REPORT ON EXAMINATION

OF

GULFSTREAM PROPERTY AND CASUALTY INSURANCE COMPANY

SARASOTA, FLORIDA

AS OF

DECEMBER 31, 2012

BY THE

FLORIDA OFFICE OF INSURANCE REGULATION

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December 3, 2013

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, 2012, of the financial condition and corporate affairs of:

GULFSTREAM PROPERTY AND CASUALTY INSURANCE COMPANY
5240 PAYLOR LANE
SARASOTA, FLORIDA 34240

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, 2008, through December 31, 2012. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2007. This examination commenced with planning at the Office on August 5, 2013 to August 9, 2013. The fieldwork commenced on August 12, 2013, and concluded as of December 3, 2013.

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 was confined to significant adverse findings, a material change in the financial statements or other information of regulatory significance or requiring regulatory action. The report commented 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

There were no material findings or exceptions noted during the examination as of December 31, 2012.

Prior Exam Findings

There were no findings, exceptions, or corrective action to be taken by the Company for the examination as of December 31, 2007.

SUBSEQUENT EVENTS

The Company's Board of Directors authorized management to obtain applicable insurance licenses in the states of South Carolina, Massachusetts, Rhode Island, Texas and Alabama. The Company's Certificate of Authority for Alabama was issued on May 31, 2013. Also, the Company's management was authorized to write business in the States of Texas and Alabama. As an initial phase, the authorization was limited to the counties of Mobile and Baldwin, in Alabama, and the counties of Harris, Fort Bend, and Victoria in Texas.

HISTORY

General

The Company was incorporated in Florida on October 8, 2004, and commenced business on January 18, 2005, as Gulfstream Property and Casualty Insurance Company. The Company was authorized to transact the following insurance coverage in Florida on November 30, 2004, and continued to be authorized as of December 31, 2012, except for coverage withdrawn as noted:

Fire	Other liability	
Allied lines	Mobile home multi peril	(withdrawn 12/08/2008)
Homeowners multi peril	Mobile home physical damage	(withdrawn 12/08/2008)
Inland marine		

The Articles of Incorporation were amended effective November 11, 2009. This amendment changed the number of shares that the Company is authorized to have outstanding at any one time from 100,000 shares with a par value of $1.00 to 25,000 shares with a par value of $100.00. There were no amendments to the Bylaws during the examination period.

Dividends to Stockholders

In accordance with Section 628.371, Florida Statutes, the Company declared and paid dividends to its stockholders in 2009 and 2008 in the amounts of $2,470,000 and $2,560,000, respectively. No other dividends were paid during the examination period.

Capital Stock and Capital Contributions

As of December 31, 2012, the Company's capitalization was as follows:

Number of authorized common capital shares	25,000
Number of shares issued and outstanding	25,000
Total common capital stock	$2,500,000
Par value per share	$100.00

Control of the Company was maintained by New Holdings, Inc. (“New Holdings”), a Delaware corporation, which owned 100% of the common capital stock issued by the Company. As of December 31, 2012, New Holdings was owned 72.45% by Jane P. Huggins and 27.55% by Seibels, Bruce & Co.

Surplus Notes

The Company had no surplus notes during the period of examination.

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

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

CORPORATE RECORDS

The recorded minutes of the Shareholder, Board of Directors (“Board”) and Audit Committee 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 compliance with the NAIC Financial Condition Examiners Handbook adopted by Rule 69O-138.001, Florida Administrative Code and including the authorization of investments as required by Section 625.304, Florida Statutes.

Conflict of Interest

The Company adopted a policy statement requiring periodic 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 shareholders meeting for the election of directors was held in accordance with Section 628.231, Florida Statutes. Directors serving as of December 31, 2012, were:

Directors

Name and Location	**Principal Occupation**
Mitchel Stephen Sattler Sarasota, Florida	Chief Executive Officer, Secretary, and President - New Holdings, Inc.; Gulfstream Property and Casualty MGA, Inc.; and Gulfstream Property and Casualty Insurance Co.
Rex Warren Huggins Columbia, South Carolina	Investor
Bryan Douglas Rivers Columbia, South Carolina	Chief Financial Officer and Treasurer Seibels, Bruce & Co.
Kyle Lee Redfearn Tallahassee, Florida	Attorney
Kerry Wayne Ford Sarasota, Florida	Vice President of Underwriting New Holdings, Inc.; Gulfstream Property and Casualty MGA, Inc; and Gulfstream Property and Casualty Insurance Co.

