



**EXAMINATION REPORT
OF
PEACHTREE CASUALTY INSURANCE
COMPANY**

NAIC Company Code: 25755

**Longwood, Florida
as of
December 31, 2016**

**BY THE
FLORIDA
OFFICE OF INSURANCE REGULATION**

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October 13, 2017

David Altmaier
Commissioner
Office of Insurance Regulation
State of Florida
Tallahassee, Florida 32399-0326

Dear Commissioner:

Pursuant to your instructions, in compliance with Section 624.316, Florida Statutes, Rule 690-138.005, 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, 2016, of the financial condition and corporate affairs of

Peachtree Casualty Insurance Company
2170 West State Road 434, Suite #116
Longwood, Florida 32779

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, 2012 through December 31, 2016 and commenced with planning at the Florida Office of Insurance Regulation ("Office") on March 13, 2017 to March 17, 2017. The fieldwork commenced on March 13, 2017 and concluded as of October 13, 2017. The Company's last full scope examination by representatives of the Office covered the period of January 1, 2007 through December 31, 2011.

The examination was a multi-state examination conducted in accordance with the NAIC Financial Condition Examiners Handbook ("Handbook"). The Handbook requires that the examination be planned and performed to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company, and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statements of Statutory Accounting Principles ("SSAP").

This examination report includes significant findings of fact, as mentioned in Section 624.319, Florida Statutes, and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (for example, subjective conclusions or proprietary information), are not included within the examination report but separately communicated to other regulators and/or the Company.

SUMMARY OF SIGNIFICANT FINDINGS

Current Examination Findings

Corporate Governance

The Company failed to maintain five (5) Board of Directors ("Board") during the period under examination, pursuant to Section 628.231(1), Florida Statutes.

Evidence was not provided to support an annual shareholder meeting for the election of Directors, which is not in compliance with Section 628.231(2), Florida Statutes.

The Company did not notify the Office of changes in Directors and Officers, which is not in compliance with Section 628.261, Florida Statutes.

Holding Company Registration Statement

The Company failed to file the Holding Company Registration Statement by April 1 for 2014, 2015, and 2016, which is not in compliance with Section 628.801(1), Florida Statutes.

Reporting of Affiliate Agreements

The Office was not notified within thirty (30) calendar days prior to the Company entering into the agreement with Personable General Insurance Agency ("Personable General"), which is not in compliance with Rule 69O-143.047(4), Florida Administrative Code.

Report of Unclaimed Property

The Company did not report unclaimed property by May 1 for 2012 and 2014, which is not in compliance with Section 717.117(3), Florida Statutes.

Enterprise Risk Report

The Company did not file an annual enterprise risk report ("Form F") by April 1 for 2015 and 2016, which is not in compliance with Section 628.801(2), Florida Statutes.

Designation of Independent Certified Public Accountant

The Company failed to file a CPA Awareness Letter before December 31st of the year subject to audit for all years under examination, which is not in compliance with Rule 69O-137.002(6), Florida Administrative Code.

Intercompany Agreements

The Company did not have a written tax allocation agreement with Network Holding, Inc, which is not in compliance with SSAP No. 25, paragraph 7.

Premium Receivables

The Company did not follow the required accounting treatment when writing off uncollectible premiums and agents' balances, which is not in compliance with SSAP No. 6, paragraph 9a, and SSAP No. 4, paragraph 3.

Bank Accounts

The Company held bank accounts at California Bank & Trust, which does not have any branches in Florida, which is not in compliance with Section 628.271(2), Florida Statutes.

Letter of Credit

The Company's letter of credit with Watford Re Ltd. was missing required terms, which is not in compliance with Rule 69O-144.005(6), Florida Administrative Code.

Office and Records

The Company relocated their corporate records from Smyrna, Georgia to San Diego, California without the Office's approval, which is not in compliance with Section 628.271(3), Florida Statutes.

Consent Order #122212-11

The Company exceeded the direct written premium and net written premium submitted in the Pro Forma in years 2011, 2012, and 2013 without written approval, which is not in compliance with Consent Order #122212-11, paragraph 12.

The Company commenced doing business in the State of Texas during 2014 without written approval, which is not in compliance with Consent order #122212-11, paragraph 13.

