

REPORT ON EXAMINATION

OF

FLORIDA PENINSULA INSURANCE

COMPANY

BOCA RATON, FLORIDA

AS OF

DECEMBER 31, 2007

BY THE

OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida

December 18, 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:

FLORIDA PENINSULA INSURANCE COMPANY
621 NW 53rd Street
BOCA RATON, FLORIDA 33487

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

SCOPE OF EXAMINATION

This examination covered the period of January 1, 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 September 22, 2008 to September 25, 2008. The fieldwork commenced on September 29, 2008, and concluded December 18, 2008.

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.

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 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

The following is a summary of significant adverse findings contained in the Office's prior examination report as of December 31, 2006, along with resulting action taken by the Company in connection therewith.

Letter of Credit

The Company maintained a letter of credit that indicated it was subject to the Uniform Customs and Practice (UCP), in violation of Rule 690-144.005(6), Florida Administrative Code and Section 624.610(4), Florida Statutes. **Resolution:** The Company amended the subject letter of credit to bring it into compliance with the aforementioned Rule and Statute.

Loss Reserves

The reserves reported by the Company were inadequate by 38.5% or \$363,959 for estimates of the unpaid loss and loss adjustment expense obligations as of December 31, 2006. **Resolution:**

The Company's appointed actuary considered the 2006 exam report findings in preparing the 2007 loss reserves, and increased the 2007 loss reserves appropriately.

Disaster Recovery Plan

The Company utilized Better Insurance Processing Technology (BIPT) to provide electronic data processing for their premiums and claim function. A disaster recovery plan was not maintained for the servers located at Better Insurance Processing Technology. **Resolution:** The Company responded that it entered into a contract in 2008 with Computer Sciences Corporation (CSC) to replace BIPT as service provider of electronic data processing for premiums and claims. The Company provided the Office with a copy of CSC's disaster recovery procedures.

HISTORY

General

The Company was incorporated in Florida on March 30, 2005, as a stock property and casualty insurer under the applicable provisions of the Florida Statutes. The Company commenced operations on May 1, 2005 as Florida Peninsula Insurance Company.

The Company was party to Consent Order 81299-05-CO filed April 22, 2005 with the Office regarding the application for the issuance of a Certificate of Authority. The Company was in compliance with the consent order.

The Company was authorized to transact Homeowners Multi Peril insurance coverage in Florida on December 31, 2007.

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 its parent, Florida Peninsula Holdings, LLC, which owned 100% of the stock issued by the Company. On November 29, 2006, Florida Peninsula Holdings, LLC pledged 100% of the Company's stock as collateral to obtain a loan of \$22,500,000. The purpose of the loan was to provide \$20,000,000 capital for the Company.

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	2005
Premiums Earned	47,605,011	32,356,949	5,477,064
Net Underwriting Gain/(Loss)	(10,886,975)	2,308,193	(2,110,893)
Net Income	(7,162,957)	4,364,100	(2,579,370)
Total Assets	122,771,331	64,639,346	37,731,301
Total Liabilities	67,246,925	34,370,968	30,942,891
Surplus As Regards Policyholders	55,524,406	30,268,378	6,788,410

Dividends to Stockholders

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

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
Paul Montgomery Adkins Boca Raton, FL	Chairman of the Board of the Company
Roger Louis Desjadon Franklin Park, NJ	Chief Executive Officer of the Company
Clint Bryan Strauch Hollywood, FL	Chief Operating Officer of the Company
Francis Joseph Lattanzio Glastonbury, CT 06033	Chief Financial Officer of the Company
Gary Andrew Cantor Ocean Ridge, Florida	Managing Director of the Company
Stacey Alexander Giuliani Fort Lauderdale, Florida	Chief Legal Officer of the Company

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

Senior Officers

Name	Title
Paul Montgomery Adkins	Chairman
Roger Louis Desjadon	Chief Executive Officer
Clint Bryan Strauch	Chief Operating Officer
Gary Andrew Cantor	Executive Vice President
Stacey Alexander Giuliani	Secretary
Francis Joseph Lattanzio	Chief Financial Officer/Treasurer

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

Gary Andrew Cantor¹
Francis Joseph Lattanzio
Stacey Alexander Giuliani
Cindy Murphy

¹ Chairman

Investment Committee

Roger Louis Desjadon¹
Francis Joseph Lattanzio
Paul Montgomery Adkins
Gary Andrew Cantor

Conflict of Interest Procedure

The NAIC Financial Condition Examiners Handbook requires disclosure of any conflict of interest to the Board of Directors.