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

Senior Officers

Name	**Title**
Mitchel Stephen Sattler	President and Chief Executive Officer
Kerry Wayne Ford	Vice President
Jennifer Lynn Pintacuda	Treasurer and Chief Financial Officer
Perry Ian Cone	Secretary

The Bylaws provides that the Board may establish such committees as it deems appropriate. As of December 31, 2012, the Audit Committee was the only established committee. The following were the Audit Committee members as of December 31, 2012:

Audit Committee

Kyle Redfearn [1]
Bryan Rivers
Rex Huggins

[1] Chairman

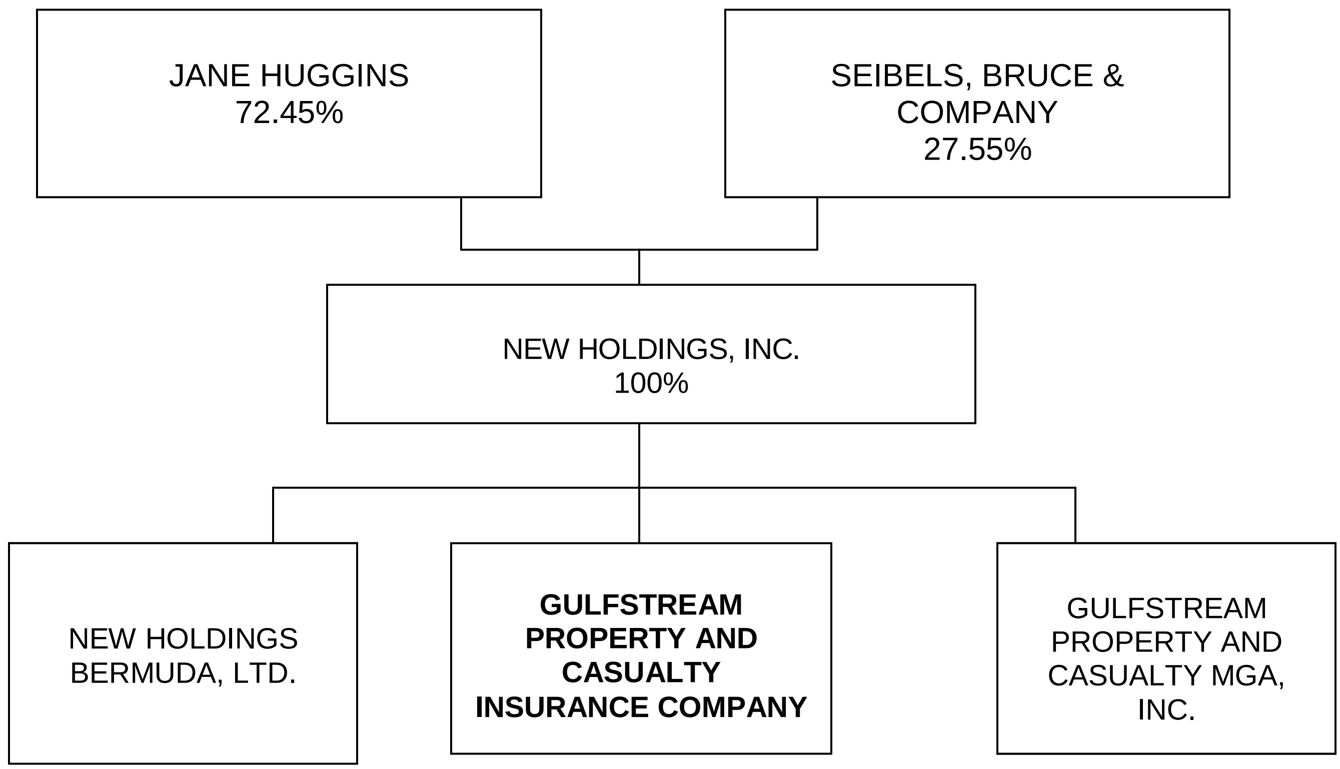
Affiliated Companies

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 August 2, 2013, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

An organizational chart as of December 31, 2012, reflecting the holding company system, is shown on the following page. Schedule Y of the Company's 2012 annual statement provided a list of all related companies of the holding company group.

GULFSTREAM PROPERTY AND CASUALTY INSURANCE COMPANY
Organizational Chart

DECEMBER 31, 2012



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

Executive Management Agreement

The Company maintained an Executive Management Agreement with its parent, New Holdings, effective October 15, 2004. Pursuant to the agreement, the parent provided the Company with management and administration services. New Holdings received up to one-half (.5) percent of direct written premium for its services.