The Company's Executive Management Agreement with Personable Holdings, Inc. lacks required language, which is not in compliance with Consent Order #122212-11, paragraph 15c.

The Company entered into an affiliated agreement with Network Holding, Inc. and First Insurance Network without written notification to the Office at least thirty (30) days prior to the agreement, which is not in compliance with Consent Order #122212-11, paragraph 19.

The Company maintains its principal place of business in San Diego, California, which is not in compliance with Consent Order #122212-11, paragraph 21.

Consent Order #158420-14

The Company failed to file an update to its Holding Company Registration Statement, no later than fifteen (15) days after acquisition, which is not in compliance with Consent Order #158420-14, paragraph 21.

Actuarial Reserve Development

The Company's losses were reviewed. A surplus adjustment of \$858,000 is based on adverse development. This adjustment is derived from Rule 69O-138.001, Florida Administrative Code.

Previous Examination Findings

The following is an update on other significant regulatory information disclosed in the previous examination.

General

There were significant delays in the delivery of documentation requested from the Company during the course of the examination.

COMPANY HISTORY

General

The Company was incorporated in Florida on November 29, 1983 and commenced business on July 1, 1985 as a stock property and casualty insurer.

The Company was authorized to transact private passenger auto physical damage and private passenger auto liability insurance coverage in Florida on August 22, 1989. The Company was authorized to transact other liability and surety insurance coverage in Florida on March 19, 2010. The Company continued to be authorized in the four named lines of business on December 31, 2016.

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

Dividends

The Company did not declare or pay any dividends during the period of this examination.

Capital Stock and Capital Contributions

As of December 31, 2016, the Company's capitalization was as follows:

Number of authorized common capital shares	2,000,000
Number of shares issued and outstanding	1,466,667
Total common capital stock	\$2,200,000
Par value per share	\$1.50

Control of the Company was maintained by its parent, Network Holding, Inc. ("NHI"), who owned one hundred percent (100%) of the stock issued by the Company, who in turn was one hundred percent (100%) owned by CSHC Investment Holdings, LLC.

The parent contributed \$1,800,000 to the Company during the examination period.

Surplus Notes

The Company reported \$11,900,000 in surplus notes as of December 31, 2016. This amount was composed of the following issued surplus notes:

<u>Holder</u>	<u>Date issued</u>	<u>Amount</u>	<u>Interest</u> <u>rate</u>	<u>Maturity date</u>
Confie Seguros Holding II Co.	1/15/2015	\$4,000,000	6%	3/31/2018
Confie Seguros Holding II Co.	2/09/2015	\$1,000,000	6%	3/31/2018
Confie Seguros Holding II Co.	8/06/2015	\$2,500,000	6%	9/30/2020
Confie Seguros Holding II Co.	11/12/2015	\$700,000	6%	10/31/2020
Confie Seguros Holding II Co.	2/25/2016	\$2,000,000	6%	6/30/2021
Confie Seguros Holding II Co.	11/14/2016	\$500,000	6%	10/31/2021
Confie Seguros Holding II Co.	12/30/2016	\$1,200,000	6%	12/15/2021

Acquisitions, Mergers, Disposals, Dissolutions

On August 13, 2014, Confie Seguros Holdings II Co. ("Confie"), a Delaware corporation, acquired one hundred percent (100%) ownership of NHI and its wholly-owned subsidiaries First Insurance Network, Inc. and the Company.

On September 30, 2015, NHI and its wholly-owned subsidiaries First Insurance Network, Inc. and the Company were transferred from Confie to CSHC Investment Holdings, LLC.

MANAGEMENT AND CONTROL

Corporate Governance

The annual statement jurat page indicated less than five (5) Directors during the period under examination, which is not in compliance with Section 628.231(1), Florida Statutes.

Evidence was not provided to support an annual shareholder meeting for the election of Directors, which is not in compliance with Section 628.231(2), Florida Statutes.

During the examination, various changes in Directors and Officers transpired without the required notification provided to the Office, which is not in compliance with Section 628.261, Florida Statutes.

