REPORT ON LIMITED SCOPE EXAMINATION

OF

OLYMPUS INSURANCE COMPANY

ORLANDO, FLORIDA

AS OF

SEPTEMBER 30, 2012

BY THE

FLORIDA OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida

April 5, 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 a limited scope examination of the corporate governance, underwriting, loss and loss adjustment expense (LAE) reserves, cash flow, reinsurance, and premium remittance process as of September 30, 2012, of:

OLYMPUS INSURANCE COMPANY
7380 WEST SAND LAKE ROAD, SUITE 115
ORLANDO, FLORIDA 32819

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

SCOPE OF EXAMINATION

This was a limited scope examination of Olympus Insurance Company (Company) to the extent and in the manner directed by the Florida Office of Insurance Regulation (Office). The Company was last examined by representatives of the Office as of December 31, 2010. To the extent applicable, the limited scope examination was conducted in accordance with the guidance of the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook, the NAIC Accounting Practices and Procedures Manual and the Florida Administrative Code. The limited scope examination differed in many respects from that of a full scope examination or an audit performed in accordance with generally accepted auditing standards.

The field work commenced on January 28, 2013, and concluded as of April 5, 2013. The limited scope examination included material events occurring subsequent to September 30, 2012, and noted during the course of the examination as they related to the following areas within the limited scope of the examination.

This examination covered corporate the governance, underwriting, loss and loss adjustment expense (LAE) reserves, cash flow, reinsurance, and premium remittance process as of September 30, 2012. The examination was conducted by INS Regulatory Insurance Services, Inc.

HISTORY

General

The Company was incorporated on May 22, 2007 and obtained its Certificate of Authority from the Office on May 31, 2007. The Company was authorized to transact the following insurance coverage in Florida on May 31, 2007 and continued to be authorized in these lines of business as of September 30, 2012:

Fire	Allied lines
Homeowners multi peril	Inland marine
Other liability	Mobile home multi peril
Mobile home physical damage	

The company, a Florida-domiciled Property and Casualty insurer, was authorized only in Florida.

The Company was 100% owned by Gemini Financial Holdings Corporation (GFHC), an insurance holding company incorporated in Delaware. GFHC was 100% owned by Gemini Financial Holdings, LLC (GFH). GFH ownership was comprised of Pegasus Partners III, LP (Pegasus), a private equity firm; William Lowry; and Barry Fox. Pegasus was ultimately controlled by Craig Cogut, who was the sole managing member of Pegasus Capital, LLC, the ultimate and sole controlling manager of Pegasus.

CORPORATE GOVERNANCE

Examination procedures were conducted that included inquiry and interviews of selected senior management and review of the corporate minutes. The Company had a Board of Directors (Board) that consisted of five (5) members, three (3) of which were independent of Company management. The Board and its appointed committees consisted of individuals with experience in the insurance and/or financial services industry. The Board established audit and investment committees for the review and/or approval of select processes and transactions.

Directors serving as of September 30, 2012, were:

Name and Location	**Principal Occupation**
Lon Jared Powell New York, New York	Operating Advisor Pegasus Partners III, LP
William Ketchin Lowry, Jr. Upper Saddle River, New Jersey	President/Chief Financial Officer Olympus Insurance Company
Daniel Benjamin Stencel Upper Saddle River, New Jersey	Chief Financial Officer Pegasus Partners III, LP
Jeffrey Bernard Scott Schenectady, New York	Chief Executive Officer/Secretary Olympus Insurance Company
Steven Warren Wacaster New York, New York	Vice President Pegasus Partners III, LP

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

Name	**Title**
Jeffrey Bernard Scott	Chief Executive Officer/Secretary
William Ketchin Lowry, Jr.	President/Chief Financial Officer

The Board appointed two (2) committees. Following were the Board committees and their members as of September 30, 2012:

