

REPORT ON EXAMINATION
OF
PENINSULAR SURETY COMPANY
MIAMI, FLORIDA

AS OF
DECEMBER 31, 2010

BY THE
OFFICE OF INSURANCE REGULATION

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November 18, 2011

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 and Chapter 627, Part XII of the 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, 2010, of the financial condition and corporate affairs of:

**PENINSULAR SURETY COMPANY
7005 NW 41ST STREET
MIAMI, FLORIDA 33166**

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, 2010, through December 31, 2010. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2009. This examination commenced with planning at the Office on October 11, 2011, to October 14, 2011. The fieldwork commenced on October 17, 2011, and concluded as of November 18, 2011.

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

The following is a summary of material adverse findings, significant non-compliance findings, or material changes in the financial statements noted during this examination.

Accounts and Records

During the examination review of 2010 premiums, the examiner noted a total of fifteen (15) insureds which had surety bonds issued that exceeded the limitations imposed by Section 624.609, Florida Statutes.

Managing General Agent Agreements

Upon review of the Company's two Managing General Agency agreements of 2010, it was noted that certain content of mandatory provisions, specifically those of subsections 4, 5 and 6 of Section 626.7451, Florida Statutes, were omitted.

Prior Exam Findings

The following is a summary of significant adverse findings contained in the Office's prior examination report as of December 31, 2009, along with resulting action taken by the Company in connection therewith.

General

The Company did not have a disaster recovery plan in place as required by Consent Order 89163-07-CO, filed February 28, 2007. **Resolution:** The Company submitted a revised disaster recovery plan for approval on September 28, 2010.

The Company failed to submit to the Office for approval the Consulting Contracts with both shareholders as required by Consent Order 91247-07-CO, filed August 16, 2007. **Resolution:** On September 28, 2010, the Company submitted consulting contracts for both shareholders. These consulting contracts were approved by the Office on September 26, 2011.

The Company's MGA Bail Bond Agreements did not meet all requirements of Section 626.7451(2), Florida Statutes. **Resolution:** The Company submitted revised MGA agreements which met the requirements of Section 626.7451 (2), Florida Statutes, for approval in September 2010.

As a result of the prior examination, exam adjustments were noted due to reclassification and failure to record deferred taxes. The Company's filed annual statement was not in compliance with the NAIC annual statement instructions. **Resolution:** On September 28, 2010, the Company filed an Amended 2009 Annual Statement which properly addressed these items.

The Company failed to properly report the losses and loss adjustment expenses on their Schedule P of the filed annual statement with the Office in accordance with the NAIC Annual Statement Guidelines and SSAP 55 and reported all Losses and Loss Adjustment Expenses on the LAE expense line. **Resolution:** The Amended 2009 Annual Statement, filed September 28, 2010, properly recorded the losses on Schedule P.

HISTORY

General

The Company was incorporated in Florida on March 7, 2007, and commenced business on August 17, 2007, as Peninsular Surety Company.

The Company was party to two Consent Orders regarding the application for the issuance of a Certificate of Authority, 89163-07-CO and 91247-07-CO. The Company was in compliance with each of these two Consent Orders as of December 31, 2010.

The Company was authorized to transact Surety insurance only in Florida, as of December 31, 2010.

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

Dividends to Stockholders

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

Capital Stock and Capital Contributions

As of December 31, 2010, 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 its two shareholders; John F. Troy and Sheri L. Dwyer. Each had an ownership interest of 50% of the Company's issued and outstanding stock.

Surplus Debentures

The Company had no surplus debentures as of December 31, 2010.

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

The Company had no acquisitions, mergers, disposals, dissolutions, and purchase or sale through reinsurance for the period under examination.

CORPORATE RECORDS

The recorded minutes of the shareholder, Board of Directors (Board) 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, including the authorization of investments as required by Section 625.304, Florida Statutes.

