

REPORT ON EXAMINATION

OF

UNIVERSAL INSURANCE COMPANY OF

NORTH AMERICA

SARASOTA, FLORIDA

AS OF

DECEMBER 31, 2007

BY THE

OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida

May 29, 2008

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:

**UNIVERSAL INSURANCE COMPANY OF NORTH AMERICA
101 ARTHUR ANDERSEN PARKWAY, SUITE 220
SARASOTA, FLORIDA 34232**

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, 2007 through December 31, 2007. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2006. This examination commenced, with planning at the Office, on March 17, 2007, to March 20, 2007. The fieldwork commenced on March 24, 2007, and was concluded as of May 29, 2007.

This financial examination was a third year 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 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 NAIC 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.

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 is confined to financial statements and comments on matters that involve departures from laws, regulations or rules, or which are deemed to require special explanation or description.

Status of Adverse Findings from Prior Examination

No adverse findings were contained in the Office's prior examination report as of December 31, 2006.

HISTORY

General

The Company was incorporated in Florida on April 23, 2004 and commenced business on April 23, 2004 as Universal Insurance Company of North America.

In accordance with Section 624.401(1), Florida Statutes, the Company was authorized to transact the following insurance coverage in Florida on December 31, 2007:

- Fire
- Allied lines
- Homeowners multi peril
- Commercial multi peril
- Inland marine
- Other liability
- Private passenger auto liability

Private passenger auto physical damage
Private passenger auto

The articles of incorporation and the bylaws were not amended during the period covered by this examination.

Capital Stock

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

Number of authorized common capital shares	1,000
Number of shares issued and outstanding	1,000
Total common capital stock	\$1,000
Par value per share	\$1.00

Control of the Company was maintained by Universal Insurance Holdings of North America, Inc., a Delaware corporation, which owned 100% of the stock issued by the Company, which in turn was 100% owned by Universal Group, Inc., a Puerto Rico company.

Profitability of Company

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

	2007	2006	2005
Premiums Earned	46,298,565	25,508,733	19,819,453
Net Underwriting Gain/(Loss)	7,019,086	1,194,332	718,475
Net Income	7,217,651	2,788,919	1,472,026
Total Assets	98,049,251	92,113,856	77,479,804
Total Liabilities	59,387,339	67,836,305	59,603,587
Surplus As Regards Policyholders	38,661,912	24,277,551	17,876,217

Dividends to Stockholders

There were no dividends declared or paid to its stockholders during the examination year.

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.

MANAGEMENT AND CONTROL

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

Luis Miranda Casanas
San Juan, Puerto Rico

Chairman, Chief Executive Officer, Universal Group, Inc.

Ricardo A. Espino
Sarasota, Florida

President, Universal Insurance Company of North America

Monique M. Merle
San Juan, Puerto Rico

Vice President, Universal Group, Inc.

Jorge L. Padilla
San Juan, Puerto Rico

CEO & Senior VP, Universal Group, Inc.

Jose Medina
San Juan, Puerto Rico

Vice President, Universal Auto Care

Luis Berrios Monge
San Juan, Puerto Rico

President, Universal Group, Inc.

Jorge Amadeo
San Juan, Puerto Rico

Executive VP, Eastern America Insurance
Agency

Josely Vega
San Juan, Puerto Rico

Chief Legal Counsel & VP, Universal
Group, Inc.

Jorge Freyre
San Juan, Puerto Rico

Economist

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

Senior Officers

Name	Title
Ricardo A. Espino	President
Jorge L. Padilla	Treasurer
Monique M. Merle	Secretary

The Company's board appointed internal committees in accordance with Section 607.0825, Florida Statutes.