Managing Agency Agreement

The Company entered into a Managing Agency Contract with Gulfstream Property and Casualty MGA, Inc. ("Gulfstream MGA") effective October 15, 2004, to provide comprehensive management and administration of the Company's insurance business. The agreement was amended in April, 2010, February 2011, and May 2012. Pursuant to the contract, Gulfstream MGA either directly provided or supervised any subcontractors who provided underwriting, claims administration, premium collection, accounting, marketing, agent relations, reinsurance negotiation, exposure management, or acquisition of office space, furniture and supplies. In return for these services, Gulfstream MGA received up to 27% of direct premiums written on risks located in Florida and on all flood business written wherever the Company was licensed, as well as 30% of direct premiums written and collected on risks in all states other than Florida (excluding flood). In addition, Gulfstream MGA received a per-policy fee of $25. Gulfstream MGA had an annual premium volume limit of $120 million for each line of business.

Tax Sharing Agreement

The Company had a tax sharing agreement with New Holdings and Gulfstream MGA effective October 1, 2004. The agreement was amended in April, 2012, to also include New Holdings

Bermuda, Ltd. The Companies file a consolidated federal income tax return. The method of allocation of tax liability between the Companies was based upon calculations on a separate return basis, including current credit for net losses. The agreement required the intercompany tax balances to be settled within a reasonable time after the filing of the consolidated federal income tax return.

FIDELITY BOND AND OTHER INSURANCE

The Company maintained fidelity bond coverage up to $1,000,000 with a deductible of $25,000, which reached the suggested minimum as recommended by the NAIC. The Company also maintained Directors, Officers, and Organization liability insurance and coverage with limits of $5,000,000, as well as workers' compensation and employers' liability and automobile and umbrella excess liability. The Company also maintained general liability and property coverage for The Preserve at Crestwood Office space.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

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

TERRITORY AND PLAN OF OPERATIONS

As of December 31, 2013, the Company was authorized to transact insurance in the following states:

Florida	Louisiana
Mississippi	Alabama

Treatment of Policyholders

The Company established procedures for handling written complaints in accordance with Section 626.9541(1) (i) 3a, 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

Gross written premium increased $24.4 million or 29% due to an increase in policy count, rate increases in Florida, and continued expansion into Louisiana. Florida policies in-force at December 31, 2012 were 50,552 compared to 41,247 at December 31, 2011. Louisiana policies in-force at December 31, 2012 were 7,848 compared to 5,822 at December 31, 2011.

Net earned premiums decreased $1.7 million or 5% in the current year due to the Company ceding 40% of its premium and losses from the period of January 1 to May 31, 2012, and ceding 35% from June 1 to December 31, 2012, under the Company's quota share reinsurance agreement. In fiscal 2011, the Company retained 100% of the premium and losses from January 1 to June 30, 2011. In 2012, the Company purchased additional excess of loss reinsurance protection proportionate to the increase in in-force business.

Net Loss and Loss Adjustment Expenses as a percentage of net earned premium was 51.9% and 54.8% for fiscal 2012 and 2011, respectively. In 2012, the Company experienced $2.4 million of favorable development on prior accident year reserves. In addition, the Company's sinkhole mitigation procedures and rate increases stabilized the loss ratio in the current year. Net incurred loss and loss adjustment expenses also decreased as a result of the 40% and 35% quota share.

The 2012 underwriting and other expense as a percentage of written premium was consistent with prior year. The increase in the 2012 underwriting expenses, as compared to 2011, correlated to the increase in written premium.

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.

	2012	2011	2010	2009	2008
Premiums Earned	32,740,144	34,436,332	36,308,959	25,674,827	24,400,581
Net Underwriting Gain/(Loss)	1,090,143	(1,303,242)	(10,760,849)	(5,116,074)	(2,100,995)
Net Income (Loss)	2,983,895	934,784	(6,280,219)	4,693,534	(192,802)
Total Assets	83,027,284	62,832,736	68,614,732	65,037,073	52,408,643
Total Liabilities	56,802,594	41,676,681	53,001,661	44,946,071	34,975,045
Surplus As Regards Policyholders	26,224,690	21,156,055	15,613,071	20,091,002	17,433,598

LOSS EXPERIENCE

The Company experienced net losses in 2008 and 2010, but has shown a favorable trend of profitability in 2011 and 2012. The primary cause of the 2010 losses was due to the Company incurring $5.4 million in sinkhole losses for the 2010 accident year in Florida. The net loss in

2008 was primarily due to an increase in the Company's loss and loss adjustment expense ratio that could be attributed to the lower average premiums per risk insured.