Directors serving as of December 31, 2016 are shown below:

Directors

Name	City, State	Principal Occupation, Company Name
Martin Rothberg ⁽¹⁾	Huntington Beach, California	Executive Chairman, Confie
Ricardo Javier LaVite	San Diego, California	President, Peachtree Casualty Insurance Company
Kenneth Thomas Perilli	San Diego, California	Senior Vice President of Finance, Peachtree Casualty Insurance Company
Christopher Robin Tedford	Huntington Beach, California	Chief Accounting Officer, Confie
Cesar Maneclang Soriano ⁽²⁾	Huntington Beach, California	Chief Operation Officer, Confie

⁽¹⁾ Chairperson

⁽²⁾ Director effective 12/31/2016

In accordance with the Company's Bylaws, the Board appointed the following Senior Officers:

Senior Officers

Name	City, State	Title
Ricardo Javier LaVite	San Diego, California	President
Michael Warren Kaplan	Huntington Beach, California	Chief Financial Officer

Robert Richard Zic	San Diego, California	Controller & Treasurer
Carol Renee Newman	Huntington Beach, California	General Counsel & Corporate Secretary

In accordance with Section 624.424(8)(c) Florida Statutes, the Board of Directors shall establish an audit committee of three (3) or more directors of the insurer or an affiliated company. During the examination period, there was no active audit committee nor an audit committee charter.

Subsequent Event: On April 19, 2017, the Board created an Audit Committee, which will have the responsibility of hiring the external auditor.

Holding Company System

On December 16, 2011, NHI was acquired by Personable Holdings, Inc. On August 13, 2014, Confie, a Delaware corporation, acquired one hundred percent (100%) ownership of NHI and its wholly-owned subsidiaries First Insurance Network, Inc. and the Company. On September 30, 2015, NHI and its wholly-owned subsidiaries were transferred from Confie to CSHC Investment Holdings, LLC.

The Company failed to file an update to its Holding Company Registration Statement, no later than fifteen (15) days after acquisition, which is not in compliance with Consent Order #158420-14, paragraph 21.

The Company did not file their Form F by April 1st for the years 2015 and 2016, as required by Section 628.801(1)(2), Florida Statutes and Rule 69O-143.046(3)(7), Florida Administrative Code.

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

Tax Allocation Agreement

From December 31, 2011 until the acquisition by Confie, the Company and Personable Holdings, Inc. ("Personable") filed a consolidated federal income tax return. The method of allocation was on a separate-entity basis.

After the acquisition by Confie, the Company was included in a 2015 consolidated federal income tax return with Confie. A tax allocation agreement was not established for the tax allocation transactions, which is not in compliance with SSAP No. 25, paragraph 7 that requires a written agreement for all transactions between related parties.

Managing General Agency Agreement

Effective December 29, 2011, the Company entered into a Managing General Agency Agreement with its affiliate, Personable General. Pursuant to the agreement, Personable General produced, administered, and managed policies and provided services in connection with those policies. Services included marketing, claims analysis, general ledger accounting, information services, and product and underwriting development and management. Personable General retained twenty-two and five tenths percent (22.5%) of the Company's net written premium for services. Fees incurred under this agreement during 2016 amounted to \$5,442,871.

Executive Management Agreement

On August 13, 2014, the Company entered into an Executive Management Agreement with Personable. Personable provided management and administrative services that included regulatory liaison, investment advisory, personnel management and tax administration. Compensation was at cost not to exceed one percent (1%) of direct written premium. Fees incurred under this agreement during 2016 amounted to \$289,695.

Claims Management Agreement

On March 9, 2015, the Company entered into a Claims Management Agreement with its affiliate, Endeavor General Agency, LLC, ("Endeavor"). Endeavor acts as the claim administrator for the servicing of the claims made under policies issued by the Company in the State of Texas. Endeavor is paid a fee equal to seven percent (7%) of the Company's monthly earned premiums for the relevant policies. Fees incurred under this agreement during 2016 amounted to \$64,331.

Employee Leasing Agreement

Effective January 1, 2016, the Company entered into an Employee Leasing Agreement with its affiliate, Personable Claims Services, Inc. ("Personable Claims"). Personable Claims provided all employee services and employee functions that were previously conducted by the Company.

All direct expenses were paid by the Company. Costs incurred under this agreement during 2016 amounted to \$1,878,451.

