REPORT ON EXAMINATION

OF

SAFE HARBOR INSURANCE COMPANY

TALLAHASSEE, FLORIDA

AS OF

DECEMBER 31, 2008

BY THE

OFFICE OF INSURANCE REGULATION

TABLE OF CONTENTS

Tallahassee, Florida

September 16, 2009

Kevin M. McCarty
Commissioner
Office of Insurance Regulation
State of Florida
Tallahassee, Florida 32399-0326

Dear Sir:

Pursuant to your instructions, in compliance with Section 624.316, Florida Statutes, and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted an examination as of December 31, 2008, 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, 2008, through December 31, 2008. 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 December 15, 2008, to December 19, 2008. The fieldwork commenced on January 2, 2009, and concluded as of September 16, 2009.

This financial examination was a statutory financial examination conducted in accordance with the Financial Condition Examiners Handbook, Accounting Practices and Procedures Manual and annual statement instructions promulgated by the NAIC as adopted by Rules 69O-137.001(4) and 69O-138.001, Florida Administrative Code, with due regard to the statutory requirements of the insurance laws and rules of the State of Florida.

The Financial Condition Examiners Handbook requires that the examination be planned and performed to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation and management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

Risk-focused examinations consist of a seven-phase process that can be used to identify and assess risk, assess the adequacy and effectiveness of strategies/controls used to mitigate risk and assist in determining the extent and nature of procedures and testing to be utilized in order to complete the review of that activity. The process should generally include a determination of the quality and reliability of the corporate governance structure and risk management programs. In addition, it can be used for verification of specific portions of the financial statements or other limited-scope reviews, increased focus on, and can result in increased substantive testing of, accounts identified as being at high risk of misstatement. Conversely, the risk assessment process should result in decreased focus on, and fewer substantive tests on the accounts identified as being at low risk of misstatement. The risk-focused surveillance process can be used to assist examiners in targeting areas of high-risk.

In this examination, emphasis was directed to the quality, value and integrity of the statement of assets and the determination of liabilities, as those balances affect the financial solvency of the Company as of December 31, 2008. Transactions subsequent to year-end 2008 were reviewed where relevant and deemed significant to the Company's financial condition.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

The examination included a review of the corporate records and other selected records deemed pertinent to the Company's operations and practices. In addition, the NAIC IRIS ratio reports, the A.M. Best Report, the Company's independent audit report and certain work papers prepared by the Company's independent certified public accountant (CPA) and other reports as considered necessary were reviewed and utilized where applicable within the scope of this examination.

This report of examination was confined to financial statements and comments on matters that involved departures from laws, regulations or rules, or which were deemed to require special explanation or description.

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, 2007, along with resulting action taken by the Company in connection therewith.

Organizational Chart

The Company did not disclose the ownership interests of Blue Fin or Cabrillo in the 2007 Annual Statement in accordance with the NAIC Annual Statement Instructions, which requires disclosure of all entities in the holding company system on Schedule Y of the Annual Statement.

<u>Resolution:</u> The Company disclosed the ownership interests of Blue Fin and Cabrillo in the March 31, 2009 Quarterly Statement.

HISTORY

General

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

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

The Company was authorized to transact the following insurance coverage in Florida on December 31, 2008:

Homeowners multi peril	Mobile Homeowners Multi-Peril
Fire	Mobile Home Physical Damage
	Allied Lines

The Company had a contract with Citizens Property Insurance Corporation; however, no risks had been assumed as of December 31, 2008.

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

Capital Stock

As of December 31, 2008, the Company's capitalization was as follows:

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

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

Profitability of Company

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

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

Dividends to Stockholders

The Company did not declare or pay dividends to its stockholders in 2008.