REINSURANCE

The reinsurance agreements reviewed complied with NAIC requirements as respects standard insolvency, arbitration clauses, transfer of risk, and reporting and settlement deadlines.

Assumed

The Company assumed no reinsurance during the period of this examination.

Ceded

Effective June 1, 2012, the Company strategically reduced its quota share cession percentage from 40% to 35% on its in-force, new and renewal portfolio. The Company had unsecured reinsurance recoverables at December 31, 2012, exceeding 3% of policyholders' surplus with the Florida Hurricane Catastrophe Fund and the National Flood Insurance Program. There were no additional or return commissions, predicated on loss experience, or any other form of profit sharing arrangements at the end of 2012 or 2011 for reinsurance ceded. In 2011, the Company commuted its 2005 reinsurance contract with the Florida Hurricane Catastrophe Fund. The Company recognized the amounts received from the reinsurer as a reduction in reinsurance recoverable. It also increased its net loss and loss adjustment expense reserves by $9 million to recognize releasing the reinsurer from its obligation under the contract. The Company used TigerRisk Partners ("TigerRisk") as its reinsurance broker. TigerRisk handled most aspects of the Company's reinsurance placing and servicing. The Company's current Catastrophic Program provided first event coverage for a 100-year event and exhausts at

$293.7 million. Additional catastrophic coverage was secured to provide protection for multiple smaller events. The reinsurance contracts in place at December 31, 2012 included:

- Multi-Year Captive Excess of Loss Catastrophe Reinsurance;
- Excess Catastrophe Reinsurance Contracts (one-year & two-year);
- Aggregate Excess Catastrophe Reinsurance Contract;
- Reinstatement Premium Protection Reinsurance Contract;
- Property Excess Per Risk Reinsurance Contract; and
- Quota Share Reinsurance Contract

The Company's reinsurance contracts were reviewed by its appointed actuary and were utilized in determining a view of ultimate loss.

ACCOUNTS AND RECORDS

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

An independent CPA audited the Company's statutory basis financial statements annually for the years 2008 through 2012, 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 and non-affiliates had the following agreements:

Investment Management Agreement

As of April 1, 2012, the Company maintained an Investment Management Agreement with General Re - New England Asset Management, Inc. ("General Re"). Through this agreement, the Company appointed General Re as the investment manager for a portion of its assets.

Independent Auditor Agreement

The Company contracted with an external independent CPA firm to perform the annual audit of its financial statements as required by Rule 69O-137.002 (7) (c), Florida Administrative Code.

INFORMATION TECHNOLOGY REPORT

Noble Consulting Services, Inc. IT Specialist, Jerry Ehlers, AES, CISA, CFE, CPA, performed an evaluation of the information technology and computer systems of the Company. Results of the evaluation were noted in the Information Technology Report provided to the Company.

STATUTORY DEPOSITS

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

STATE	Description	Par Value	Market Value
FL	Cash Deposit	$ 300,000	$ 300,000
FL	Cash Interest	22,067	22,067
FL	Cash Deposit	200,000	200,000
TOTAL FLORIDA DEPOSITS		$ 522,067	$ 522,067

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2012, 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."

GULFSTREAM PROPERTY AND CASUALTY INSURANCE COMPANY

Assets

DECEMBER 31, 2012

	Per Company	Examination Adjustments	Per Examination
Bonds	$10,999,044		$10,999,044
Real Estate:			
Properties occupied by Company	1,603,412		1,603,412
Cash and Short-Term Investments	50,923,228		50,923,228
Investment income due and accrued	203,646		203,646
Premiums and considerations:			
Uncollected premiums and agents' balances in the course of collection	3,953,818		3,953,818
Deferred premiums, agents' balances and installments booked but deferred and not yet due	4,971,941		4,971,941
Reinsurance			
Amounts recoverable from reinsurers	1,469,456		1,469,456
Current federal and foreign income tax recoverable and interest thereon	4,192,719		4,192,719
Net deferred tax asset	2,903,691		2,903,691
Guaranty funds receivable or on deposit	654,611		654,611
Receivables from parent, subsidiaries and affiliates	194,944		194,944
Aggregate write-in for other than invested assets	956,774		956,774
Totals	$83,027,284	$0	$83,027,284