Subsequent Event: On January 1, 2017, the terms of the Employee Leasing Agreement were reassigned to Confie Insurance Services, Inc., an affiliate of the Company.

ACCOUNTS AND RECORDS

The Company maintained its principal operational offices in San Diego, California. The Company relocated their corporate records from Smyrna, Georgia to San Diego, California. The Company failed to get Office approval as required by Section 628.271(3), Florida Statutes.

The Company did not file unclaimed property reports by May 1st for the years 2012 and 2014 in accordance with Section 717.117(3), Florida Statutes.

Corporate Records Review

The recorded Shareholder and Board meeting minutes were reviewed for the period under examination. The recorded Board minutes lacked documentation of meeting activities, which should include approval of Company transactions and oversight events, in compliance with the Handbook adopted by Rule 69O-138.001, Florida Administrative Code, and the authorization of investments, as required by Section 625.304, Florida Statutes.

Consent Order Review

During the examination, the following Consent Order violations were noted:

Consent Order #122212-11

- The Company exceeded the direct written premium and net written premium submitted in the Pro Forma in years 2011, 2012, and 2013 without written approval, which is not in compliance with Consent Order #122212-11, paragraph 12.
- The Company commenced doing business in the State of Texas during 2014 without written approval, which is not in compliance with Consent order #122212-11, paragraph 13.

- The Company's Executive Management Agreement with Personable Holdings, Inc. lacks required language, which is not in compliance with paragraph 15c of the Consent Order.
- The Company entered into an affiliated agreement with Network Holding, Inc. and First Insurance Network without written notification to the Office at least 30 days prior to the agreement, which is not in compliance with paragraph 19 of the Consent Order.
- The Company maintains its principal place of business in San Diego, California, which is not in compliance with paragraph 21 of the Consent Order.

Consent Order #158420-14

- The Company failed to file an update to its Holding Company Registration Statement, no later than 15 days after acquisition, which is not in compliance with paragraph 21 of the Consent Order.

Accounting Treatment

The Company's treatment for uncollected premium balances, bills receivable for premiums and amounts due from agents and brokers did not follow guidance in SSAP No. 6 paragraph 9. The amount of premium receivables in excess of ninety (90) days was \$1,388,723. Personable General paid the Company \$749,293 of this balance. The remaining balance of \$639,430 was non-admitted. Review of the general journal entries to correct the accounting treatment error determined there would have been an insignificant impact on surplus and no financial adjustment was necessary.

The Company and non-affiliates had the following agreements:

Custodial Agreement

The Company maintained a custodial agreement with U.S. Bank National Association executed on April 30, 2010. The agreement complied with Rule 690-143.042, Florida Administrative Code.