Conflict of Interest

The Company adopted a policy statement requiring annual 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 shareholder meeting for the election of directors was held in accordance with Section 628.231, Florida Statutes. Directors serving as of December 31, 2010, were:

Directors

Name and Location	Principal Occupation
John F. Troy Naples, Florida	CEO, President & Treasurer Peninsular Surety Company
Sarah M. Burt Tallahassee, Florida	Secretary Peninsular Surety Company
Sheri L. Dwyer Parkland, Florida	Assistant Treasurer Peninsular Surety Company
Marshal D. Louis Miami, Florida	Attorney
Joseph S. Rosenbaum Miami, Florida	Attorney

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

Senior Officers

Name	Title
John F. Troy	CEO, President & Treasurer
Sarah M. Burt	Secretary
Sheri L. Dwyer	Assistant Treasurer
Mark S. Dee	CFO

Following were the principal internal board committees and their members as of December 31, 2010:

Executive Committee

John F. Troy ¹
Sarah M. Burt
Sheri L. Dwyer

Audit Committee

John F. Troy ¹
Joseph S. Rosenbaum
Marshal D. Louis

Compensation Committee

John F. Troy ¹
Joseph S. Rosenbaum
Marshal D. Louis

¹ Chairman

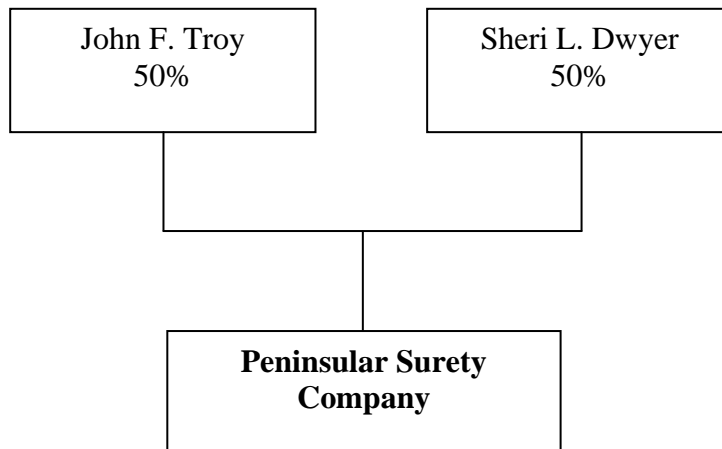
Affiliated Companies

The Company was not a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code.

A simplified organizational chart as of December 31, 2010, reflecting the ownership structure is shown below:

**PENINSULAR SURETY INSURANCE COMPANY
ORGANIZATIONAL CHART**

DECEMBER 31, 2010



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

Consulting Agreements

The Company entered into a Consulting Agreement with John F. Troy, on December 1, 2009, to establish officer/director compensation as an independent contractor to act as the Company's CEO, President, Chairman and Treasurer, and perform other duties as directed by the Board. On June 14, 2011, the agreement was amended to further detail the duties and responsibilities of Mr. Troy. The agreement shall continue in force unless terminated by either party upon thirty days prior written notice. Compensation under the agreement shall not exceed \$20,000 per month. Fees incurred under this agreement during 2010 amounted to \$230,000. The agreement was approved by the Office on September 26, 2011.

The Company entered into a Consulting Agreement with Sheri L. Dwyer, on December 1, 2009, to establish officer/director compensation as an independent contractor to act as the Company's Assistant Treasurer and Attorney-in-Fact, and perform other duties as directed by the Board. On June 14, 2011, the agreement was amended to further detail the duties and responsibilities of Ms. Dwyer. The agreement shall continue in force unless terminated by either party upon thirty days prior written notice. Compensation under the agreement shall not exceed \$20,000 per month. Fees incurred under this agreement during 2010 amounted to \$230,000. The agreement was approved by the Office on September 26, 2011.

FIDELITY BOND AND OTHER INSURANCE

The Company maintained fidelity bond coverage up to \$250,000 with a deductible of \$5,000, which exceeded the suggested minimum as recommended by the NAIC.

The Company also maintained Directors and Officers (D&O) and General Liability Insurance coverage with limits of \$1,000,000 to \$3,000,000 and deductibles ranging from \$25,000 to \$50,000.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company had no direct employee; therefore, it has no pension, stock ownership or insurance plans.

TERRITORY AND PLAN OF OPERATIONS

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

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.

COMPANY GROWTH

The Company has been growing since inception through the continued recruitment of productive and reliable agencies and agents in order to increase market share and premium production. The Company had bail premiums in force of \$252,218 and \$280,666 as of December 31, 2010 and 2009, respectively.

During 2010, the Company's policyholder surplus increased due to a second successive year of positive net income, capital expansion, and control of claims during a national economic downturn. The Company's premium-to-surplus ratio has improved during each of the past two years.

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.