GULFSTREAM PROPERTY AND CASUALTY INSURANCE COMPANY

Liabilities, Surplus and Other Funds

DECEMBER 31, 2012

	Per Company	Examination Adjustments	Per Examination
Losses	$10,442,791		$10,442,791
Loss adjustment expenses	3,188,916		3,188,916
Commissions payable, contingent commissions and other similar charges	78,000		78,000
Other expenses	255,511		255,511
Taxes, licenses and fees	682,053		682,053
Unearned premiums	24,044,529		24,044,529
Ceded reinsurance premiums payable	16,775,407		16,775,407
Funds held by company under reinsurance treaties	585,709		585,709
Payable to parent, subsidiaries and affiliates	81,965		81,965
Aggregate write-ins for liabilities	667,713		667,713
Total Liabilities	$56,802,594	$0	$56,802,594
Common capital stock	$2,500,000		$2,500,000
Gross paid in and contributed surplus	22,500,000		22,500,000
Unassigned funds (surplus)	1,224,690		1,224,690
Surplus as regards policyholders	$26,224,690	$0	$26,224,690
Total liabilities, surplus and other funds	$83,027,284	$0	$83,027,284

GULFSTREAM PROPERTY AND CASUALTY INSURANCE COMPANY

Statement of Income

DECEMBER 31, 2012

Underwriting Income	
Premiums earned	$32,740,144
Deductions:	
Losses incurred	$11,512,729
Loss adjustment expenses incurred	5,511,855
Other underwriting expenses incurred	14,625,417
Total underwriting deductions	$31,650,001
Net underwriting gain or (loss)	$1,090,143
Investment Income	
Net investment income earned	$654,735
Net realized capital gains or (losses)	2,305
Net investment gain or (loss)	$657,040
Other Income	
Net gain or (loss) from agents' or premium balances charged off	($19,632)
Total other income	($19,632)
Net income before dividends to policyholders and before federal & foreign income taxes	$1,727,551
Net Income, after dividends to policyholders, but before federal & foreign income taxes	$1,727,551
Federal & foreign income taxes	(1,256,344)
Net Income	$2,983,895
Capital and Surplus Account	
Surplus as regards policyholders, December 31 prior year	$21,156,056
Net Income	$2,983,895
Change in net deferred income tax	2,283,437
Change in non-admitted assets	(198,698)
Change in surplus as regards policyholders for the year	$5,068,634
Surplus as regards policyholders, December 31 current year	$26,224,690

A comparative analysis of changes in surplus is shown below.

GULFSTREAM PROPERTY AND CASUALTY INSURANCE COMPANY
Comparative Analysis of Changes in Surplus

DECEMBER 31, 2012

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, 2012, per Annual Statement				$26,224,690
	PER COMPANY	PER EXAM	INCREASE (DECREASE) IN SURPLUS	
ASSETS: No Adjustment				
LIABILITIES: No Adjustment				
Net Change in Surplus:				0
Surplus as Regards Policyholders December 31, 2012, Per Examination				$26,224,690

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses $13,631,707

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, 2012, 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 consulting actuaries, Ronald T. Kuehn, FCAS, MAAA, CERA, CPCU, ARM, FCA and Todd H. Dashoff, ACAS, MAAA, ARM of Huggins Actuarial Services, Inc., reviewed the loss and loss adjustment expense work papers provided by the Company and they were in concurrence with this opinion.

Capital and Surplus

The amount of Capital and surplus reported by the Company of $26,224,690 exceeded the minimum of $5,570,507 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 **Gulfstream Property and Casualty Insurance Company** as of December 31, 2012, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's surplus as regards policyholders was $26,224,690, which exceeded the minimum of $5,570,507 required by Section 624.408, Florida Statutes.

In addition to the undersigned, Daniel P. McBay CFE, ARe, CPA, Examiner-In-Charge, David McCauley, Participating Examiner, of Noble Consulting Services, Inc. participated in the examination. We also recognize, John Romano, CPA, CFE, Examination Manager of ParenteBeard LLC, Ronald T. Kuehn, FCAS, MAAA, CERA, CPCU, ARM, FCA and Todd H. Dashoff, ACAS, MAAA, ARM, consulting actuaries of Huggins Actuarial Services, Inc. and Jerry Ehlers, AES, CISA, CFE, CPA of Noble Consulting Services, Inc.

Respectfully submitted,

____
Robin Brown, CFE
Chief Examiner
Florida Office of Insurance Regulation