REPORT ON EXAMINATION

OF

SAFE HARBOR INSURANCE COMPANY

TALLAHASSEE, FLORIDA

AS OF

DECEMBER 31, 2007

BY THE

OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida

April 30, 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 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, 2007, of the financial condition and corporate affairs of:

SAFE HARBOR INSURANCE COMPANY
2549 BARRINGTON CIRCLE
TALLAHASSEE, FLORIDA 32308

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

SCOPE OF EXAMINATION

This examination covered the period of June 1, 2006, through December 31, 2007. This was the Company's first examination. This examination commenced, with planning at the Florida Office of Insurance Regulation (Office), on December 15, 2008, to December 19, 2008. The fieldwork commenced on January 2, 2009, and was concluded as of April 30, 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.

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, 2007. Transactions subsequent to year-end 2007 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 NAIC IRIS ratio reports, the A.M. Best Report, the Company's independent audit reports and certain work papers prepared by the Company's independent certified public accountant (CPA) and other reports as considered necessary were reviewed and utilized where applicable within the scope of this examination.

This report of examination 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.

HISTORY

General

The Company was incorporated in Florida on February 21, 2006, and commenced business on June 1, 2006, as Safe Harbor Insurance Company.

The Company was party to Consent Order 84921-06, filed February 9, 2006, with the Office regarding the application for the issuance of a Certificate of Authority. The Company was in compliance with the provisions of this consent order.

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

Homeowners multi peril	Fire
Mobile home multi peril	Mobile home physical damage
Allied lines	

The Company predominately wrote Mobile home multi peril coverages in 2007.

Effective September 28, 2007, the Board of Directors approved a Plan of Recapitalization (Plan) to increase the authorized and issued shares of common stock with a par value of $1, to 2,000,000 shares. Accordingly, the Articles of Incorporation were amended on September 28, 2007, to disclose this change. The Recapitalization Plan resulted in an increase to Common Capital Stock of $1,940,000 and a corresponding decrease in Gross Paid In and Contributed Surplus.

Capital Stock

As of December 31, 2007, the Company's capitalization was as follows:

Number of authorized common capital shares	2,000,000
Number of shares issued and outstanding	2,000,000
Total common capital stock	$2,000,000
Par value per share	$1.00

Control of the Company was maintained by its parent, Ocean Harbor Casualty Insurance Company (Ocean), who owned 83% of the stock issued by the Company and Blue Fin Investment Company, LLC (Blue Fin) who owned 17% of the stock issued by the Company. Ocean was owned by RM Ocean Harbor Holding, Inc. (RM). All of RM's common stock was owned by Lucille Milo, in trust for Philip Milo and Jennifer Milo. All of RM's 4½% convertible preferred stock was owned by Ralph Milo. Blue Fin was 60% owned by Cabrillo General Agency, Inc. (Cabrillo). No other entity owned more than 10% of the Company, either directly or indirectly.

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.

	2007	**2006**
Premiums Earned	$4,789,023	$580,078
Net Underwriting Gain/(Loss)	$675,051	$(567,608)
Net Income	$601,727	$(376,195)
Total Assets	$12,580,634	$8,407,054
Total Liabilities	$6,065,943	$2,760,576
Surplus As Regards Policyholders	$6,514,691	$5,646,478

Dividends to Stockholders

The Company did not declare or pay dividends to its stockholder in 2007 and 2006.

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, 2007, were:

Directors

Name and Location	Principal Occupation
William Emerson Roche New York, New York	President and Treasurer, RM
Michael Lee McNitt Gainesville, Florida	President, Cabrillo
Robert Charles Jester San Diego, California	Chairman and CEO, Cabrillo
Ralph Milo New York, New York	Retired CPA/Insurance Executive
Michael Keith Eigen New York, New York	Secretary, Company

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

Senior Officers

Name	Title
William Emerson Roche	President and Treasurer
Michael Keith Eigen	Secretary
Philip Milo	Vice-President
Robert Charles Jester	Vice-President
Michael Lee McNitt	Vice-President

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

Audit Committee	Investment Committee
William Emerson Roche [1]	William Emerson Roche [1]
Michael Lee McNitt	Michael Lee McNitt
Robert Charles Jester	Robert Charles Jester
Ralph Milo	Ralph Milo
Michael Eigen	Michael Eigen

1 Chairman

Conflict of Interest Procedure

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

Corporate Records

The recorded minutes of the shareholder, Board of Directors, and certain internal committees were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions and events in accordance with Section 607.1601, Florida Statutes, including the authorization of investments as required by Section 625.304, Florida Statutes.