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, 2008, were:

Directors

Name and Location	**Principal Occupation**
William Emerson Roche New York, New York	President and Treasurer, RM
Michael Lee McNitt Gainesville, Florida	President, Cabrillo

Robert Charles Jester San Diego, California	Chairman and CEO, Cabrillo
Ralph Milo New York, New York	Retired CPA/Insurance Executive
Michael Keith Eigen New York, New York	Secretary, Company

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

Senior Officers

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

The Company's Board appointed several internal committees in accordance with Section 607.0825, Florida Statutes. Following were the principal internal Board committees and their members as of December 31, 2008:

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

[1] Chairman

Conflict of Interest Procedure

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

Corporate Records

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

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

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

Surplus Debentures

As of December 31, 2008, there were no outstanding debentures of the Company.

AFFILIATED COMPANIES

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

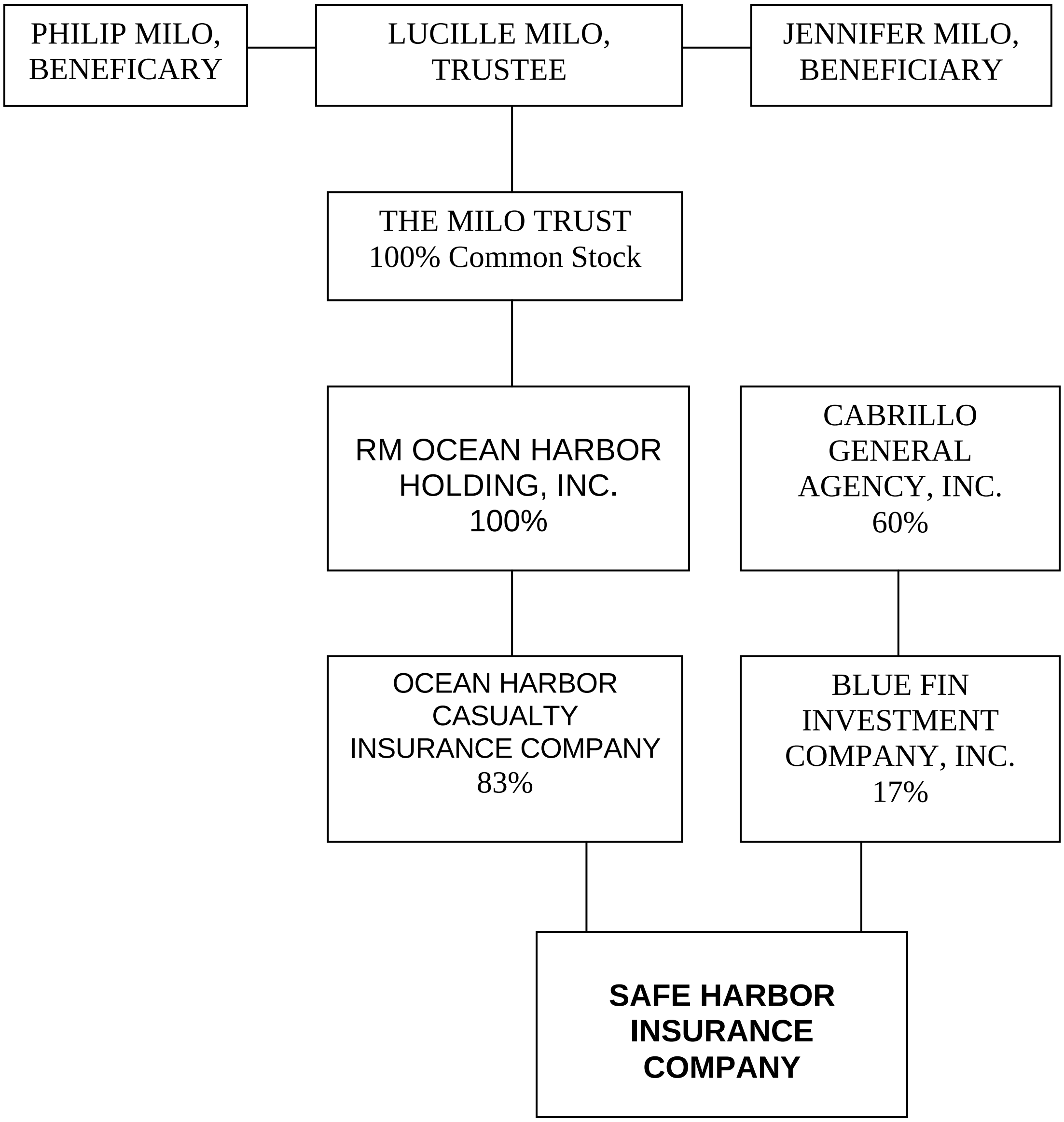
An organizational chart as of December 31, 2008, reflecting the holding company system, is shown below. Schedule Y of the Company's 2008 annual statement provided a partial list of related companies in the holding company group.