The Board passed a Conflict of Interest policy that stated, "Each Board member shall disclose, either in writing or orally at the annual meeting, the Board member's affiliation with entities or transactions representing current or anticipated conflict circumstances."

The Company's Secretary stated that no Conflict of Interest questionnaires were signed by the Board members, but they were verbally asked at the annual meeting if they have any conflicts. Our review of the Board of Directors minutes for the period under examination failed to indicate any mention of inquiries made at any of the Board of Directors meetings concerning conflicts of interest.

Corporate Records

The recorded minutes of the shareholder, Board of Directors, and certain internal committees were reviewed for the period under examination.

Our review of the minutes of the Audit Committee did not indicate any interaction with the external auditors or discussion of the audit findings. This is in violation of Section 624.424 (8) (c), Florida Statutes which requires such interaction with the external auditors.

Our review of the Board of Directors minutes revealed that the Investment Committee did not report its approval of investments to the Board of Directors, as required by Section 625.304, Florida Statutes.

Surplus Note

In January 2007, the Company received the proceeds from a Surplus Note issued by the State of Florida under the Insurance Capital Build-up Incentive Program in the amount of \$25,000,000. The note was executed between the Company and The State Board of Administration of Florida. The term of the note was 20 years at a rate of interest equivalent to the 10-year U.S. Treasury Bond rate.

AFFILIATED COMPANIES

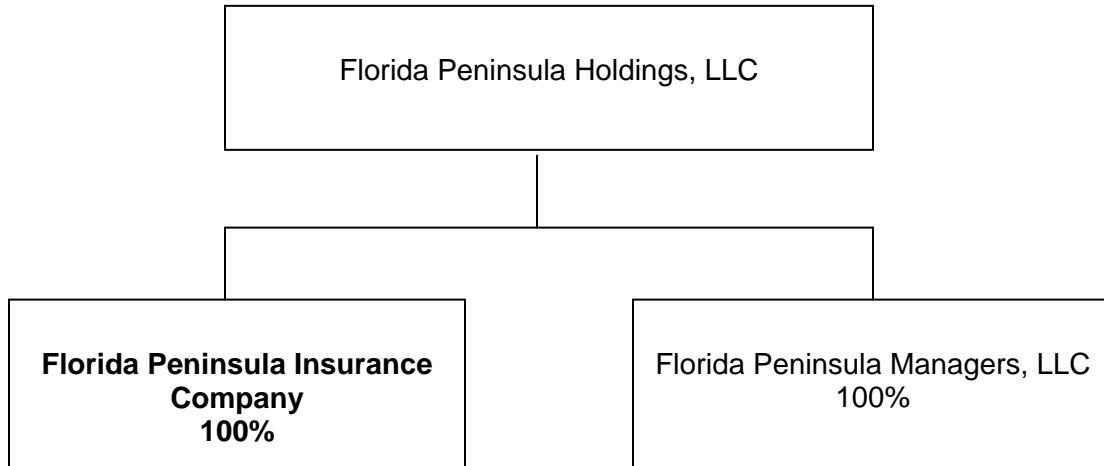
The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code. The latest holding company registration

statement was filed with the State of Florida on February 28, 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.

**FLORIDA PENINSULA INSURANCE COMPANY
ORGANIZATIONAL CHART**

DECEMBER 31, 2007



The following agreement was in effect between the Company and an affiliate:

Management Services Agreement

The Company had a Managing General Agency (MGA) agreement with Florida Peninsula Managers, LLC, to provide the Company with underwriting, policyholder, claim administration services, accounting, marketing and other similar services. The agreement complied with Florida Statutes.

FIDELITY BOND AND OTHER INSURANCE

The Company's parent, Florida Peninsula Holdings, LLC, maintained fidelity bond coverage up to \$7,500,000, which adequately covered the suggested minimum amount of coverage for the Company as recommended by the NAIC. The Company was identified as a named insured on the fidelity bond.

The Company also maintained Businessowners, Workers Compensation, Directors and Officers (D&O), and Errors and Omissions (E&O) insurance coverage with limits up to \$7,500,000 and deductibles up to \$250,000.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company's sole employee participated in a qualified 401(k) retirement plan sponsored by its parent, Florida Peninsula Holdings, LLC.

