001	25,001
TN	BBTCD 0.01%	25,000	25,000
TN	BBTCD 0.01%	51,069	51,069
TN	CTCBCD 0.55%	75,225	75,225
TN	CTCBCD 0.55%	25,075	25,075
TN	CTCBCD 0.55%	25,075	25,075
TN	CTCBCD 0.55%	25,075	25,075
TN	CTCBCD 0.55%	75,225	75,225
TN	CTCBCD 0.55%	25,075	25,075

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<u>State</u>	<u>Description</u>	<u>Par Value</u>	<u>Market Value</u>
TN	FVBCD 0.25%	50,531	50,531
TN	Cash	25,000	25,000
TX	GSCD 0.5%	50,000	50,062
TX	GSCD 0.5%	50,000	50,021
TX	GSCD 0.5%	50,176	50,172
TX	GSCD 0.5%	50,356	50,356
TX	EBCD 0.9%	50,000	50,000
TX	EBCD 0.8%	50,000	50,000
TX	Cash	100,000	100,000
TX	SCBCD 0.35% 10/20/15	50,000	50,000
TX	ANBTCD 0.25% 11/18/15	50,000	50,000
VA	Cash	200,000	200,000
	TOTAL OTHER DEPOSITS	<u>\$ 4,792,590</u>	<u>\$ 4,794,433</u>
	TOTAL SPECIAL DEPOSITS	<u>\$ 5,797,718</u>	<u>\$ 5,799,493</u>

### FINANCIAL STATEMENTS

The examination does not attest to the fair presentation of the financial statements included herein. If during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's Financial Statements. Financial Statements, as reported and filed by the Company with the Florida Office of Insurance Regulation, are reflected in the following.

**ROCHE SURETY AND CASUALTY COMPANY, INC.**  
**Assets**  
**December 31, 2014**

	Per Company	Examination Adjustments	Per Examination
Bonds	\$1,950,604		\$1,950,604
Stocks:			
Common	371,594		371,594
Mortgage Loans on Real Estate			
First liens	1,173,346		1,173,346
Real Estate:			
Properties			
occupied by the Company	227,107		227,107
Cash and Short-Term Investments	5,452,132		5,452,132
Subtotals, cash and invested assets	\$9,174,783		\$9,174,783
Investment			
income due and accrued	13,308		13,308
Premiums and considerations:			
Uncollected premiums and agents' balances in the course of collection	135,745		135,745
Current Federal and foreign income taxes recoverable and interest thereon	6,926		6,926
Net deferred tax asset	1,499		1,499
Aggregate write-in for other than invested assets	12,878,514		12,878,514
Totals	\$22,210,775	\$0	\$22,210,775

**ROCHE SURETY AND CASUALTY COMPANY, INC.**  
**Liabilities, Surplus and Other Funds**  
**December 31, 2014**

	Per Company	Examination Adjustments	Per Examination
Losses	0		0
Loss adjustment expenses	0		0
Other expenses	\$35,252		\$35,252
Taxes, licenses and fees	208,835		208,835
Unearned premiums	472,154		472,154
by company for account of others	12,878,514		12,878,514
Payable to parent, subsidiaries and affiliates	135,088		135,088
	<hr/>		
Total Liabilities	\$13,729,843		\$13,729,843
Common capital stock	\$2,000,000		\$2,000,000
Gross paid in and contributed surplus	1,010,046		1,010,046
Unassigned funds (surplus)	5,470,886		5,470,886
	<hr/>		
Surplus as regards policyholders	\$8,480,932		\$8,480,932
	<hr/>		
Total liabilities, surplus and other funds	\$22,210,775	\$0	\$22,210,775
	<hr/> <hr/>		

**ROCHE SURETY AND CASUALTY COMPANY, INC.**  
**Statement of Income and Capital and Surplus Account**  
**December 31, 2014**

**Underwriting Income**

Premiums earned	\$2,997,897
<b>Deductions:</b>	
Losses incurred	\$0
Loss expenses incurred	0
Other underwriting expenses incurred	2,367,729
Aggregate write-ins for underwriting deductions	0
Total underwriting deductions	\$2,367,729
Net underwriting gain or (loss)	\$630,168