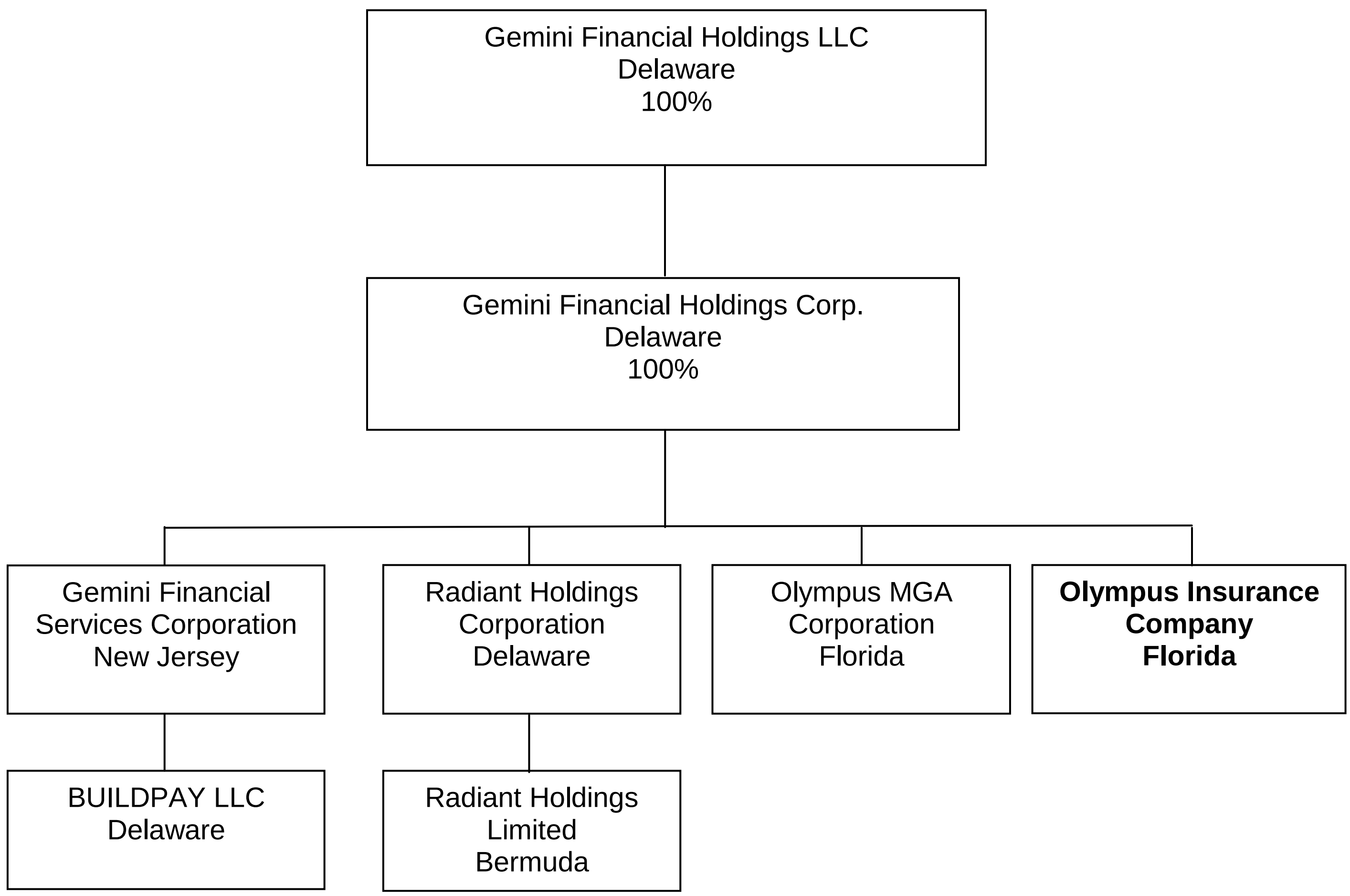
Audit Committee	**Investment Committee**
Daniel Benjamin Stencel	Lon Jared Powell
William Ketchin Lowry, Jr.	William Ketchin Lowry, Jr.
Jeffrey Bernard Scott	Jeffrey Bernard Scott

There were no adverse findings as of September 30, 2012, related to corporate governance.

An organizational chart as of September 30, 2012, reflecting the holding company system, is shown on the following page. Schedule Y of the Company's September 30, 2012 quarterly statement provided a list of all related companies of the holding company group.