Following are the principal internal board committees and their members as of December 31, 2006:

Audit Committee	Investment Committee	Compensation Committee
Donald Kevane ¹	Luis M. Casanas ¹	Luis M. Casanas
Luis M. Casanas	Donald Kevane	Plinio P. Marrero
Jorge Freyre	Jorge Padilla	Javier Vijil
	Plinio P. Marrero	Donald Kevane
	Cecilia Cruz	Lillian Rivera ¹
	Luis Berrios	
	Raul Ramirez	
	Ricardo Espino	

¹ Chairman

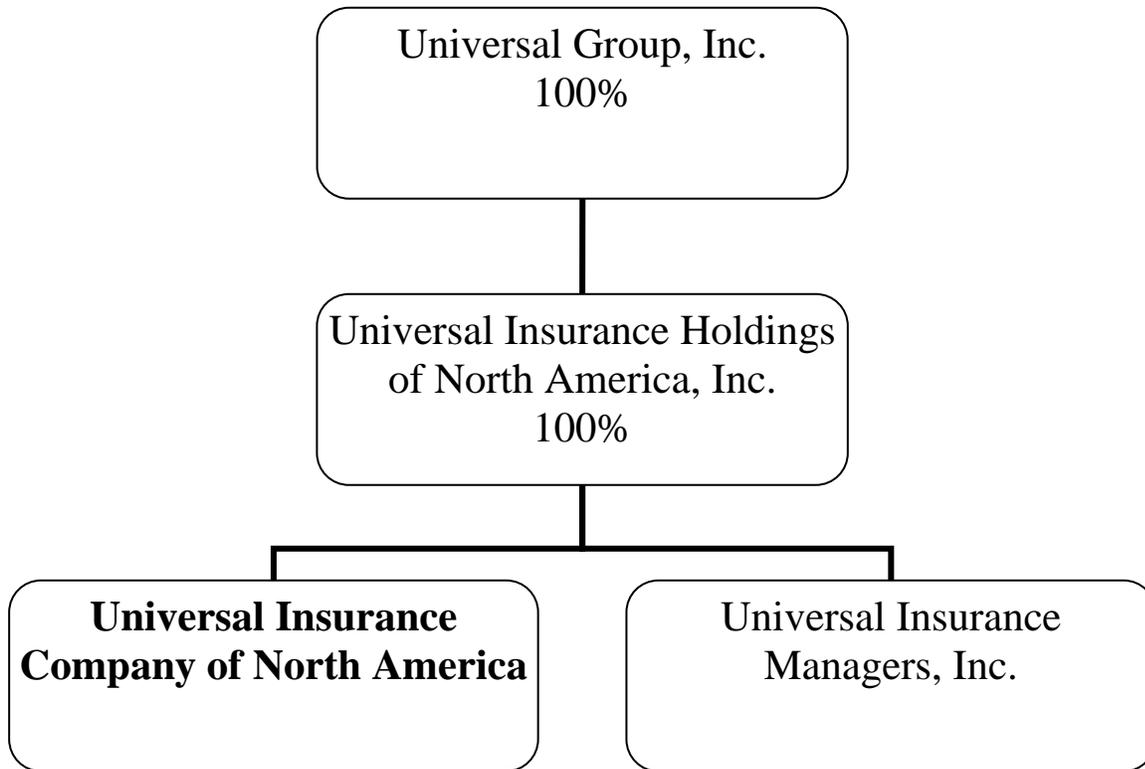
The Company maintained an audit committee, as required by Section 624.424(8)(c), Florida Statutes.

The latest holding company registration statement was filed with the State of Florida on March 1, 2008, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

A simplified 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 list of all related companies of the holding company group.

**UNIVERSAL INSURANCE COMPANY OF NORTH AMERICA
ORGANIZATIONAL CHART**

DECEMBER 31, 2007



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

Second Amended Managing General Agent Agreement

The Company operated under a second amended managing general agent (MGA) agreement with its affiliate Universal Insurance Managers, Inc. The effective date of the agreement was April 1, 2004. The agreement indicated that the MGA had the authority to handle claims and negotiate reinsurance on behalf of the Company for the insurance policies issued in the State of Florida.

Second Amended Tax Sharing Agreement

The Company, along with its members, filed a consolidated federal income tax return. On December 31, 2007, the method of allocation between the Company and members was in accordance with the agreement.