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

There were no acquisitions, mergers, disposals, dissolutions and purchases or sales through reinsurance during the period under examination.

Surplus Debentures

As of December 31, 2007, there were no outstanding debentures of the Company.

AFFILIATED COMPANIES

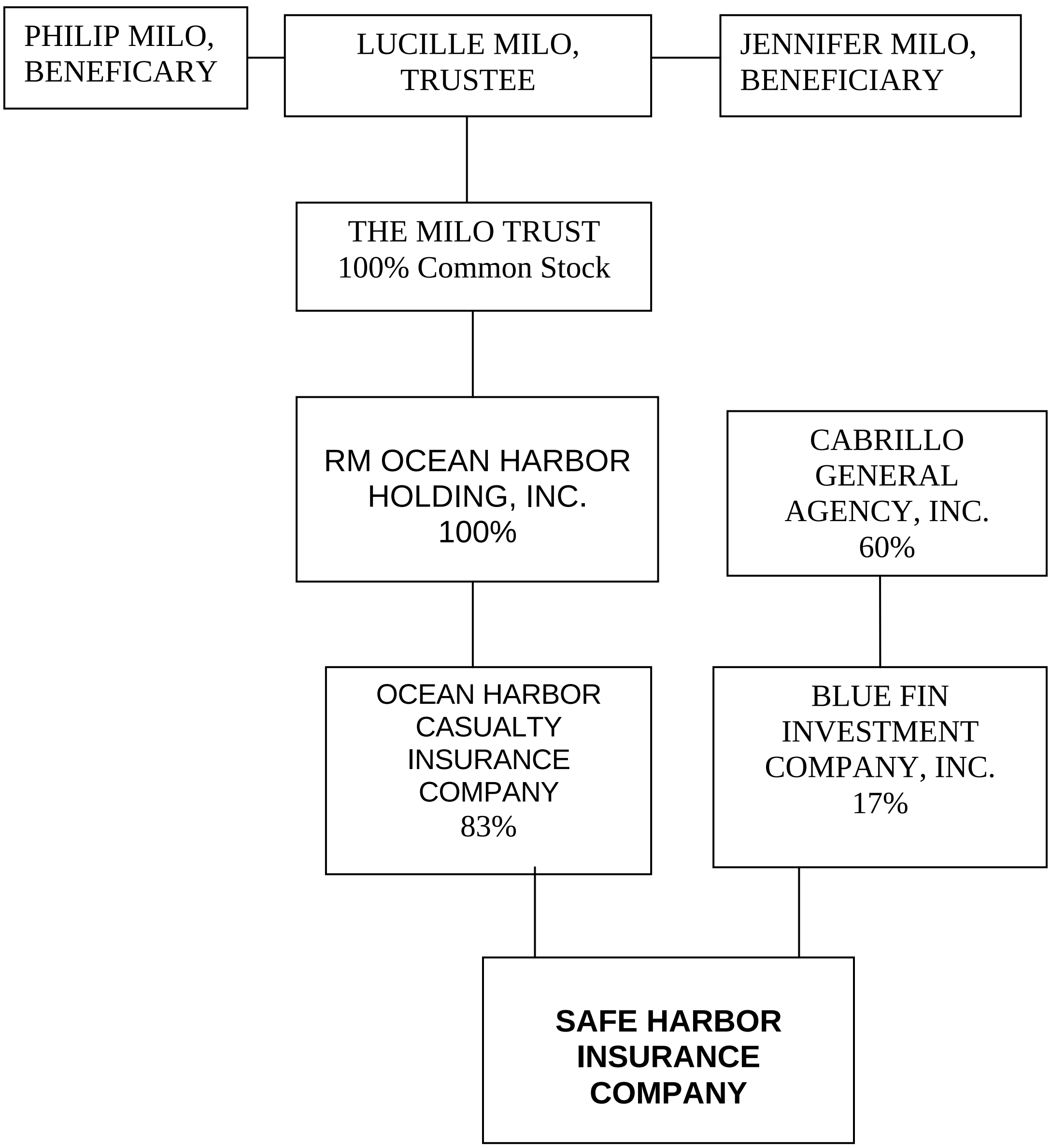
The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code. The latest holding company registration statement was filed with the State of Florida on June 17, 2008, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

An organizational chart as of December 31, 2007, reflecting the holding company system, is shown below. Schedule Y of the Company's 2007 annual statement provided a partial list of related companies in the holding company group.

