

**REPORT ON EXAMINATION**  
**OF**  
**SAFE HARBOR INSURANCE COMPANY**  
**TALLAHASSEE, FLORIDA**

**AS OF**  
**DECEMBER 31, 2009**

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

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**TALLAHASSEE, FLORIDA**

December 15, 2010

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 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, 2009, 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 January 1, 2009, through December 31, 2009. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2008. This examination commenced with planning at the Office on October 4, 2010, to October 8, 2010. The fieldwork commenced on October 11, 2010, and concluded as of December 15, 2010.

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**

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

### **Custodial Agreement**

The Company's custodial agreement with Morgan Stanley entered into on November 1, 2006, was not in compliance with all requirements of Rule 69O-143.042(2), Florida Administrative Code. The Company's custodial agreement did not include the provisions of Rule 69O-143.042 2(j) (o), Florida Administrative Code.

**Subsequent event:** In April 2010, the Company terminated the agreement with Morgan Stanley and entered into a new Custodial Agreement with Pershing, LLC. The new agreement, submitted to the Office on February 23, 2011, was accepted on March 2, 2011.

### **Holding Company Registration Statement**

The Company did not file an updated holding company registration statement to report subsequent changes in affiliates, as required by Rule 69O-143.046 (4), Florida Administrative Code.

**Subsequent event:** The Company's Holding Company Registration Statement, filed with the 2010 Annual Report, addressed the changes regarding affiliates.

### **Prior Exam Findings**

There were no findings, exceptions or corrective action to be taken by the Company for the examination as of December 31, 2008.

## **SUBSEQUENT EVENTS**

Subsequent to the date of examination, during the second quarter of 2010, the Company's parent Ocean Harbor Casualty Insurance Company (Ocean Harbor) acquired an additional 75,129.30 shares of the issued and outstanding 2,000,000 shares of the Company, which was an additional 3.76% interest, in a series of transactions with the members of Blue Fin Investment Company, LLC (Blue Fin). As a result of these transactions, Ocean Harbor's ownership interest in the Company increased from 83.333% to 87.09% and Blue Fin's Ownership interest was reduced from 16.667% to 12.91%.

As a result of these transactions, Blue Fin's ownership structure also changed. Cabrillo General Insurance Company, (Cabrillo), which owned 60.199% of Blue Fin, is no longer a member of

Blue Fin and Robert Jester, a controlling person of Blue Fin, is no longer a member. The sole controlling member of Blue Fin is now Michael L. McNitt, who has a 56.4% interest in Blue Fin.

## **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, 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, 2009:

Homeowners multi peril  
Fire  
Allied Lines

Mobile Home Physical Damage  
Mobile Home Multi Peril

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

### **Dividends to Stockholders**

The Company did not pay dividends to stockholders during the period under review.

## **Capital Stock and Capital Contributions**

As of December 31, 2009, 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, who owned 83% of the stock issued by the Company, who in turn was 100% owned by RM Ocean Harbor Holding Inc., a Delaware corporation.

## **Surplus Debentures**

There were no surplus debentures during the period under review.

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

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

## **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, including the authorization of investments as required by Section 625.304, Florida Statutes.

## **Conflict of Interest**

The Company adopted a policy statement requiring annual disclosure of conflicts of interest in accordance with the NAIC Financial Condition Examiners Handbook adopted by Rule 69O-138.001, Florida Administrative Code.

## **MANAGEMENT AND CONTROL**

### **Management**

The annual shareholder meeting for the election of directors was held in accordance with Sections 607.1601 and 628.231, Florida Statutes. Directors serving as of December 31, 2009, were:

#### **Directors**

<b>Name and Location</b>	<b>Principal Occupation</b>
William Emerson Roche New York, New York	President and Treasurer
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 and Director

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

### Senior Officers

<b>Name</b>	<b>Title</b>
William Emerson Roche	President and Treasurer
Michael Keith Eigen	Secretary
Philip Milo	Vice-President
Robert Charles Jester (a)	Vice-President
Michael Lee McNitt	Vice-President

(a) Resigned in early 2010 following the split of Cabrillo General Insurance Agency into Cabrillo Coastal General Insurance Agency (located in Gainesville, FL) and Cabrillo Pacific General Insurance Agency (located in San Diego, CA). Beth McDougal was added as an Officer and Director following this change.