OLYMPUS INSURANCE COMPANY
ORGANIZATIONAL CHART

September 30, 2012



UNDERWRITING

The Company wrote insurance policies which included coverage for fire, allied lines, homeowners multiple peril, inland marine and other liability. All business was produced and managed by the Company's affiliated managing general agent, Olympus MGA Corporation (the MGA). The MGA outsources most of the underwriting functions to third party administrator (TPA), The Seibels Bruce Group Inc. (SBGI), and markets the Company's business though a sales force of 982 independent agents. In addition to SBGI, effective of August 3, 2012 National American Risk Services (NARIS) was the TPA for claims administration only.

Procedures were performed to ensure that controls were in place at the MGA related to the oversight and management, including adherence to underwriting guidelines, of the third party administrator and independent agency force. Reliance was placed on work performed by the Company's external auditor as well as a Service Organization Controls Report I, Type II issued by an independent accounting firm.

The following table shows underwriting results (in dollars) of the Company for the as of dates indicated, as reported in the filed financial statements.

	September 30 2012	**December 31 2011**	**September 30 2011**
Gross Premiums Written	$71,733,637	$99,302,170	$73,597,239
Net Underwriting Loss	$(11,050,295)	$(1,752,636)	$(1,002,003)

The Company attributed the significant underwriting loss experienced during the third quarter of 2012 to:

- losses of approximately $2.2 million, related to three tropical storms during 2012 which were below the attachment level of the Company's excess of loss reinsurance and were excluded from the quota share reinsurance agreement, and
- an increase to IBNR loss and LAE reserves in the amount of $6.5M related to sinkhole claims.

The independent actuarial analysis performed, as described in the next section, reviewed loss and LAE reserves by line of business. The review found the reported reserves to be reasonable.

The Company represented that several initiatives were put in place and changes made to the Company's underwriting guidelines to counter the increase in sinkhole loss activity. The Company provided evidence of these changes and the documentation was reviewed.

There were no adverse findings as of September 30, 2012, related to underwriting.

LOSS AND LAE RESERVES

The Office engaged an independent actuarial firm, INS Consultants, Inc. (INS), to review the loss and loss adjustment expense reserves carried in the Company's balance sheet as of September 30, 2012. INS performed the review on both a direct and net (via a ceded reserve analysis approach) of reinsurance basis. The review was performed by Schedule P line of business.

INS received the following information from the Company:

- The Company's September 30, 2012 Quarterly Statement
- Actuarial premium and loss information evaluated as of September 30, 2012 for the homeowner's line of business

- A September 30, 2012 sinkhole analysis performed by Paul Ericksen of Insurance Services Office, Inc., the Company's appointed actuary
- Other information that was requested from the Company by INS

Based on the review, INS found the Company's booked net loss and loss adjustment expense reserves as of September 30, 2012 to be reasonable.

There were no adverse findings as of September 30, 2012, related to loss and LAE reserves.

CASH FLOW

The Company reported negative amounts for "Premiums collected net of reinsurance" and "Commissions, expenses paid and aggregate write-in for deductions" on page 5 of the quarterly statement as of September 30, 2012. The following chart shows amounts (in dollars) reported on lines 1 and 7:

	Current Year to Date	**Prior Year to Date**	**Prior Year Ended December 31**
1. Premiums collected net of reinsurance	(6,906,197)	(10,297,852)	(18,775,823)
7. Commissions, expenses paid and aggregate write-in for deductions	(15,465,683)	(18,347,364)	(25,383,872)

Procedures performed found that pursuant to the Company's 80% quota share reinsurance contract, the Company was reimbursed for up to 40% of its catastrophic excess of loss reinsurance costs. Line 1 was calculated gross of this reimbursement which caused net premiums to be negative. The reimbursement was then netted with expenses paid by the Company on line 7.

The Company had intercompany agreements in place with affiliates, Olympus MGA Corporation (the MGA) and Gemini Financial Services Corporation. These agreements have been approved by the Office. Procedures were performed to ensure that payments to and from the Company were consistent with the terms of the agreements. These procedures included the verification that expense payments made from the Company to the MGA did not exceed the 28% of written premium limit outlined in the agreement.

There were no adverse findings as of September 30, 2012, related to cash flow.

REINSURANCE

The Company, as cedant, was party to several reinsurance contracts with both affiliated and unaffiliated reinsurers. Contracts included catastrophe and per risk excess of loss, county weighted industry loss (CWIL), quota-share, captive, and reinstatement premium protection. The Company did not assume any reinsurance.