FIDELITY BOND AND OTHER INSURANCE

The Company maintained Fidelity bond coverage up to \$2,500,000 with a deductible of \$50,000, which adequately covered the suggested minimum amount of coverage for the Company as recommended by the NAIC.

The Company also maintained Professional liability insurance for directors and officers (D&O) with coverage up to \$10,000,000 with a deductible amount as per endorsement.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company had no employees, no pension plans, stock ownership or insurance plans. All employees providing the services were employed by the direct parent company, Universal Insurance Managers, Inc. The Company incurred salary and related costs as part of a cost sharing agreement between Universal Insurance Managers, Inc. and the ultimate parent, Universal Group, Inc.

PLAN OF OPERATION

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

REINSURANCE

The reinsurance contracts were reviewed by the Company's appointed actuary and were utilized in determining the ultimate loss opinion.

The reviewed contracts 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 risk on a quota share basis from Allstate Floridian.

Ceded

The Company ceded risk on a quota share and excess of loss basis to various authorized and unauthorized reinsurers. All unauthorized reinsurers utilized a trust agreement or a letter of credit.

ACCOUNTS AND RECORDS

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 maintained its principal operational offices in Sarasota, Florida, where this examination was conducted.

An independent CPA audited the Company's statutory basis financial statements annually for the years 2007, 2006 and 2005, 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 2007 audited financial statements by the CPA firm were not completed during the examination field work. The Company's accounting records were maintained on a computerized system. The Company's balance sheet accounts, with the exception of two 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 Salem Trust Company in Jacksonville, Florida. The agreement was in accordance with Rule 69O-143.042, Florida Administrative Code. Salem Trust Company is a trust company therefore qualified as a custodian as defined by Rule 69O-143.041, Florida Administrative Code.

Independent Auditor Agreement

The Company had an agreement with Deloitte & Touche to perform an audit of its statutory financial statements for the years 2006 and 2007.

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

Information Technology Report

INS Services, Inc. performed a limited-scope computer systems evaluation on the Company. Results of the evaluation were noted in the information technology (IT) report provided to the Company.

STATUTORY DEPOSITS

The following amounts were deposited with the State of Florida as required by Section 624.411, Florida Statutes:

STATE	DESCRIPTION	PAR VALUE	MARKET VALUE
Florida	Cash Deposit	\$ 300,000	\$ 300,000
TOTAL DEPOSITS		<u>\$ 300,000</u>	<u>\$ 300,000</u>

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. There were no adjustments made as a result of the examination.

UNIVERSAL INSURANCE COMPANY OF NORTH AMERICA
Assets

DECEMBER 31, 2007

	Per Company	Examination Adjustments	Per Examination
Bonds	\$63,834,715		\$63,834,715
Cash and short-term investments	8,104,117		8,104,117
Investment income due and accrued	549,850		549,850
Premiums and considerations:			
Uncollected premium	2,288,434		2,288,434
Deferred premium	9,229,384		9,229,384
Reinsurance recoverable	3,338,668		3,338,668
Net deferred tax asset	1,964,843		1,964,843
Aggregate write-ins for other than invested assets	8,739,240		8,739,240
	8,739,240		8,739,240
Totals	\$98,049,251	\$0	\$98,049,251

UNIVERSAL INSURANCE COMPANY OF NORTH AMERICA
Liabilities, Surplus and Other Funds

DECEMBER 31, 2007

	Per Company	Examination Adjustments	Per Examination
Losses	\$9,891,578		\$9,891,578
Reinsurance payable on paid losses and loss adjustment expense	(799,699)		(799,699)
Loss adjustment expenses	1,092,981		1,092,981
Commissions payable	2,890,678		2,890,678
Other expenses	171,100		171,100
Taxes, licenses and fees	1,340,616		1,340,616
Current federal and foreign income taxes	1,131,071		1,131,071
Unearned premium	22,575,155		22,575,155
Advance premiums	3,615,564		3,615,564
Ceded reinsurance premiums payable	16,256,430		16,256,430
Remittances and items not allocated	120,379		120,379
Payable to parent, subsidiaries and affiliates	309,564		309,564
Aggregate write-ins for liabilities	791,922		791,922
Total Liabilities	<u>\$59,387,339</u>	\$0	<u>\$59,387,339</u>
Common capital stock	\$1,000		\$1,000
Aggregate write-ins for other than special surplus funds	1,828,390		1,828,390
Gross paid in and contributed surplus	25,999,000		25,999,000
Unassigned funds (surplus)	<u>10,833,522</u>		<u>10,833,522</u>
Surplus as regards policyholders	<u>\$38,661,912</u>	\$0	<u>\$38,661,912</u>
Total liabilities, surplus and other funds	<u><u>\$98,049,251</u></u>	<u>\$0</u>	<u><u>\$98,049,251</u></u>