The 2007 Annual Statement did not disclose the ownership interests of Blue Fin or Cabrillo, as required by the NAIC Annual Statement Instructions and was included by the Examiners, below.

SAFE HARBOR INSURANCE COMPANY
ORGANIZATIONAL CHART

DECEMBER 31, 2007



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

Tax Allocation Agreement

The Company, along with RM and Ocean, entered into a consolidated federal income tax agreement on December 19, 2006. The agreement had not been amended. Under the terms of the agreement, each company calculated their estimated payments and remit them to the parent company. Each company paid taxes based on their stand-alone tax liability. Each company was entitled to use their own net operating losses and tax credits to compute their tax liability.

Cost Allocation Agreement

The Company, along with RM and Ocean, entered into a cost allocation agreement on December 19, 2006. The agreement had not been amended. Under the terms of the agreement, the parties allocated expenses in accordance with generally accepted accounting principles and in accordance with guidelines established by the National Association of Insurance Commissioners. It was the intent that, where possible, each party to the agreement would bear its own expenses in the conduct of its business operations. Where expenses cannot be segregated or where it was impractical for each company to separately pay its own expense, each company shall pay that portion of the expense allocated to it pursuant to this agreement.

Managing General Agent Agreement

The Company had an exclusive managing general agent agreement (MGA agreement) with Cabrillo General Agency, Inc. (Cabrillo), in which Cabrillo provided authority to bind risks in accordance with the Company's authorized rates and underwriting guidelines, issue and countersign policies, bill and collect premium, enter into agreements with sub-producers, administer installment payment plans, and negotiate reinsurance. The MGA Agreement excluded any authority to bind reinsurance other than facultative, commit to participation in insurance or reinsurance syndicates, collect any payment from a reinsurer or commit to a claim settlement with a reinsurer without the Company's approval, appoint a sub-managing general agent, commit to pay a claim in excess of policy limits, and commit to a claim payment that exceeds 1% of surplus. Cabrillo's distribution channels were 40% independent and 60% from affiliated organizations who work through an Allstate’s program. For the dealer business, agents were associated with certain mobile home dealers and parks. All Allstate agents had individual contracts with the Company. Cabrillo handled all aspects of policy management. Commissions payable by the Company to Cabrillo are 20% of the premium amount, for mobile home business, plus the per policy or MGA fee per the current rate filing. Cabrillo provided a bordereau for the month to the Company within fifteen days of the end of the month. Cabrillo was liable to the Company for all premiums on business written regardless of whether the premiums had been collected.

Claims Management Agreement

The Company had an agreement with Tidewater Claims, Inc. ("Tidewater") for the investigation and payment of insurance claims. Tidewater made all payments with respect to claims and paid all allocated loss adjustment expenses from funds provided by the Company. If the claim was in excess of $25,000, approval must be received by the Company. The claims management fee was 5% of earned premium. Tidewater provided a report of the claim activity for the month to the Company within twenty days of the end of the month except for catastrophic type claims for which data was provided with thirty days after the close of each month. Cabrillo and Tidewater were related parties working out of the same office; therefore, Cabrillo handled most reporting activity for both functions.

FIDELITY BOND

The Company was not a named insured on a fidelity bond as of December 31, 2007, as recommended by the NAIC. The minimum amount of fidelity bond coverage as recommended by the NAIC was $800,000.

Subsequent Event: The Company became an insured, when an amendment was added to Ocean's fidelity bond on January 19, 2009, retroactive to December 3, 2008.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

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

The Company was staffed by employees of RM and they were covered by a 401(k) defined contribution and profit sharing plan.