The reinsurance contracts were reviewed and were utilized in determining the ultimate loss opinion per the examination. 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.

The reinsurance contracts were reviewed for proper risk transfer in accordance with SSAP No. 62, Paragraphs 9-16. Pursuant to Order No. 109832-10, the Company engaged an independent actuarial firm to analyze the 80% Quota Share Reinsurance Agreement to ensure that it met the risk transfer requirement for statutory accounting treatment. Based on the analysis, adequate risk transfer was present.

Subsequent event: On December 21, 2012, the Company canceled the two excess of loss reinsurance agreements with captive reinsurer, Horseshoe Re Limited. Following the cancelation, the two separate accounts which funded the reinsurance coverage were liquidated, allowing for a capital contribution to the Company by the parent of $5 million. The coverage provided by the cancelled contracts was assumed by the Company's aggregate excess of loss reinsurance contract.

There were no adverse findings as of September 30, 2012, related to reinsurance.

PREMIUM REMITTANCE PROCESS

On January 1, 2010, with approval from the Office, the Company entered into an Amended and Restated Managing General Agency and Claims Administration Agreement (MGA Agreement) with affiliate, Olympus MGA Corporation (the MGA). Pursuant to the Agreement, the MGA collected and held in a premium trust account all premiums relating to the business written under the Agreement.

It was noted that the MGA often remitted the premiums due to the Company prior to the fifteenth (15^{th}) of the month, the due date pursuant to the MGA Agreement. When the premium remittance was received prior to the close of the preceding month, the amount was reported as an increase to "Payable to parent, subsidiaries and affiliates" on page 3 of the financial statements. The Company's reported amount of $5,928,870 on the quarterly statement as of September 30, 2012 was due to this practice.

Procedures were performed to ensure that the premium remittance process, including the advancing of premiums noted above, was in compliance with the MGA Agreement as well as statutory and financial reporting requirements. Detailed premium data files were also obtained and analyzed to ensure that uncollected premiums were properly being aged and that they reconciled to the reported premium related account balances.

A review of the September 30, 2012 bank statement for the premium trust account, which is held at JP Morgan Chase Bank, N.A., found that the MGA was the owner of the account and that the account was identified as a "Premium Trust Account." However, the Company's name does not appear on the bank statement as an owner or beneficiary. Section 626.561, Florida Statutes, states that "all premiums, return premiums, or other funds belonging to insurers or others received by an agent, insurance agency, customer representative, or adjuster in transactions under the license are trust funds received by the licensee in a fiduciary capacity." Furthermore, Article 3.1 of the MGA Agreement states that all collected amounts relating to the business written under the Agreement shall be held on behalf of the Company. The Company was not in compliance with Section 626.561, Florida Statutes and Article 3.1 of the MGA Agreement.

It was found that the premium trust account did not have a related trust agreement in place. The Company was not in compliance with Section 625.012(5)(a)(1), Florida Statutes, which requires that a written copy of the trust agreement be filed with and approved by the Office prior to its becoming effective. **Subsequent Event:** The Company changed its premium remittance procedures, such that all premiums received from or on behalf of insureds are now deposited directly into a bank account titled in the name of Olympus Insurance Company.

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of September 30, 2012. The information was taken from the Company's filed quarterly financial statement as of September 30, 2012, and is included for informational purposes only. Balance sheet verification, other than for losses and loss adjustment expenses, was not included in the scope of this examination.

OLYMPUS INSURANCE COMPANY
Assets

September 30, 2012

	Assets	Nonadmitted Assets	Net Admitted Assets	December 31 Prior Year Net Admitted Assets
Bonds	$19,437,259		$19,437,259	$18,927,209
Common stocks				
Properties occupied by the company				
Cash and short-term investments	5,683,319		5,683,319	3,046,447
Subtotals, cash and invested assets	$25,120,578	$0	$25,120,578	$21,973,656
Investment income due and accrued	$121,525		$121,525	$144,637
Uncollected premiums and agents' balances	17,127	17,127	0	0
Deferred premiums, agents' balances and installments	3,657,239		3,657,239	6,216,144
Amounts recoverable from reinsurers	4,164,020		4,164,020	6,884,462
Net tax deferred asset	6,857,258	5,535,258	1,322,000	2,783,000
Guaranty funds receivable or on deposit	23,262		23,262	0 68,638
EDP equipment and software	22,424		22,424	14,530
Furniture and equipment	9,701	9,701	0	0
Prepaid asset	435,187	435,187	0	0
Other receivable	1,100,000		1,100,000	2,580,026
Total Assets	$41,528,321	$5,997,273	$35,531,048	$40,665,093