Independent Auditor Agreement

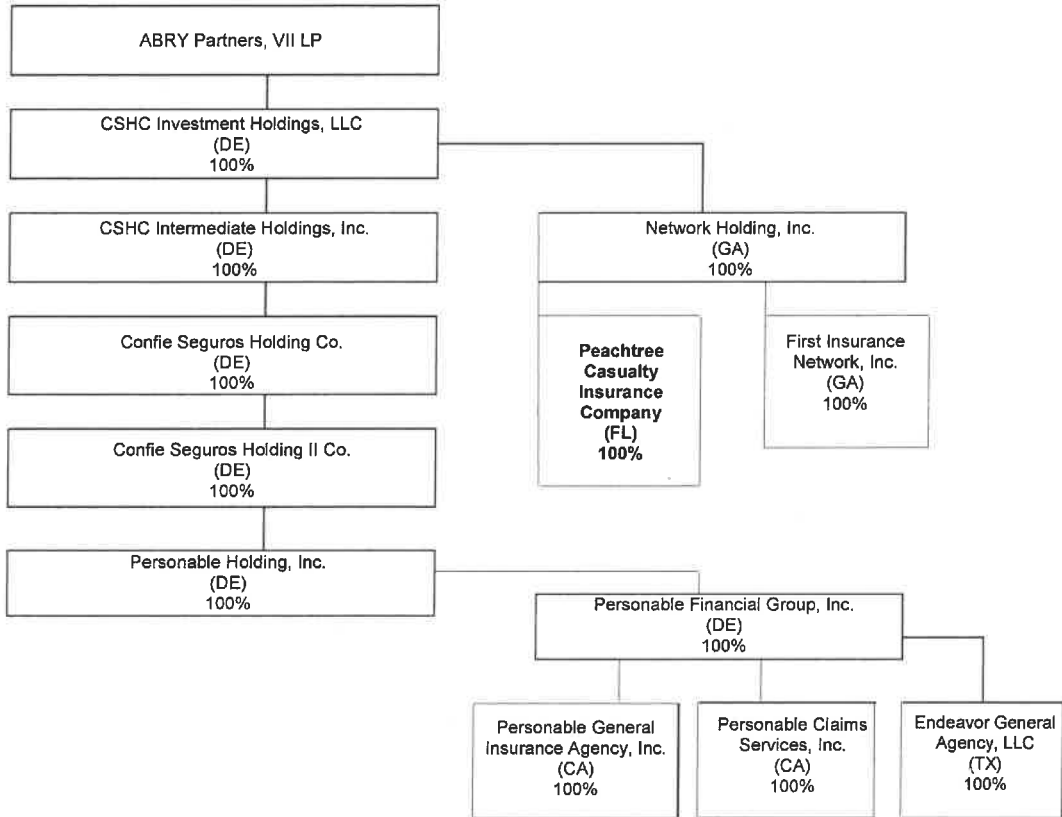
The Company has an Independent Auditor Agreement with Larson & Company, an independent certified public accountant. In accordance with Section 624.424(8), Florida Statutes, Larson &

Company filed an annual audited financial report for the years under examination. Supporting workpapers were prepared as required by Rule 69O-137.002, Florida Administrative Code.

The Company is not in compliance with Rule 69O-137.002(6), Florida Administrative Code, by failing to file a CPA Awareness Letter before December 31st for each year of the examination period.

A simplified organizational chart as of December 31, 2016, reflecting the holding company system, is shown on the following page. Schedule Y of the Company's 2016 annual statement provided a list of all related companies of the holding company group.

**Peachtree Casualty Insurance Company
Organizational Chart
December 31, 2016**



TERRITORY AND PLAN OF OPERATIONS

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

Alabama	Iowa	Oklahoma
Alaska	Kansas	Oregon
Arizona	Kentucky	Pennsylvania
Arkansas	Louisiana	Rhode Island
Connecticut	Maryland	South Carolina
Delaware	Minnesota	South Dakota
District of Columbia	Mississippi	Tennessee
Florida	Montana	Texas
Georgia	Nebraska	Utah
Hawaii	Nevada	Washington
Idaho	New Mexico	West Virginia
Illinois	New York	Wyoming
Indiana	North Dakota	

The Company was authorized to transact insurance in Florida on August 22, 1989 and is currently authorized for the following coverages as of December 31, 2016:

Other Liability	Private Passenger Auto Liability
Private Passenger Auto Physical Damage	Surety

Treatment of Policyholders

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

REINSURANCE

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

The Company's letter of credit with Watford Re Ltd. for the 2014/2015 reinsurance treaty was missing terms, pursuant to Rule 69O-144.005(6), Florida Administrative Code. The following terms were missing from the reinsurance treaty: an issue and expiration date, indication that the term of the letter of credit shall be for at least one (1) year, that the letter of credit is subject to and governed by the laws of the State of Florida, and that all drafts drawn on the letter of credit shall be presentable at an office in the United States of a qualified U.S. financial institution.

Reinsurance Assumed

The Company assumes from Florida Automobile Joint Underwriters Association as included with mandatory pool participation.

Reinsurance Ceded

The Company entered into a Reinsurance Intermediary Agreement with Guy Carpenter & Company, Inc. ("Guy Carpenter"), authorizing them to act as a reinsurance intermediary for the Company.

Effective April 1, 2016 through March 31, 2017, the Company ceded seventy-five percent (75%) of the Company's Florida business on a risk attaching basis. There are three (3) subscribing reinsurers party to this agreement at different percentages. The brokerage fee was one percent (1%) of gross ceded premium.

