Florida Peninsula Insurance Company

Application for Insurance Capital Build-Up Incentive Program

State Board of Administration of Florida

STATE BOARD OF ADMINISTRATION OF FLORIDA
INSURANCE CAPITAL BUILD-UP INCENTIVE PROGRAM (“PROGRAM”)
APPLICATION

Part I: Basic Information

Contact Information:

Application Date: June 15, 2006

Insurer’s* Name (Applicant”*): Florida Peninsula Insurance Company NAIC #: 10132

Group Name, if applicable: N/A Group NAIC # N/A

Address of Administrative Office: 621 NW 53rd Street, Suite 125 Boca Raton, Florida 33487

Contact Name and Title: Gary Cantor, Executive Vice President, Fran Lattanzio, CFO

Telephone Number: (561) 994-8366 Fax Number: (561) 994-8367

Email Address: gary.cantor@floridapeninsula.com fran.lattanzio@floridapeninsula.com

Surplus Note* Requested:

Principal Amount of Surplus Note Requested: $25,000,000.00

Date Funds are desired: November 1, 2006

Amount of New Capital* Contributed: $25,000,000.00

Anticipated Date New Capital infused: November 1, 2006

Will the New Capital be encumbered? No If yes, describe: ____________

Source of New Capital: Florida Peninsula Holdings LLC

Address for Source of New Capital: 621 NW 53rd Street, Suite 125, Boca Raton, Florida 33487

Contact Name for the source of New Capital: Paul M. Adkins

STATE BOARD OF ADMINISTRATION OF FLORIDA
INSURANCE CAPITAL BUILD-UP INCENTIVE PROGRAM ("PROGRAM")
APPLICATION

Telephone Number for the source of New Capital: (561) 994-8366

Fax Number for the source of New Capital: (561) 994-8367

Email Address for the source of New Capital: paul.adkins@floridapeninsula.com

Name of depository for New Capital: Wachovia Bank, N.A.

Address of depository for New Capital: 450 South Australia Avenue, FL7782, 8th Floor
West Palm Beach, Florida 33401

Contact Name for the depository and Title: Steven George, Vice President

Telephone Number for the depository: (561) 366-5523

Fax Number for the depository: (561) 366-5528

Email Address for the Contact at the depository: steven.george@wachovia.com

Financial Information:

Current Surplus* Amount as of latest month end: $16 million as of May 31, 2006

Surplus as of most recently filed financial statement with the Office*: $12,007,695

Annualized Net Written Premium* as of latest month end: $41,525,000 as of May 31, 2006

Annualized Net Written Premium as of most recently filed financial statement with the Office: $39,548,000

Current ratio of Net Written Premium to Surplus as of latest month end: 2.6 times

Date Applicant estimates reaching the Minimum Writing Ratio*, if not already obtained: We are currently at 2.6 times and expect to be able to maintain at least a 2 times ratio during the period of the note with the possible exception of part of the first year as we ramp up our policy count. Company plans a takeout within 60 days of Surplus Note Funding which will keep us above the 2 times Writing Ratio.

Part II:

BUSINESS PLAN: Provide an executive summary of the Applicant's business plan including the number of new policies the Applicant intends to write as a result of this Program and time frames for writing such policies. Also, indicate the target area of the state where the Applicant plans to write new policies. Discuss in a separate paragraph the prospects for the long term repayment of the Surplus Note indicting any circumstance which might prohibit or interfere with full repayment.

Florida Peninsula Insurance Company plans to expand its business significantly as a result of this program and the extra Surplus from the New Capital and Surplus Note. The company anticipates assuming or writing 80,000 – 120,000 policies in the first year and an additional 50,000 – 100,000 policies per year for the next three years. The company plans to spread its writings throughout the State of Florida and will manage its underwriting both for wind and other peril risks. Currently, the company has approximately 52% of its risk in Monroe, Dade, Broward, and Palm Beach counties. While the company currently only holds wind-only policies, the company expects to use this program to expand into multi-peril including wind homeowners policies .

Through strong underwriting, claims management, financial controls and management, reinsurance programs, and an overall conservative approach, the company expects to be a long term player in the Florida property insurance market. Additionally, the management team has tremendous experience at both executive and operational roles of running insurance companies. The company feels that it has proven itself in its first year of operation surviving four hurricanes and building state-of the-art information systems, claims management, and customer service practices. Like all property insurers in Florida, the company would be susceptible to huge storms affecting our policy holders or many storms in any particular year. We feel that our larger size that will result from this program and the New Capital will make an even more stable company. In addition, Citizens Property Insurance Corporation has escrowed takeout bonuses to Florida Peninsula.