OLYMPUS INSURANCE COMPANY
Liabilities, Surplus and Other Funds

September 30, 2012

	Current Statement Date	**December 31 Prior Year**
Losses	$4,282,337	$4,088,156
Loss adjustment expenses	510,468	682,193
Other expenses	468,864	884,837
Taxes, licenses, and fees	769,699	927,821
Unearned premium	(22,110,288)	(9,332,000)
Ceded reinsurance premiums payable	35,525,888	13,380,046
Payable to parent, subsidiaries and affiliates	5,928,870	8,694,961
Escheat	42,588	42,588
Total Liabilities	$25,418,426	$19,368,602
Common capital stock	$35,000	$35,000
Gross paid in and contributed surplus	33,498,334	33,498,334
Unassigned funds (surplus)	(23,420,712)	(12,236,843)
Surplus as regards policyholders	$10,112,622	$21,296,491
Total liabilities, surplus and other funds	$35,531,048	$40,665,093

OLYMPUS INSURANCE COMPANY
Statement of Income

September 30, 2012

	Current Year to Date	Prior Year to Date	Prior Year Ended December 31
Underwriting Income			
Premiums earned	($18,842,709)	($16,420,551)	($22,536,283)
Deductions:			
Losses incurred	8,373,713	3,612,428	6,639,345
Loss adjustment expenses incurred	1,359,072	728,215	1,347,364
Other underwriting expenses incurred	(17,525,199)	(19,759,191)	(28,797,358)
Total underwriting deductions	($7,792,414)	($15,418,548)	($20,810,649)
Net underwriting gain or (loss)	($11,050,295)	($1,002,003)	($1,725,634)
Investment Income			
Net investment income earned	$205,259	$307,805	$400,101
Net realized capital gains or (losses)	(5)	0	0
Net investment gain or (loss)	$205,254	$307,805	$400,101
Other Income			
Net gain or (loss) from agents' or premium balances charged off	($3,625)	$927	($18,371)
Aggregate write-ins for miscellaneous income	1,215,648	1,484,133	1,259,264
Total other income	$1,212,023	$1,485,060	$1,240,893
Net income before dividends to policyholders, after capital gains tax and before all other federal & foreign income taxes	($9,633,018)	$790,862	($111,640)
Net income, after dividends to policyholders, after capital gains tax and before all other federal & foreign income taxes	($9,633,018)	$790,862	($111,640)
Federal & foreign income taxes	0	0	0
Net income	($9,633,018)	$790,862	($111,640)
Capital and Surplus Account			
Surplus as regards policyholders, December 31 prior year	$21,296,493	$21,693,168	$21,693,073
Net income	($9,633,018)	$790,862	($111,640)
Change in net deferred income tax	(1,461,000)	64,054	(768,521)
Change in nonadmitted assets	(89,853)	(331,918)	483,581
Change in surplus as regards policyholders for the year	($11,183,871)	$522,998	($396,580)
Surplus as regards policyholders, as of statement date	$10,112,622	$22,216,166	$21,296,493

SUMMARY OF FINDINGS

Current Examination Comments and Corrective Action

The finding noted during this examination period has been resolved by the Company subsequent to the examination date. However, the finding is discussed in detail in the body of the examination report.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of the **Olympus Insurance Company** as of September 30, 2012, consistent with the insurance laws of the State of Florida.

In addition to the undersigned, John V. Normile, CFE, Examiner-In-Charge and Patricia Casey Davis, CPA, CFE, Manager of INS Regulatory Insurance Services, Inc.; David Masesic, ACAS, MAAA, and Robert W. Gardner, FCAS, MAAA, consulting actuaries of INS Consultants, Inc. and Kethessa Carpenter, Financial Examiner/Analyst Supervisor participated in the examination.

Respectfully submitted,

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Robin Brown, CFE
Chief Examiner
Florida Office of Insurance Regulation