INFORMATION TECHNOLOGY REPORT

Darlene Lenhart-Schaeffer, CFE, CISA, IT Specialist, of Lewis & Ellis, 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 and with various state officials as required or permitted by law:

State	Description	Par Value	Market Value
FL	Cash	\$ 1,065,408	\$ 1,065,408
FL	CD	250,000	250,000
FL	CD	250,000	250,000
TOTAL FLORIDA DEPOSITS		<u>\$ 1,565,408</u>	<u>\$ 1,565,408</u>
AZ	Cash	\$ 1,563	\$ 1,563
AZ	U.S. Treasury	250,000	249,805.0
GA	Mutual Fund	44,051	44,051.0
GA	Mutual Fund	60,034	60,034.0
IN	U.S. Treasury	108,806	108,806.0
NM	U.S. Treasury	110,000	109,910.0
RI	U.S. Treasury	200,000	199,844.0
TOTAL OTHER DEPOSITS		<u>\$ 774,454</u>	<u>\$ 774,013</u>
TOTAL SPECIAL DEPOSITS		<u>\$ 2,339,862</u>	<u>\$ 2,339,421</u>

FINANCIAL STATEMENTS

The examination does not attest to the fair presentation of the financial statements included herein. If an adjustment is identified during the course of the examination, the impact of such adjustment will be documented separately following the Company's financial statements. Financial statements, as reported and filed by the Company with the Office, are reflected on the following pages.

Peachtree Casualty Insurance Company

Assets

December 31, 2016

	Per Company	Examination Adjustments	Per Examination
Bonds	\$ 7,973,730	\$ -	\$ 7,973,730
Cash, cash equivalents and short-term investments	2,517,494	-	2,517,494
Investment income due and accrued	89,779	-	89,779
Uncollected premiums and agents' balances	822,123	-	822,123
Deferred premiums and agents' balances	3,867,180	-	3,867,180
Amounts recoverable from reinsurers	2,780,144	-	2,780,144
Guaranty funds receivable or on deposit	7,331	-	7,331
Receivables from parent, subsidiaries and affiliates	198,893	-	198,893
Total assets	<u>\$ 18,256,674</u>	<u>\$ -</u>	<u>\$ 18,256,674</u>

Peachtree Casualty Insurance Company
Liabilities, Surplus and Other Funds
December 31, 2016

	Per Company	Examination Adjustments	Per Examination
Liabilities			
Losses	\$ 3,246,871		\$ 3,246,871
Loss adjustment expenses	846,460	490,000	1,336,460
Other expenses (excluding taxes, licenses and fees)	513,085	-	513,085
Taxes, licenses and fees (excluding federal and foreign income taxes)	130,234	-	130,234
Unearned premiums	1,745,074	-	1,745,074
Ceded reinsurance premiums payable (net of ceding commissions)	6,471,956	-	6,471,956
Aggregate write-ins for liabilities	205,518	-	205,518
Total liabilities	<u>13,159,198</u>	<u>490,000</u>	<u>13,649,198</u>
Surplus and Other Funds			
Common capital stock	2,200,000	-	2,200,000
Surplus notes	11,900,000	-	11,900,000
Gross paid in and contributed surplus	10,025,000	-	10,025,000
Unassigned funds (surplus)	<u>(19,027,524)</u>	<u>(490,000)</u>	<u>(19,517,524)</u>
Total surplus and other funds	<u>5,097,476</u>	<u>(490,000)</u>	<u>4,607,476</u>
Total liabilities, surplus and other funds	<u>\$ 18,256,674</u>	<u>\$ (490,000)</u>	<u>\$ 18,256,674</u>

Peachtree Casualty Insurance Company
Statement of Income
December 31, 2016

Premiums earned		\$ 8,546,293
	Deductions:	
Losses incurred		\$ 6,167,460
Loss adjustment expenses incurred		1,318,339
Other underwriting expenses incurred		4,552,759
Total underwriting deductions		<u>\$ 12,038,558</u>
Net underwriting gain (loss)		\$ (3,492,265)

Investment Income

Net investment income earned		\$ 240,387
Net realized capital gains (losses)		(18,636)
Net investment gain (loss)		<u>\$ 221,751</u>