The 2008 Annual Statement did not disclose the ownership interests of Blue Fin or Cabrillo, as required by the NAIC Annual Statement Instructions and included by the Examiners, below.

Subsequent Event: The Company disclosed the ownership interests of Blue Fin and Cabrillo in the March 31, 2009, Quarterly Statement.

SAFE HARBOR INSURANCE COMPANY
ORGANIZATIONAL CHART

DECEMBER 31, 2008



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

Tax Allocation Agreement

The Company, along with RM and Ocean, filed a consolidated federal income tax return and entered into a consolidated tax allocation agreement. On December 31, 2008, the method of allocation between the Company, RM and Ocean was based upon separate return calculations.

Cost Allocation Agreement

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

Managing General Agent Agreement

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

Claims Management Agreement

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

FIDELITY BOND

The Company, along with affiliated companies, maintained fidelity bond coverage up to $2,500,000 with a deductible of $100,000, an amount considered adequate by the NAIC.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company had no employees. The Company was staffed by employees of RM who were covered by a 401(k) defined contribution and profit sharing plan provided by RM.

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	USTN, 3.5%, 08/15/09	$ 308,000	$ 314,028
TOTAL FLORIDA DEPOSITS		$ 308,000	$ 314,028
LA	CD, 1.24%, 06/30/09	$ 20,000	$ 20,000
SC	FNMA, 4.2%, 06/08/09	125,000	127,031
TOTAL OTHER DEPOSITS		$ 145,000	$ 147,031
TOTAL SPECIAL DEPOSITS		$ 453,000	$ 461,059

INSURANCE PRODUCTS

Territory

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

Florida	Mississippi	South Carolina
Louisiana		

Treatment of Policyholders

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

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

REINSURANCE

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

Assumed

The Company assumed no reinsurance risks during the examination period.

Ceded

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

The Company had also purchased private reinsurance, effective June 1, 2008, through May 31, 2009, which consisted of five layers totaling $22,000,000 x $1,000,000 and a drop down retention layer of $500,000 excess $500,000 excess $500,000. The Company had purchased Reinstatement Premium Protection on all layers. The Company purchased a third event catastrophe excess of loss protection which consisted of two layers totaling $6,000,000, excess of $1,000,000, with one restatement. The Company also purchased property excess per risk reinsurance in the amount of $1,150,000, excess of $250,000, with aggregate limits of $3,450,000. The private reinsurance contracts did not contain any loss corridors or other contractual features that limited the amount of insurance risk to which the reinsurer was subject or provisions that delayed the timely reimbursement of claims by the reinsurer.

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

ACCOUNTS AND RECORDS

The Company maintained its principal operational offices in Tallahassee, Florida, where this examination was conducted.

An independent CPA audited the Company's statutory basis financial statements annually for the year 2008, in accordance with Section 624.424(8), Florida Statutes. Supporting work papers were prepared by the CPA as required by Rule 69O-137.002, Florida Administrative Code.

The Company's accounting records were maintained on a computerized system. The Company's balance sheet accounts were verified with the line items of the annual statement submitted to the Office.

The Company and non-affiliates had the following agreements:

Custodial Agreement

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

Independent Auditor Agreement

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

Information Technology Report

Brandon Thomas, HISP, MCM, of Huff Thomas & Company performed 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.