	2010	2009	2008
Premiums Earned	1,244,205	1,146,300	485,839
Net Underwriting Gain/(Loss)	66,891	166,508	(122,091)
Net Income	74,440	166,888	(63,038)
Total Assets	2,914,956	2,890,901	2,680,235
Total Liabilities	231,010	280,643	251,351
Surplus As Regards Policyholders	2,683,946	2,610,258	2,428,884

The Company commenced business on August 17, 2007 and started writing business in 2008. The Company has experienced increases each year in premiums earned, total assets and surplus as regards to policyholders.

LOSS EXPERIENCE

The Company did not have significant changes in the loss experience as of December 31, 2010.

REINSURANCE

Assumed

The Company assumed no risk through reinsurance.

Ceded

The Company ceded no risk through reinsurance.

ACCOUNTS AND RECORDS

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

An independent CPA audited the Company's statutory basis financial statements annually for the years 2008, 2009 and 2010, 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 four standard computers. The CPA prepared general accounts were reconciled to the line items of the annual statement submitted to

the Office. During the first quarter 2010, the Company obtained QuickBooks software where they maintained their accounting records.

The Company and non-affiliates had the following agreements:

Consulting Agreements

The Company entered into a Consulting Agreement with Mark Dee, on December 1, 2009, to establish officer compensation as an independent contractor. The agreement calls for Mark Dee to act as the Company's CFO. The agreement shall continue in force unless terminated by either party upon thirty days prior written notice.

The Company entered into a Consulting Agreement with W. David Collins, on October 1, 2010, to establish consultant compensation as an independent contractor. The agreement calls for W. David Collins to provide marketing and agent recruitment advice to the officers of the Company. The agreement shall continue in force unless terminated by either party upon thirty days prior written notice.

Managing General Agent Agreements

The Company utilized two separate non-affiliated Managing General Agent (MGA) Bail Bond Agreements with Louis Tousent (24/7 Bail Bonds) and Jorge Diaz (Universal Bond, Inc.) for the purpose of supervising and conducting the writing of bail bond insurance in the State of Florida. Under the terms of the agreements, the agencies were specifically excluded from authority to settle claims on behalf of the Company or bind reinsurance or retrocession.

Upon review of the Company's two Managing General Agency agreements of 2010, it was noted that certain content of mandatory provisions, specifically those of subsections 4, 5 and 6 of Section 626.7451, Florida Statutes, were omitted.

Subsection 4 of Section 626.7451, Florida Statutes, calls for provisions to include "separate records of business written by the managing general agent shall be maintained unless the managing general agent is a controlled or controlling person. The insurer shall have access and the right to copy all accounts and records related to its business in a form usable by the insurer, and the department and office shall have access to all books, bank accounts, and records of the managing general agent in a form usable to the department and office." The language contained in the Company's agreement was incomplete, with no mention of access by the Office.

Subsection 5 of Section 626.7451, Florida Statutes, indicates that "the contract may not be assigned in whole or part by the managing general agent." The language contained in the Company's agreement was conditional ("without written consent"), which is not a liberty the subsection allows.

Subsection 6 of Section 626.7451, Florida Statutes, indicates that "the contract shall specify appropriate underwriting guidelines." The language contained in the Company's agreement was silent as to underwriting guidelines.

Independent Auditor Agreement

The Company contracted with a qualified independent CPA firm to perform the statutory audits of its financial statements for the year under examination, as required by Section 624.424(8), Florida Statutes, and Rule 69O-137.002, Florida Administrative Code.

INFORMATION TECHNOLOGY REPORT

Denise Mainquist, CISA, QSA of Examination Resources, LLC 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	<u>\$ 100,000</u>	<u>\$ 100,000</u>
TOTAL FLORIDA DEPOSITS		\$ 100,000	\$ 100,000
TOTAL SPECIAL DEPOSITS		<u>\$ 100,000</u>	<u>\$ 100,000</u>

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2010, 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."