Other Income

Net gain (loss) from agents' or premium balances charged off		\$ (539,430)
Total other income		<u>\$ (539,430)</u>
Net income before dividends to policyholders, after capital gains taxes and before all other federal and foreign income taxes		\$ (3,809,944)
Net income, after dividends to policyholders, after capital gains taxes and before all other federal and foreign income taxes		\$ (3,809,944)
Net income		<u>\$ (3,809,944)</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year		\$ 7,193,039
Net Income		\$ (3,809,944)
Change in net deferred income tax		1,225,825
Change in nonadmitted assets		(1,214,312)
Change in surplus notes		1,700,000
Aggregate write-ins for gains and losses in surplus		2,868
Examination Adjustment		(490,000)
Change in surplus as regards policyholders for the year		<u>\$ (2,585,563)</u>
Surplus as regards policyholders, December 31 current year		<u>\$ 4,607,476</u>

Peachtree Casualty Insurance Company
Reconciliation of Capital and Surplus
December 31, 2016

Surplus as regards policyholders			
December 31, 2010 per Examination			\$11,084,033
	Gain in Surplus	Loss in Surplus	
Net Income (loss)		\$18,976,231	
Change in net deferred income tax	\$1,441,870		
Change in non-admitted assets		\$2,088,323	
Change in surplus notes	\$11,900,000		
Cumulative effect of changes in accounting principles		\$66,739	
Change in paid in surplus	\$1,800,000		
Aggregate write-ins for gains and losses in surplus	\$2,868		
Examination adjustment		\$490,000	
Rounding		\$2	
	<u>\$15,144,738</u>	<u>\$21,621,295</u>	
Total Gains and Losses			
Net Increase/(Decrease) in surplus as regards policyholders			<u>(\$6,476,557)</u>
Surplus as regards policyholders			
December 31, 2016 per Examination			<u>\$4,607,476</u>

Peachtree Casualty Insurance Company
Analysis of Changes in Financial Statement Resulting from the Examination

December 31, 2016

Capital/Surplus Change during Examination Period

Surplus, December 31, 2016 - per annual statement		\$ 5,097,476				
Loss adjustment expenses	<table style="margin: auto; border-collapse: collapse;"> <tr> <td style="text-align: center; border-bottom: 1px solid black; padding: 0 5px;">Increase</td> <td style="text-align: center; border-bottom: 1px solid black; padding: 0 5px;">Decrease</td> </tr> <tr> <td style="text-align: center; padding: 0 5px;">\$ 490,000</td> <td style="padding: 0 5px;"></td> </tr> </table>	Increase	Decrease	\$ 490,000		\$ (490,000)
Increase	Decrease					
\$ 490,000						
Net change in capital and surplus		<u>(490,000)</u>				
Surplus, December 31, 2016 - per examination		<u>\$ 4,607,476</u>				

COMMENTS ON FINANCIAL STATEMENT ITEMS

Liabilities

Losses and Loss Adjustment Expenses

Tricia English, ACAS, MAAA, of Perr & Knight, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2016 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's consulting actuaries, Gregory Wilson, FCAS, MAAA and Kathryn Koch, FCAS, MAAA of Lewis & Ellis Actuaries & Consultants ("Lewis & Ellis"), reviewed the loss and loss adjustment reserves established by the Company and did not concur in the opinion of the Company's appointed actuary.

The Company did not establish defense and cost containment reserves for accident years 2013 to 2015. It is recommended that loss adjustment expenses reserves be increased by \$490,000 at December 31, 2016 to reflect this deficiency.

Additionally, it is of concern that the 2016 year-end reserves developed adversely by \$858,000 as of August 31, 2017. A written discussion of the factors contributing to this adverse development and steps taken by the Company to prevent its recurrence was not provided.

Capital and Surplus

The amount of capital and surplus reported by the Company of \$5,097,476 at December 31, 2016 was adjusted during the examination by \$490,000, as recommended by the Office's consulting actuary, to the amount of \$4,607,476, which exceeded the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

SUBSEQUENT EVENTS

On January 1, 2017, the terms of the Employee Leasing Agreement were reassigned to Confie Insurance Services, Inc., an affiliate of the Company.