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, 2009:

#### **Investment Committee**

William Emerson Roche<sup>1</sup>  
Michael Lee McNitt  
Robert Charles Jester  
Ralph Milo  
Michael Eigen

<sup>1</sup> Chairman

#### **Audit Committee**

Ralph Milo<sup>1</sup>  
Michael Lee McNitt  
Robert Charles Jester  
William Emerson Roche  
Michael Eigen

### **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 February 19, 2010, as required by Section

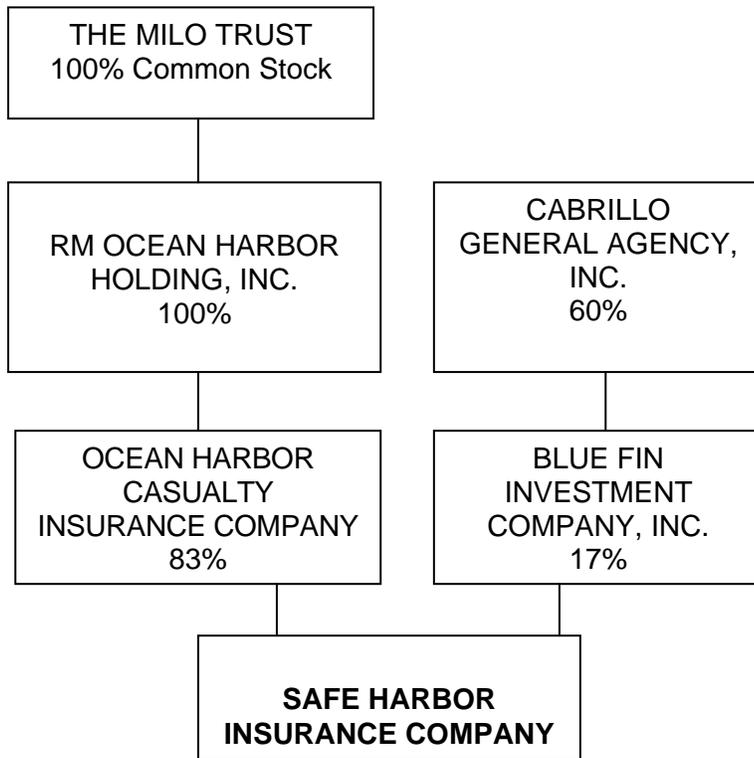
628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code. The Company did not file an updated holding company registration statement to report subsequent changes in affiliates, as required by Rule 69O-143.046 (4), Florida Administrative Code. There was a change in the Company's ownership as well as alterations to the Company's MGA in 2010 that were not disclosed on an updated holding company registration statement.

**Subsequent event:** The Holding Company Registration Statement, filed with the 2010 Annual Report, addressed the changes regarding affiliates.

An organizational chart as of December 31, 2009, reflecting the holding company system, is shown below. Schedule Y of the Company's 2009 annual statement provided a list of all related companies of the holding company group.

**SAFE HARBOR INSURANCE COMPANY  
ORGANIZATIONAL CHART**

**DECEMBER 31, 2009**



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

### **Tax Allocation Agreement**

The Company, along with its parent, Ocean Harbor, and ultimate parent, RM Ocean Harbor Holding Inc. (RM Ocean), filed a consolidated federal income tax return. On December 31, 2009, the method of allocation between the Company and affiliates was on a separate-entity basis. Each member of the group recorded an inter-company income tax receivable or payable with RM Ocean. Within forty-five (45) days of the remittance by RM Ocean of any income tax payment to the taxing authorities, all inter-company tax receivables/payables were settled. The Company remitted \$485,235 to Ocean Harbor for taxes in 2009.