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	U. S. Treasury Note, 3.5%, 8/15/09	$308,000	$312,220
TOTAL FLORIDA DEPOSITS		$308,000	$312,220
TOTAL SPECIAL DEPOSITS		$308,000	$312,220

INSURANCE PRODUCTS

Territory

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

Level of Risk

The Company's largest net aggregate amount insured in any one risk, as of December 31, 2007, was $1,215,000, which was approximately 19% of the Company's surplus as regards policyholders as of December 31, 2007. This aggregate amount exceeded the 10% of surplus as regards policyholders percentage limitation set forth in Section 624.609(1) Florida Statutes.

Subsequent Event: The Company was in compliance with Section 624.609(1), Florida Statutes as of December 31, 2008.

Treatment of Policyholders

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

The Company maintained a claims procedure manual that included detailed procedures for handling each type of claim in accordance with Section 626.9541(1) (i) 3a, Florida Statutes.

REINSURANCE

The reinsurance agreements reviewed complied with NAIC standards with respect to the standard insolvency clause, arbitration clause, transfer of risk, reporting and settlement information deadlines.

Assumed

The Company assumed no reinsurance risks during the examination period.

Ceded

The Company participated in the Florida Hurricane Fund at the 90% coverage option and had also purchased the optional Temporary Increase in Coverage Limit Options (TICL). TICL was an option for additional Florida Hurrican Fund reimbursement coverage above the mandatory Florida Hurricane Fund coverage layer for the contract year. The Company annually submits to the Office a reinsurance data call, which identifies the various scenarios that could occur in a catastrophic loss. The reinsurance was accounted for as a prospective reinsurance agreement. At the expiration of the contract term, actual premiums are compared to deposit premiums and a final settlement statement is distributed.

The Company had also purchased private reinsurance, effective June 1, 2007, through May 31, 2008, which consisted of four layers totaling \$20,000,000 x \$1,000,000 and a drop down retention layer of \$500,000 excess \$500,000 excess \$1,000,000. The Company had purchased Reinstatement Premium Protection on the 1st and 2nd layer totaling \$8,000,000 excess \$1,000,000. The private reinsurance contracts do not contain any loss corridors or other contractual features that limit the amount of insurance risk to which the reinsurer is subject or provisions that delay the timely reimbursement of claims by the 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 Tallahassee, Florida, where this examination was conducted.

An independent CPA audited the Company's statutory basis financial statements annually for the years 2006 and 2007, 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. The Company's balance sheet accounts were verified with the line items of the annual statement submitted to the Office.

The Company and non-affiliates had the following agreements:

Custodial Agreement

The Company had a custodial agreement with US Bank, Morgan Stanley, and Hancock Bank of Louisiana which contained all necessary elements required in Rule 69O-143.042(2), Florida Administrative Code.

Independent Auditor Agreement

The Company had an independent auditor agreement with Law, Redd, Crona and Munroe, P. A., of Tallahassee, Florida.

Information Technology Report

Brandon Thomas, HISP, MCM, of Huff Thomas & Company performed a computer systems evaluation on the Company. Results of the evaluation were noted in the Information Technology Report provided to the Company.

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2007, and the results of its operations for the year then ended as determined by this examination. Adjustments made as a result of the examination are noted in the section of this report captioned, "Comparative Analysis of Changes in Surplus."

SAFE HARBOR INSURANCE COMPANY
Assets

DECEMBER 31, 2007

	Per Company	Examination Adjustments	Per Examination
Bonds	$ 306,292		$ 306,292
Cash and short-term investments	10,490,706		10,490,706
Investment income due & accrued	20,073		20,073
Premiums and Considerations:			
Uncollected premiums and agents' balances in course of collection	582,117		582,117
Deferred premiums, agents' balances and installments booked but deferred and not yet due	835,760		835,760
Reinsurance:			
Other amounts receivable under reinsurance contracts	25,842		25,842
Net deferred tax asset	317,830		317,830
Receivable from parents, subsidiaries and affiliates	2,015		2,015
Totals	$ 12,580,634	$ 0	$ 12,580,634