In order to maintain eligibility for authorization in certain jurisdictions, the Company's capital needed to be increased by \$2,500,000. To accomplish the increase, the Company reclassified existing paid-in capital and contributed surplus held by the Company to capital stock. A stock dividend of 200,000 shares was issued with an effective date of September 1, 2017.

On October 17, 2017, the State of Texas issued an official order that prohibited the Company from writing new business in Texas. The Company had ceased writing new business in Texas, but failed to obtain approval from the Insurance Commissioner of the State of Texas for its withdrawal plan. The order prohibits the Company from resuming writing new business for five (5) years in Texas without approval of the Texas Insurance Commissioner.

On October 30, 2017, First Insurance Network, Inc. was dissolved.

SUMMARY OF RECOMMENDATIONS

Corporate Governance

We recommend the Company always maintain five (5) Directors pursuant to Section 628.231(1), Florida Statutes.

We recommend documenting annual shareholder meeting for the election of Directors pursuant to Section 628.231(2), Florida Statutes.

We recommend the Company petition the Office each year for an exemption for the Company's records to be located out of the State of Florida, as required by Section 628.271, Florida Statutes.

Holding Company Registration Statement

We recommend the Company file their Holding Company Registration Statement by April 1st of each year, as required by Section 628.801(1), Florida Statutes.

Reporting of Affiliate Agreements

We recommend the Company ensure that agreements with affiliated parties are submitted and approved by the Office as required by Rule 69O-143.047, Florida Administrative Code.

Report of Unclaimed Properties

We recommend the Company file an unclaimed property report by May 1st, as required by Section 717.117(3), Florida Statutes.

Enterprise Risk Report

We recommend the Company file their Form F Enterprise Risk Report by April 1st, as required by Rule 69O-143.046(7), Florida Administrative Code.

Designation of Independent Certified Public Accountant

We recommend the Company file a CPA Awareness Letter before December 31st of the year subject to audit as required by Rule 69O-137.002(6)(b), Florida Administrative Code.

Intercompany Agreements

We recommend the Company ensure a written agreement is executed for all transactions with affiliates, as required by SSAP No. 25, paragraph 7.

Premium Receivables

We recommend the Company follow SSAP No. 6, paragraph 9a and SSAP No. 4, paragraph 3 when writing off uncollectible premiums and agents' balances.

Bank Accounts

We recommend the Company seek approval from the Office to maintain its bank accounts at California Bank & Trust, pursuant to Section 628.271, Florida Statutes.

Letter of Credit

We recommend the Company acquire a revised letter of credit with Watford Re Ltd. incorporating all the terms required by Rule 69O-144.05(6)(a)(3), Florida Administrative Code.

Office and Records

We recommend the Company seek approval from the Office to maintain their corporate records outside the State of Florida.

Consent Order #122212-11, Paragraphs 12, 15c, 19, 21

We recommend the Company follow all the provisions set forth in Consent Orders.

Consent Order #158420-14, Paragraph 21

We recommend the Company follow all the provisions set forth in Consent Orders.

Actuarial Reserve Development

We recommend the Company development controls and methodologies to recognize and avoid future adverse developments.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Peachtree Casualty Insurance Company** as of December 31, 2016, consistent with the insurance laws of the State of Florida.

Per examination annual financial statements, the Company's surplus as regards to policyholders was \$4,607,476, which exceeded the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

In addition to the undersigned, Darlene Lenhart-Schaeffer, CFE, CISA, Examiner-in-Charge, Katerina Bolbas, CFE, CPA, CFSA, CIA, MCM, Lindsey Pittman, CPA, CFE, CISA, MCM, and April Wasleski, CPA, as Participating Examiners, of Lewis & Ellis, Inc., participated in the examination. Members of the Office who participated in the examination included Jeffrey Rockwell, MBA, FCCM, Financial Examiner/Analyst Supervisor, Examination Manager and Paula Bowyer, APIR, Financial Examiner/Analyst II, Participating Examiner. Additionally, Gregory Wilson, FCAS, MAAA and Kathryn Koch, FCAS, MAAA, with the Actuarial Firm Lewis & Ellis, Inc. are recognized for participation in the examination.

Respectfully submitted,



Brian Sewell, CFE, MCM
Chief Examiner
Florida Office of Insurance Regulation