**Investment Income**

Net investment income earned	(\$44,059)
Net realized capital gains or (losses)	56,600
Net investment gain or (loss)	\$12,541

**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	\$642,709
Dividends to policyholders	0
Net Income, after dividends to policyholders, but before federal & foreign income taxes	642,709
Federal & foreign income taxes	218,798
Net Income	\$423,911

**ROCHE SURETY AND CASUALTY COMPANY, INC.**  
**Statement of Income and Capital and Surplus Account**  
**(continued)**  
**December 31, 2014**

**Capital and Surplus Account**

Surplus as regards policyholders, December 31 prior year	<u>\$8,151,183</u>
Net Income	\$423,911
Change in net unrealized capital gains or (losses)	
less capital gains tax of \$(40,955)	(79,503)
Change in net unrealized foreign exchange capital gain (loss)	0
Change in net deferred income tax	(2,966)
Change in non-admitted assets	(11,693)
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	<u>0</u>
Change in surplus as regards policyholders for the year	<u>\$329,749</u>
Surplus as regards policyholders, December 31 current year	<u><u>\$8,480,932</u></u>

**ROCHE SURETY AND CASUALTY COMPANY, INC.**  
**Comparative Analysis of Changes in Surplus**  
**December 31, 2014**

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, 2014, per Annual Statement	\$8,480,932
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	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:			
No Adjustment			
LIABILITIES:			
No Adjustment			
 Net Change in Surplus:			0
 Surplus as Regards Policyholders December 31, 2014, Per Examination			\$8,480,932

## **COMMENTS ON FINANCIAL STATEMENTS**

### **Liabilities**

#### **Losses and Loss Adjustment Expenses**

The Company does not maintain Loss and Loss Adjustment Expense (LAE) reserves. Based on the Company's lines of business and operational structure, a Loss and LAE reserve was not determined necessary. An actuarial firm appointed by the Board, rendered an opinion regarding the Company's reserving as of December 31, 2014, and determined the \$0 reserve balance was adequate and reasonable.

#### **Capital and Surplus**

The amount of capital and surplus reported by the Company of \$8,480,932, exceeded the minimum of \$1,500,000, required by Section 624.408, Florida Statutes.

## **SUMMARY OF RECOMMENDATIONS**

### **Election of Directors**

We recommend the Company hold an annual election of Board Members per the Company's Bylaws and Section 628.231(2), Florida Statutes.

### **Timely Filing of CPA Awareness Letters**

We recommend the Company timely file the CPA Awareness Letter in accordance with Rule 69O-137.002(6) (b), Florida Administrative Code.

### **Changes in Principal Management**

We recommend the Company provide written notification to the Office for all changes among principal officers and directors in accordance with Section 628.261, Florida Statutes.

### **Valuation of Common Stock**

We recommend the Company value common stock investments at fair market value in accordance with Statutory Accounting Principles 97 Investments in Subsidiary, Controlled, and Affiliated Entities.

### **Mortgage Loans**

We recommend the Company obtain mortgage insurance for investments in mortgage loans whereby the amount invested is greater than 75 percent of the property's value at the time of the investment in accordance with Section 625.327, Florida Statutes.

### **Custodial Agreement**

We recommend the Company execute a custodial agreement that complies with Rule 69O-143.042(2), Paragraphs (a)-(o), Florida Administrative Code, and the NAIC's Financial

Examiners Handbook for all investments in securities not held on deposit with a state and held with a custodian.

## CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of Roche Surety and Casualty Company, Inc. as of December 31, 2014, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's surplus as regards policyholders was \$8,480,932, which exceeded the minimum of \$1,500,000 required by Section 624.408, Florida Statutes.

In addition to the undersigned, Francois Houde, CPA, CFE, CISA, AES, Examiner-in-Charge, Sharon Stuber, CPA, and Beth Duncan, Participating Examiners of Carr, Riggs and Ingram, LLC, also participated in the examination. Members of the Office who participated in the examination included Jeff Rockwell, Examination Manager, and Paula Bowyer, Participating Examiner. Additionally, Rafaela Boehm, CPA, CISA, IT Specialist of Carr, Riggs, and Ingram, LLC, is recognized for participation in the examination.

Respectfully submitted,

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Lamar Downs, CPA  
Deputy Chief Examiner  
Florida Office of Insurance Regulation