SAFE HARBOR INSURANCE COMPANY
Liabilities, Surplus and Other Funds

DECEMBER 31, 2007

	Per Company	Examination Adjustments	Per Examination
Losses	$ 336,726		$ 336,726
Loss adjustment expenses	64,675		64,675
Other expenses	51,932		51,932
Taxes, licenses and fees	192,106		192,106
Current federal and foreign income taxes	547,687		547,687
Unearned premiums	4,454,292		4,454,292
Ceded reinsurance premiums payable	418,525		418,525
Total liabilities	$ 6,065,942	$ 0	$ 6,065,942
Common capital stock	$ 2,000,000		$ 2,000,000
Gross paid in and contributed surplus	4,000,000		4,000,000
Unassigned funds (surplus)	514,691		514,691
Surplus as regards policyholders	$ 6,514,691	$ 0	$ 6,514,691
Total liabilities, surplus and other funds	$ 12,580,634	$ 0	$ 12,580,634

SAFE HARBOR INSURANCE COMPANY
Statement of Income

DECEMBER 31, 2007

Underwriting Income		
Premiums earned	$	4,789,023
Deductions:		
Losses incurred		1,127,646
Loss expenses incurred		439,971
Other underwriting expenses incurred		2,546,356
Total underwriting deductions		4,113,972
Net underwriting gain or (loss)		675,051
Investment Income		
Net investment income earned		474,363
Net realized capital gains or (losses)		
Net investment gain or (loss)		474,363
Other Income		
Total other income		0
Net income before dividends to policyholders and before federal & foreign income taxes		1,149,414
Dividends to policyholders		
Net Income, after dividends to policyholders, but before federal & foreign income taxes		1,149,414
Federal & foreign income taxes		547,687
Net Income		601,727
Capital and Surplus Account		
Surplus as regards policyholders, December 31 prior year		5,646,478
Net Income		601,727
Change in net deferred income tax		150,888
Change in non-admitted assets		915
Change in provision for reinsurance		114,682
Capital changes: Paid in		1,940,000
Surplus adjustments: Paid in		(1,940,000)
Examination Adjustment		0
Change in surplus as regards policyholders for the year		868,212
Surplus as regards policyholders, December 31 current year	$	6,514,691

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses $401,401

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, 2007, made a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

The consulting actuary, R. Michael Lamb, FCSA, MAAA of R. Michael Lamb, LLC, reviewed work papers provided by the Company and was in concurrence with this opinion.

Capital and Surplus

The amount reported by the Company of $6,514,691, exceeded the minimum of $4,000,000 required by Section 624.408, Florida Statutes.

A comparative analysis of changes in surplus is shown below.

SAFE HARBOR INSURANCE COMPANY

COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS

DECEMBER 31, 2007

The following is a reconciliation of Surplus as regards policyholders between that reported by the Company and as determined by the examination.				
Surplus as Regards Policyholders December 31, 2007, per Annual Statement				$6,514,691
	PER COMPANY	PER EXAM	INCREASE (DECREASE) IN SURPLUS	
ASSETS:				
No Adjustment			$0	
LIABILITIES:				
No Adjustment			$0	
Net Change in Surplus:				0
Surplus as Regards Policyholders December 31, 2007, Per Examination				$6,514,691

SUMMARY OF FINDINGS

Current examination comments and corrective action

The following is a brief summary of items of interest and corrective action to be taken by the Company regarding findings in the examination as of December 31, 2007.

Organizational Chart

Schedule Y in the 2007 Annual Statement did not disclose the ownership interests of Blue Fin or Cabrillo. **We recommend that the Company comply with the NAIC Annual Statement Instructions, which requires that the Company disclose all entities in the holding company system on Schedule Y.**

SUBSEQUENT EVENTS

The Company received Certificates of Authority in the States of South Carolina, Louisiana and Mississippi in 2008.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Safe Harbor Insurance Company** as of December 31, 2007, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was $6,514,691, in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned, Timothy Oglesby, CFE, Insurance Examiner, Angela Searls, CPA, Insurance Examiner, and Brandon Thomas, HISP, MCM, Information Technology Specialist, representing Huff, Thomas & Company, and R. Michael Lamb, FCAS, MAAA, Actuary, R. Michael Lamb, LLC, participated in the examination.

Respectfully submitted,

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