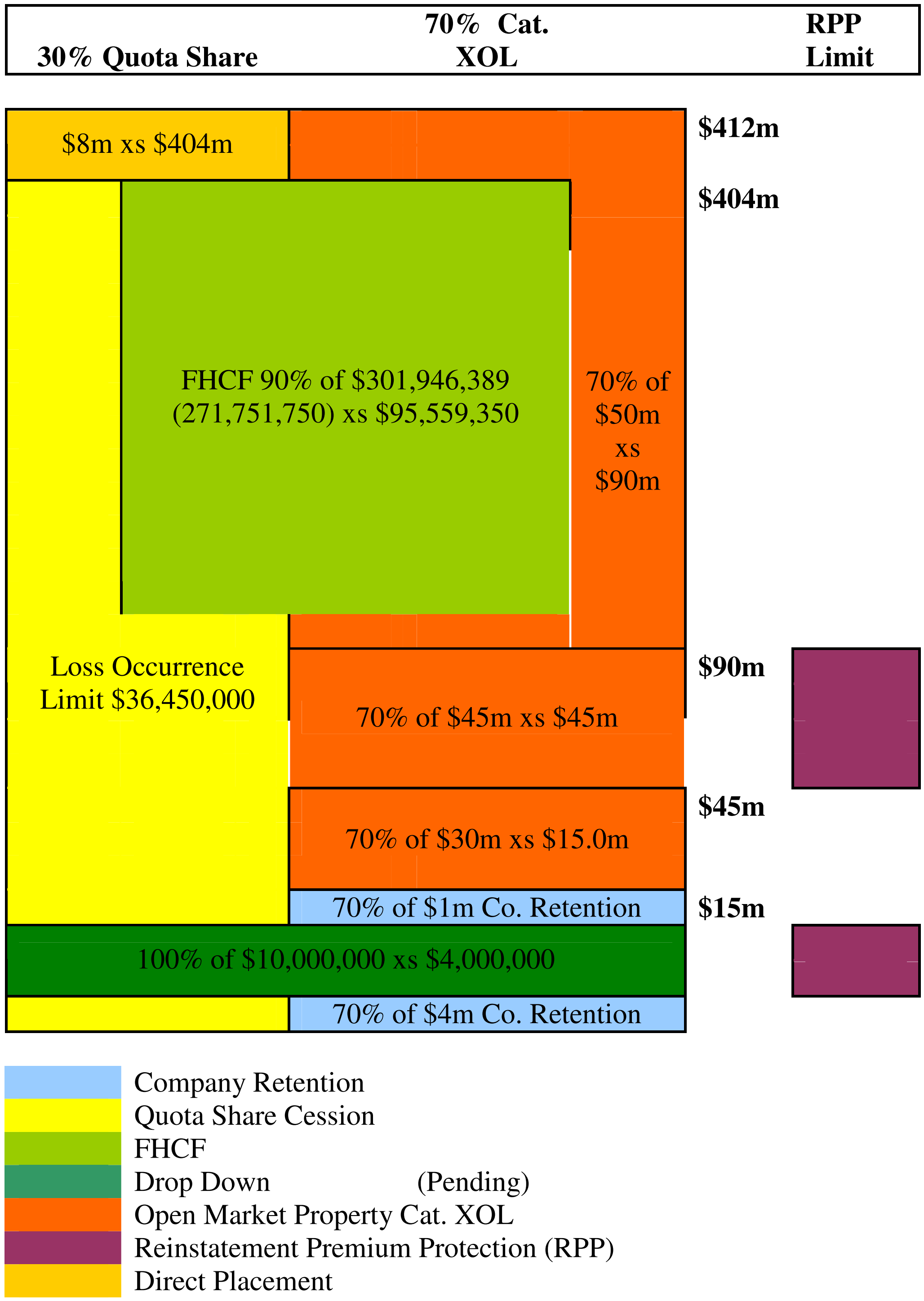
REINSURANCE PROGRAM: Provide a descriptive summary and a chart of your reinsurance program for the 2006 hurricane season showing the results pre and post infusion of New Capital. Indicate the Insurer's 100 year probable maximum loss (PML) associated with the various model(s) used to determine the 10-year PML. Identify the model(s) and version number(s) used to determine the PML(s).