UNIVERSAL INSURANCE COMPANY OF NORTH AMERICA
Statement of Income

DECEMBER 31, 2007

Underwriting Income		
Premiums earned		\$46,298,565
	Deductions:	
Losses incurred		13,800,678
Loss expenses incurred		2,520,918
Other underwriting expenses incurred		22,957,883
Aggregate write-ins for underwriting deductions		0
Total underwriting deductions		<u>\$39,279,479</u>
Net underwriting gain or (loss)		\$7,019,086
Investment Income		
Net investment income earned		\$3,517,270
Net realized capital gains or (losses)		0
Net investment gain or (loss)		<u>\$3,517,270</u>
Other Income		
Net gain or (loss) from agents' or premium balances charged off		(\$287,313)
Finance and service charges not included in premiums		302,718
Aggregate write-ins for miscellaneous income		687,500
Total other income		<u>\$702,905</u>
Net income before dividends to policyholders and before federal & foreign income taxes		\$11,239,261
Dividends to policyholders		<u>0</u>
Net Income, after dividends to policyholders, but before federal & foreign income taxes		\$11,239,261
Federal & foreign income taxes		<u>4,021,610</u>
Net Income		\$7,217,651
Capital and Surplus Account		
Surplus as regards policyholders, December 31 prior year		\$24,277,551
Net Income		\$7,217,651
Net unrealized capital gains or losses		0
Change in non-admitted assets		(128,291)
Change in provision for reinsurance		0
Change in net deferred income tax		466,611
Surplus adjustments: Paid in		5,000,000
Aggregate write-ins for gains and losses in surplus		1,828,390
Examination Adjustment		0
Change in surplus as regards policyholders for the year		<u>\$14,384,361</u>
Surplus as regards policyholders, December 31 current year		<u><u>\$38,661,912</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses

\$10,984,559

An outside actuarial firm appointed by the Board, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2007, make a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

The actuary for INS Consultants, Inc. reviewed work papers provided by the Company and was in concurrence with this opinion. The Loss and Loss adjustment expense reserves were in compliance with Section 625.041(1) and Section 625.101, Florida Statutes.

Capital and Surplus

The amount reported by the Company of \$38,661,912, exceeds the minimum amount required by Section 624.408, Florida Statutes.

A comparative analysis of changes in surplus is shown below.

**UNIVERSAL INSURANCE COMPANY OF NORTH AMERICA
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	\$38,661,912
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	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:			
No adjustments needed.			0
LIABILITIES:			
No adjustments needed.			0
Net Change in Surplus:			<u>0</u>
Surplus as Regards Policyholders December 31, 2007, per Examination			<u><u>\$38,661,912</u></u>

SUMMARY OF FINDINGS

Current Examination comments and corrective action

There were no items of interest or corrective action needed as of December 31, 2007.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Universal Insurance Company of North America** 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 \$38,661,912, in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned, the following individuals participated in the examination: Barry C. Armstrong, CFE, CPA, James (Matt) Perkins, CFE, Beverly Dale, CFE, CPA all from INS Regulatory Insurance Services, Inc., and Richard A. Shaffer, Financial Specialist, from the Office. We also recognize the participation of Bob Gardner, FCAS, Actuary from INS Consultants, Inc., and INS Services, Inc. who performed the IT evaluation.

Respectfully submitted,

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