### **Cost Allocation Agreement**

The Company entered into a Cost Allocation Agreement with RM Ocean and Ocean Harbor on December 19, 2006. Beginning in 2009, the source of labor for the Group was shifted from being employed by RM Ocean to being employed by Ocean Harbor. There was no change in the agreement or the method of settlement for the Company. Costs allocated to the Company, during 2009, were \$351,474.

### **Managing General Agent Agreement**

The Company entered into a Managing General Agency (MGA) agreement with Cabrillo General Insurance Agency, an indirect partial owner of the Company, on February 24, 2006. The agreement continues in force until terminated by either party that has given ninety days (90) written notice to the other party. MGA fees were based on 20% of direct written premium and the MGA also receives the \$25 MGA policy fee which is charged by the Company. The Company remitted \$3,022,399 to the MGA for services rendered in 2009.

## **Claims Management Agreement**

The Company entered into a Claims Management Agreement with Tidewater Claims (a division of Cabrillo General Insurance Agency, the MGA) on February 22, 2006. The agreement continues in force until terminated by either party that has given ninety days (90) written notice to the other party. Claims management fees are based on 5% of earned premiums, excluding any independent adjustment or medical expenses, which would be billed as incurred. There is an additional \$200 per claim during a Catastrophe that would be billed in excess of the 5% of earned premium. The Company remitted \$573,978 to Tidewater Claims for loss adjustment expenses in 2009.

## **FIDELITY BOND INSURANCE**

The Company maintained fidelity bond coverage up to \$2,500,000 with a deductible of \$100,000, which reached the suggested minimum as recommended by the NAIC.

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

The Company did not have any employees.

## TERRITORY AND PLAN OF OPERATIONS

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

Florida	Louisiana
Mississippi	South Carolina

### 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

### 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.

	2009	2008	2007	2006
Premiums Earned	8,420,180	6,733,608	4,789,023	580,078
Net Underwriting Gain/(Loss)	923,342	1,522,117	675,051	(567,608)
Net Income	747,821	1,268,919	601,727	(376,195)
Total Assets	16,894,303	14,543,007	12,580,634	8,407,054
Total Liabilities	8,311,998	6,776,312	6,065,943	2,760,576
Surplus As Regards Policyholders	8,582,305	7,766,695	6,514,691	5,646,478

## **LOSS EXPERIENCE**

The Company does not have a long history of loss development, this being their 4th year of operations. The Company's loss ratio remained low throughout the period of examination (41%) and their combined ratio remained low at 85%, however, the loss ratio has been trending upwards since inception and sinkhole claims have become more prevalent. The Company could experience additional losses in the near future which would have a negative impact on their loss and combined ratios.

## **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.

### **Ceded**

The Company participated in the 2009 Florida Hurricane Catastrophe Fund (FHCF) at the 90% coverage option and also purchased the optional "TICL" layer.

In addition to the FHCF, the Company has purchased private reinsurance, which for the 2009 hurricane season consisted of five layers totaling \$26,500,000 excess \$1,500,000 and a Drop Down Retention Layer of \$750,000 excess \$750,000. The Company has purchased Reinstatement Premium Protection on all layers except the drop down layer. Additionally, the

Company has purchased a third event cover with one reinstatement which consists of two layers totaling \$4,500,000 excess \$1,500,000.

The Company also has property excess per risk coverage which as of December 31, 2009 covers \$1,150,000 excess \$250,000.

All reinsurance contracts in effect at December 31, 2009 were effective June 1<sup>st</sup> with a term of 12 months.

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. This examination was conducted at the offices in Tallahassee and at the principal MGA Office located in Gainesville, Florida.

An independent CPA audited the Company's statutory basis financial statements annually for the years 2006, 2007, 2008 and 2009, 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 updated via reports from the MGAs and maintained in Peachtree by the Company's Accounting Director.