STATUTORY DEPOSITS

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

STATE	Description	Par Value	Market Value
FL	Cash	<u>\$ 300,000</u>	<u>\$ 300,000</u>
TOTAL FLORIDA DEPOSITS		<u>\$ 300,000</u>	<u>\$ 300,000</u>

INSURANCE PRODUCTS

Territory

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

Treatment of Policyholders

The Company had 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(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 risk from Citizens Property Insurance Company (Citizens) in various take out amounts totaling 55,000 policies pursuant to a Consent Order dated and approved on April 30, 2007. By November 2007, the Company had removed 47,000 policies from Citizens; at which time they requested and received approval to remove an additional 15,000 policies plus the remaining 8,000 policies from the initial 55,000 policies granted by the Office. At year-end 2007, the Company had assumed more than \$49 million in premiums from Citizens.

Ceded

The Company ceded risk on a quota share and excess of loss basis to authorized and unauthorized reinsurers. The 30% quota share agreement with Transatlantic Reinsurance and three Lloyd's Syndicates was discontinued at the renewal date on May 31, 2007. The primary reinsurers were Allianz Risk Transfer, Catlin Insurance Company, LTD, Lloyd's Syndicate number 2001 and Amlin Bermuda, LTD. The Company participated in the Florida Hurricane Catastrophe Fund. The Company had qualified irrevocable letters of credit for each of the agreements with unauthorized reinsurers.

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 office in Boca Raton, Florida, where this examination was conducted.

An independent CPA audited the Company's statutory basis financial statements annually for the years 2005, 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:

Program Management Agreement

Effective July 1, 2005, the Company, along with affiliate Florida Peninsula Managers, LLC entered into a Program Services Agreement with MacNeill Group, Inc. whereby the Company granted authority to MacNeill Group, Inc. to receive and accept proposals for insurance contracts and issue policies based on underwriting guidelines. These services also included premium reporting, policy rating, policy preparation, policy issuance and billing and collection of premiums. MacNeill cannot enter into reinsurance.

Claims Services Agreement - CatManDo

Effective May 1, 2006, the Company's affiliate, Florida Peninsula Managers, LLC entered into a Claim Services Agreement with CatManDo, Inc. to provide claims services for claims assigned to them. CatManDo was to act as administrator and fully investigate, evaluate and handle each claim reported within established authority for claims.

Claims Services Agreement – NCA Group

Effective May 1, 2006, the Company's affiliate, Florida Peninsula Managers, LLC entered into a Claim Services Agreement with NCA Group, Inc. to provide claims services for claims assigned to them. NCA was to act as administrator and fully investigate, evaluate and handle each claim reported within established authority for claims.

Broker Services Agreement

Effective July 12, 2006 the Company entered into a Reinsurance Intermediary Agreement with Guy Carpenter, Inc. by which Guy Carpenter, Inc. will provide reinsurance services including analyzing and evaluating exposures, making recommendations, negotiating premium and coverage terms, securing reinsurers' authorizations to participate, preparing preliminary contract wordings, securing signed agreements and claim services. The agreement complied with Florida Statutes.

Software License Agreement – Risk Management Solutions

Effective December 15, 2006 the Company entered into a software license agreement with Risk Management Solutions, Inc. for the Company to use catastrophe modeling software and related programs used in evaluating the Company's current and potential book of business.

Software License Agreement - AIR

Effective November 15, 2006 the Company entered into a software license agreement with AIR Worldwide Corporation for the Company to use catastrophe modeling software and related programs used in evaluating the Company's current and potential book of business

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."

FLORIDA PENINSULA INSURANCE COMPANY
Assets

DECEMBER 31, 2007

	Per Company	Examination Adjustments	Per Examination
Cash:	\$113,717,802		\$113,717,802
Investment income due and accrued	48,983		48,983
Premiums and considerations:			
Uncollected premium	698,838		698,838
Deferred premium	529,914		529,914
Amounts recoverable from reinsurers	1,011,567		1,011,567
Current federal and foreign income tax recoverable and interest thereon	561,296		561,296
Net deferred tax asset	2,907,483		2,907,483
EDP equipment and software	20,142		20,142
FIGA recoupment	2,980,339		2,980,339
State income tax recoverable	40,000		40,000
Commissions receivable - Citizens	254,967	0	254,967
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Totals	\$122,771,331	\$0	\$122,771,331
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FLORIDA PENINSULA INSURANCE COMPANY
Liabilities, Surplus and Other Funds