PENINSULAR SURETY COMPANY

Assets

DECEMBER 31, 2010

	Per Company	Examination Adjustments	Per Examination
Cash and short-term investments	\$2,762,078	\$0	\$2,762,078
Aggregate write-in for invested assets	141,525		141,525
Current federal income tax recoverable	3,380		3,380
Net deferred tax asset	7,973		7,973
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Totals	\$2,914,956	\$0	\$2,914,956
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PENINSULAR SURETY COMPANY
Liabilities, Surplus and Other Funds

DECEMBER 31, 2010

	Per Company	Examination Adjustments	Per Examination
Losses	\$100,000	\$0	\$100,000
Other expenses	36,875		36,875
Taxes, licenses and fees	5,655		5,655
Unearned premiums	88,480		88,480
Total Liabilities	\$231,010	\$0	\$231,010
Common capital stock	\$2,500,000	\$0	\$2,500,000
Gross paid in and contributed surplus	100,000		100,000
Unassigned funds (surplus)	83,946		83,946
Surplus as regards policyholders	\$2,683,946	\$0	\$2,683,946
Total liabilities, surplus and other funds	\$2,914,956	\$0	\$2,914,956

PENINSULAR SURETY COMPANY
Statement of Income

DECEMBER 31, 2010

Underwriting Income

Premiums earned		\$1,244,205
	Deductions:	
Losses incurred		\$9,779
Loss expenses incurred		0
Other underwriting expenses incurred		1,167,535
Aggregate write-ins for underwriting deductions		0
Total underwriting deductions		<u>\$1,177,314</u>
Net underwriting gain or (loss)		\$66,891

Investment Income

Net investment income earned		\$13,272
Net investment gain or (loss)		<u>\$13,272</u>

Other Income

Aggregate write-ins for miscellaneous income		\$13,234
Total other income		<u>\$13,234</u>
Net income before dividends to policyholders and before federal & foreign income taxes		<u>\$93,397</u>
Net Income, after dividends to policyholders, but before federal & foreign income taxes		\$93,397
Federal & foreign income taxes		<u>18,957</u>
Net Income		<u><u>\$74,440</u></u>

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year		\$2,610,258
Net Income		\$74,440
Change in net deferred income tax		(2,125)
Change in non-admitted assets		1,373
Change in surplus as regards policyholders for the year		<u>\$73,688</u>
Surplus as regards policyholders, December 31 current year		<u><u>\$2,683,946</u></u>

A comparative analysis of changes in surplus is shown below.

PENINSULAR SURETY COMPANY
Comparative Analysis of Changes in Surplus

DECEMBER 31, 2010

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, 2010, per Annual Statement	\$2,683,946
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	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS: No adjustments			
LIABILITIES: No adjustments			
Net Change in Surplus:			<u>\$0</u>
Surplus as Regards Policyholders December 31, 2010, Per Examination			<u><u>\$2,683,946</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses \$100,000

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, 2010, 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 engaged an independent actuarial firm, Taylor – Walker & Associates, Inc., to review the reserves carried in the Company's balance sheet as of December 31, 2010, and they were in concurrence with this opinion.

Capital and Surplus

The amount reported by the Company of \$2,683,946, exceeded the minimum of \$1,500,000 required by Section 624.408, Florida Statutes.

SUMMARY OF RECOMMENDATIONS

Accounts and Records

We recommend that the Company incorporate procedures to ensure that bonds are not issued to any one insured that exceeds the limitations imposed by Section 624.609, Florida Statutes.

Managing General Agent Agreements

We recommend that the MGA agreement for Universal Bond be amended to include or remove the content as follows:

Subsection 4 of Section 626.7451, Florida Statutes: include language expressly granting the Florida Department of Financial Services and Office access to records and that the records shall be retained according to Section 626.561, Florida Statutes;

Subsection 5 of Section 626.7451, Florida Statutes: remove the condition of written permission by the Company et al concerning the MGA's right to assign the agreement (i.e. the statute does not allow such assignments);

Subsection 6 of Section 626.7451, Florida Statutes: include a separate provision with details of the items listed within concerning underwriting guidelines.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Peninsular Surety Company** as of December 31, 2010, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's surplus as regards policyholders was \$2,683,946, which exceeded the minimum of \$1,500,000 required by Section 624.408, Florida Statutes.

In addition to the undersigned, Sigurd K. Proudfit, CFE, Examiner-In-Charge, Rachelle Gowins, CFE, Supervisor, and Denise Mainquist, CISA, QSA, IT Examiner of Examination Resources, LLC participated in the examination. In addition, Brent Sallay, FCAS, MAAA, and Randall Ross, ACAS, MAAA, Actuaries with Taylor-Walker & Associates, Inc. and Jonathan Frisard, CPA, Financial Examiner/Analyst Supervisor, with the Office also participated in the examination.

Respectfully submitted,

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