The Company and non-affiliates had the following agreements:

## **Custodial Agreement**

The Company maintained a custodial agreement with Morgan Stanley entered into on November 1, 2006. The Company was not in compliance with all requirements of Rule 69O-143.042(2), Florida Administrative Code. The Company's custodial agreement did not include the following provisions of Rule 69O-143.042(2):

- (j) A national bank, state bank or trust company shall secure and maintain insurance protection in an adequate amount covering the bank's or trust company's duties and activities as custodian for the insurer's assets, and shall state in the custody agreement that protection is in compliance with the requirements of the custodian's banking regulator. A broker/dealer shall secure and maintain insurance protection for each insurance company's custodied securities in excess of that provided by the Securities Investor Protection Corporation in an amount equal to or greater than the market value of each respective insurance company's custodied securities.
- (o) The custodian shall provide written notification to the Office if the custodial agreement with the insurer has been terminated or if 100% of the account assets in any one custody account have been withdrawn. This notification shall be remitted to the Office within three (3) business days of the receipt by the custodian of the insurer's written notice of termination or within three (3) business days of the withdrawal of 100% of the account assets.

**Subsequent event:** In April 2010, the Company terminated the agreement with Morgan Stanley and entered into a new Custodial Agreement with Pershing, LLC. The new agreement, submitted to the Office on February 23, 2011, was accepted on March 2, 2011.

## Independent Auditor Agreement

The Company contracted with an external independent CPA firm, Law, Redd, Crona and Munroe, P.A., to perform the annual audit of its financial statements as required by Rule 690-137.002 (7) (c), Florida Administrative Code.

## Information Technology Report

ParenteBeard LLC performed an evaluation of the information technology and computer systems of the Company and Cabrillo General Insurance Agency. Results of the evaluation were noted in the Information Technology Report provided to the Company.

## STATUTORY DEPOSITS

The following securities were deposited with the State of Florida as required by Section 624.411, Florida Statutes, and with various state officials as required or permitted by law:

STATE	Description	Par Value	Market Value
FL	Tsy Infl lx, 2%, 04/15/12	<u>\$ 327,677</u>	<u>\$ 339,899</u>
TOTAL FLORIDA DEPOSITS		\$ 327,677	\$ 339,899
SC	USTRS, 2.375%, 04/15/11	\$ 137,979	\$ 140,156
LA	COD, 01/29/10	<u>100,000</u>	<u>100,000</u>
TOTAL OTHER DEPOSITS		<u>\$ 237,979</u>	<u>\$ 240,156</u>
TOTAL SPECIAL DEPOSITS		<u>\$ 565,656</u>	<u>\$ 580,055</u>

## FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2009, 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, 2009**

	<b>Per Company</b>	<b>Examination Adjustments</b>	<b>Per Examination</b>
Bonds	\$5,398,809		\$5,398,809
Cash and Short-term Investments	9,012,785		\$9,012,785
Investment income due/accrued	74,031		\$74,031
Agents' Balances:			
Uncollected premium	655,805		\$655,805
Deferred premium	1,305,910		\$1,305,910
Current FIT Recoverable	7,955		\$7,955
Net Deferred Tax Asset	355,211		\$355,211
Guaranty Funds Rec or on deposit	83,797		\$83,797
	<hr/>		
Totals	<u>\$16,894,303</u>	<u>\$0</u>	<u>\$16,894,303</u>