DECEMBER 31, 2007

	Per Company	Examination Adjustments	Per Examination
Losses	\$6,451,224		\$6,451,224
Loss adjustment expenses	990,368		990,368
Other expenses	43,893		43,893
Taxes, licenses and fees	567,200		567,200
Unearned premium	34,024,192		34,024,192
Advance premiums	1,887,310		1,887,310
Ceded reinsurance premiums payable	20,087,891		20,087,891
Funds held under reinsurance treaties	117,126		117,126
Remittances and items not allocated	(1,925)		(1,925)
Payable to parent, subsidiaries and affiliates	1,486,100		1,486,100
Premium refund due to Citizens	1,593,546		1,593,546
Total Liabilities	\$67,246,925	\$0	\$67,246,925
Common capital stock	\$1,000		\$1,000
Surplus notes	25,000,000		25,000,000
Gross paid in and contributed surplus	32,999,000		32,999,000
Unassigned funds (surplus)	(2,475,594)		(2,475,594)
Surplus as regards policyholders	\$55,524,406		\$55,524,406
Total liabilities, surplus and other funds	\$122,771,331	\$0	\$122,771,331

FLORIDA PENINSULA INSURANCE COMPANY
Statement of Income

DECEMBER 31, 2007

Underwriting Income

Premiums earned		\$47,605,011
	Deductions:	
Losses incurred		7,551,301
Loss expenses incurred		7,722,058
Other underwriting expenses incurred		43,218,627
Aggregate write-ins for underwriting deductions		0
Total underwriting deductions		\$58,491,986
Net underwriting gain or (loss)		(\$10,886,975)

Investment Income

Net investment income earned		\$3,102,279
Net realized capital gains or (losses)		0
Net investment gain or (loss)		\$3,102,279

Other Income

Net gain or (loss) from agents' or premium balances charged off		(\$241,856)
Finance and service charges not included in premiums		9,232
Aggregate write-ins for miscellaneous income		515,178
Total other income		\$282,554
Net income before dividends to policyholders and before federal & foreign income taxes		(\$7,502,142)
Dividends to policyholders		0
Net Income, after dividends to policyholders, but before federal & foreign income taxes		(\$7,502,142)
Federal & foreign income taxes		(339,185)
Net Income		(\$7,162,957)

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year		\$30,268,380
Net Income		(\$7,162,957)
Change in net deferred income tax		2,489,421
Change in non-admitted assets		(107,438)
Change in provision for reinsurance		37,000
Change in surplus notes		25,000,000
Surplus adjustments: Paid in		5,000,000
Change in surplus as regards policyholders for the year		\$25,256,026
Surplus as regards policyholders, December 31 current year		\$55,524,406

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses	<u>\$7,441,592</u>
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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, make a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

INS Consultants, Inc. (INS) was retained by the Office to conduct a review of the Company's loss and loss adjustment expense reserves as of December 31, 2007, in conjunction with the financial examination.

INS found the Company's gross and net loss and loss adjustment expense reserves at December 31, 2007 to be reasonably stated.

Capital and Surplus

The amount reported by the Company of \$55,524,406 exceeded the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

A comparative analysis of changes in surplus is shown below.

**FLORIDA PENINSULA 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	\$55,524,406
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	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:			
No adjustment			\$0
LIABILITIES:			
No adjustment			\$0
Net Change in Surplus:			0
Surplus as Regards Policyholders December 31, 2007, Per Examination			\$55,524,406

SUMMARY OF FINDINGS

Current examination comments and corrective action

There are no items of interest and corrective action to be taken by the Company regarding findings in the examination as of December 31, 2007.

SUBSEQUENT EVENTS

During the first quarter of 2008, the Company recapitalized by issuing 20,000 shares of common stock at \$100 par value in exchange for 1,000 shares at \$1.00 par. This was approved by the Office.

On October 13, 2008, the Company obtained a license to write insurance in the State of South Carolina. As of the date of this Report, the Company had not yet started writing business in South Carolina.

In 2008, the Company changed the CPA firm they engage to act as their external auditors.

On April 29, 2009, The Board of Directors established a policy regarding conflicts of interest and each member of the Board signed the appropriate disclosure in agreement with policy.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Florida Peninsula 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 **\$55,524,406**, in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned, the following participated in the examination:

Richard A. Shaffer, Financial Specialist, Florida Office of Insurance Regulation; Patricia Casey Davis, CFE, CPA, Supervising Insurance Examiner, INS Regulatory Insurance Services, Inc.; James Russo, CFE, CFE, CPCU, FLMI, CIE, CFSA, Insurance Examiner, INS Regulatory Insurance Services, Inc.; Beverly Dale, CFE, CPA, FLMI, CIE, Insurance Examiner, INS Regulatory Insurance Services, Inc.; Robert W. Gardner, FCAS, MAAA, Actuary, INS Consultants, Inc.; Brian Dunn, CFE, ACL Audit Specialist, INS Consultants, Inc.; Lawrence R. Lentini, CPA, President, INS Services, Inc.

Respectfully submitted,

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