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2008, 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, 2008

	Per Company	Examination Adjustments	Per Examination
Bonds	$433,386		$433,386
Cash and short-term investments	11,955,629		$11,955,629
Investment income due and accrued	23,493		23,493
Premiums and considerations:			
Uncollected premium and agents' balances in course of collection	619,542		619,542
Deferred premiums, agents' balances and installments booked but deferred and not yet due	1,218,765		1,218,765
Net deferred tax asset	292,192		292,192
Totals	$14,543,007	$0	$14,543,007

SAFE HARBOR INSURANCE COMPANY
Liabilities, Surplus and Other Funds

DECEMBER 31, 2008

	Per Company	Examination Adjustments	Per Examination
Losses	$474,087		$474,087
Loss adjustment expenses	112,632		112,632
Other expenses	52,070		52,070
Taxes, licenses and fees	93,522		93,522
Current federal income taxes	623,330		623,330
Unearned premium	4,091,241		4,091,241
Ceded reinsurance premiums payable	1,277,403		1,277,403
Payable to parent, subsidiaries and affiliates	52,027		52,027
Total Liabilities	$6,776,312	$0	$6,776,312
Common capital stock	$2,000,000		2,000,000
Gross paid in and contributed surplus	4,000,000		4,000,000
Unassigned funds (surplus)	1,766,695		1,766,695
Surplus as regards policyholders	$7,766,695		$7,766,695
Total liabilities, surplus and other funds	$14,543,007	$0	$14,543,007

SAFE HARBOR INSURANCE COMPANY
Statement of Income

DECEMBER 31, 2008

Underwriting Income	
Premiums earned	$6,733,608
Deductions:	
Losses incurred	1,802,283
Loss expenses incurred	656,386
Other underwriting expenses incurred	2,752,822
Total underwriting deductions	$5,211,491
Net underwriting gain or (loss)	$1,522,117
Investment Income	
Net investment income earned	$370,586
Net realized capital gains or (losses)	0
Net investment gain or (loss)	$370,586
Other Income	
Net gain or (loss) from agents' or premium balances charged off	($454)
Finance and service charges not included in premiums	0
Aggregate write-ins for miscellaneous income	0
Total other income	($454)
Net income before dividends to policyholders and before federal & foreign income taxes	$1,892,249
Dividends to policyholders	0
Net Income, after dividends to policyholders, but before federal & foreign income taxes	$1,892,249
Federal & foreign income taxes	623,330
Net Income	$1,268,919
Capital and Surplus Account	
Surplus as regards policyholders, December 31 prior year	$6,514,690
Net Income	$1,268,919
Change in net deferred income tax	(18,649)
Change in non-admitted assets	1,735
Examination Adjustment	0
Change in surplus as regards policyholders for the year	$1,252,005
Surplus as regards policyholders, December 31 current year	$7,766,695

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses $586,719

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, 2008, made a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

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

Capital and Surplus

The amount reported by the Company of $7,766,695, exceeded the minimum of $4,000,000 required by Section 624.408, Florida Statutes.

A comparative analysis of changes in surplus is shown below.

SAFE HARBOR INSURANCE COMPANY
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS

DECEMBER 31, 2008

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, 2008, per Annual Statement				$7,766,695
	PER COMPANY	PER EXAM	INCREASE (DECREASE) IN SURPLUS	
ASSETS:				
No Adjustment			$0	
LIABILITIES:				
No Adjustment			$0	
Net Change in Surplus:				0
Surplus as Regards Policyholders December 31, 2008, Per Examination				$7,766,695

SUMMARY OF FINDINGS

Compliance with previous directives

The Company had taken the necessary actions to comply with the comments made in the 2007 examination report issued by the Office.

Current examination comments and corrective action

There were no exceptions or findings in the examination as of December 31, 2008.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Safe Harbor Insurance Company** as of December 31, 2008, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was $7,766,695, in compliance with Section 624.408, Florida Statutes.

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

Respectfully submitted,

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