**SAFE HARBOR INSURANCE COMPANY**  
**Liabilities, Surplus and Other Funds**

**DECEMBER 31, 2009**

	<b>Per Company</b>	<b>Examination Adjustments</b>	<b>Per Examination</b>
Losses	\$1,022,283		\$1,022,283
Loss adjustment expenses	199,344		199,344
Other expenses	114,663		114,663
Taxes, licenses and fees	113,715		113,715
Unearned premium	4,830,148		4,830,148
Ceded Reinsurance Prem Payable	1,960,287		1,960,287
Payable to parent, subsidiaries and affiliates	71,558		71,558
<hr/>			
Total Liabilities	\$8,311,998	\$0	\$8,311,998
Common capital stock	\$2,000,000		\$2,000,000
Gross paid in and contributed surplus	4,000,000		4,000,000
Unassigned funds (surplus)	2,582,305		2,582,305
<hr/>			
Surplus as regards policyholders	\$8,582,305	\$0	\$8,582,305
<hr/>			
Total liabilities, surplus and other funds	\$16,894,303	\$0	\$16,894,303

**SAFE HARBOR INSURANCE COMPANY**  
**Statement of Income**

**DECEMBER 31, 2009**

**Underwriting Income**

Premiums earned		\$8,420,180
	<b>Deductions:</b>	
Losses incurred		\$2,555,283
Loss expenses incurred		935,025
Other underwriting expenses incurred		4,006,530
Aggregate write-ins for underwriting deductions		0
Total underwriting deductions		<u>\$7,496,838</u>
Net underwriting gain or (loss)		\$923,342

**Investment Income**

Net investment income earned		\$309,792
Net realized capital gains or (losses)		0
Net investment gain or (loss)		<u>\$309,792</u>

**Other Income**

Net gain or (loss) from agents' or premium balances charged off		(\$78)
Finance and service charges not included in premiums		0
Aggregate write-ins for miscellaneous income		0
Total other income		<u>(\$78)</u>

Net income before dividends to policyholders and before federal & foreign income taxes		\$1,233,056
Dividends to policyholders		0
Net Income, after dividends to policyholders, but before federal & foreign income taxes		<u>\$1,233,056</u>
Federal & foreign income taxes		<u>485,235</u>
Net Income		<u><u>\$747,821</u></u>

**Capital and Surplus Account**

Surplus as regards policyholders, December 31 prior year		\$7,766,695
Net Income		\$747,821
Net unrealized capital gains or losses		0
Net deferred income tax		63,269
Change in non-admitted assets		4,520
Examination Adjustment		0
Change in surplus as regards policyholders for the year		<u>\$815,610</u>
Surplus as regards policyholders, December 31 current year		<u><u>\$8,582,305</u></u>

A comparative analysis of changes in surplus is shown below.

**SAFE HARBOR INSURANCE COMPANY**  
**Comparative Analysis of Changes In Surplus**

**DECEMBER 31, 2009**

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, 2009, per Annual Statement \$8,582,305

	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:			
No Adjustment			
LIABILITIES:			
No Adjustment			
Net Change in Surplus:			<u>0</u>
Surplus as Regards Policyholders December 31, 2009, Per Examination			<u><u>\$8,582,305</u></u>

## COMMENTS ON FINANCIAL STATEMENTS

### Liabilities

**Losses and Loss Adjustment Expenses** \$1,221,627

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, 2009, made a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

The Office engaged an independent actuarial firm, AMI Risk Consultants, to review the Statutory Premium Reserve carried in the Company's balance sheet as of December 31, 2009, and was in concurrence with this opinion.

### Capital and Surplus

The amount reported by the Company of \$8,582,305, 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 **Safe Harbor Insurance Company** as of December 31, 2009, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was \$8,582,305, which exceeded the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

In addition to the undersigned, Michael C. Brennan, CPA, Examiner-In-Charge; as well as Philip Schmoyer and Caner Ozsoy, Participating Examiners; and Jennifer Walker, CISA, IT Manager and Chad Schieken, CISA, IT Senior Manager, of ParenteBeard LLC, participated in the examination. Gail Flannery, FCAS MAAA, consulting actuary of AMI Risk Consultants and James Pafford, Exam Manager, of the Office also participated in the examination.

Respectfully submitted,

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Mary James  
Chief Examiner  
Florida Office of Insurance Regulation