Florida Peninsula successfully removed a total of 85,767 polices from Citizens high risk account during 2005/2006. The take-outs were accomplished in three stages:

May /June 2005	-	38,708
December 2005	-	38,080
January 2006	-	8,979
	Total	85,767

As of June 1, 2006, all of these polices combined to represent FPI¹s renewal portfolio. Of the 85,767 policies, as of the time of the catastrophe modeling FPI had 79,839 polices as part of the renewal portfolio. Due to the fact that the take-outs were completed at different times of the year, the reinsurance contracts have varying expiration dates which means that the December/January take-outs will renew at June 1, 2006, and the remaining polices from the May/June take-outs will portfolio into the covers at July 1, 2006. Noting this, the exposure to the renewal program will in essence "rampup" through July 1, 2006.

When determining the reinsurance purchase for 2006, FPI based the decision on the catastrophe modeling results produced by AIR Clasic2 v7.0 for the average estimated 1 in 100 year PML for the 2006 storm season. This approach produced a 1 in 100 year result of approximately $412.0m. The chart on the following page provides a pictorial view of the reinsurance program purchased by Florida Peninsula incepting June 1, 2006.



30% Quota Share
70% Cat. XOL
RPP Limit
$8m xs $404m
FHCF 90% of $301,946,389 (271,751,750) xs $95,559,350
70% of $50m xs $90m
Loss Occurrence Limit $36,450,000
70% of $45m xs $45m
70% of $30m xs $15.0m
70% of $1m Co. Retention
100% of $10,000,000 xs $4,000,000
70% of $4m Co. Retention
$412m
$404m
$90m
$45m
$15m
Company Retention
Quota Share Cession
FHCF
Drop Down (Pending)
Open Market Property Cat. XOL
Reinstatement Premium Protection (RPP)
Direct Placement

Broker Market Reinsurance Placement -

1. Property Catastrophe Excess of Loss

   Layer 1: $30,000,000 xs $15,000,000
   Layer 2: $45,000,000 xs $45,000,000
   Layer 3: $50,000,000 xs $90,000,000

   The FHCF (Florida Hurricane Catastrophe Fund) will inure to the benefit of the Property Catastrophe Program, 30% Quota Share and the Company. The initial estimate of the FHCF is 90% of $301,946,389 excess of $95,559,350.

2. Reinstatement Premium Protection Excess of Loss - FPI has secured reinstatement premium protection for 45% of the 2nd Layer of the Property Catastrophe Excess of Loss program.

3. Quota Share Reinsurance
   FPI has secured a 30% Quota Share for the perils of wind and hail only. Since this is not all perils policy, the expected non-catastrophe loss ratio is expected to be single digit (approx. 2%) from other wind events. The quota share has a loss occurrence limit which is based on the gross ceded earned premium of the company. Currently, the estimated earned premium is $135,000,000, therefore providing a gross loss occurrence limit of $121,500,000 (100%). The quota share also has an aggregate limitation of 125% of the gross ceded earned premium. The gross aggregate limit is currently estimated to be $168,750,000 (100%). The ceding commission is 23.0%. The reinsurers will share in the cost of both Florida Hurricane Catastrophe Fund layers in the same proportion as they participate in the quota share. For the period June 1, 2006 through May 31, 2007 the premium is estimated to range between $145,000,000 - $155,000,000 written, and $130,000,000 - $140,000,000 earned.

4. Post-Surplus Note Reinsurance: Florida Peninsula will purchase additional reinsurance to cover any additional takeouts or writings prior to June 1, 2007. The company will work with Guy Carpenter and its reinsurers to put in place a program that both management and the OIR are comfortable with prior to any assumptions of additional policies. In June 2007, the company will have a comprehensive program for its entire portfolio that meets all OIR requirements. Going forward, the company plans to retain a significant portion of the non-wind risk from its multi-peril homeowners policies.

Part III: Interrogatories

Responses provide to the interrogatories may be added to the Surplus Note under the section entitled "Supplemental Agreements."

1. Will the New Capital contribution be in excess of the Minimum Contribution*? <u>Yes, the New Capital, the Surplus Note, and the company's current Surplus exceeds $50 million.</u>

2. Have profits been retained to grow Surplus over the last five years? If yes, how much has been retained or contributed to Surplus each year? <u>Yes, the company has not had any dividends since its inception and has increased its Surplus by approximately $8 million in its first full year of operation.</u>

3. Will profits be retained to grow Surplus should the Applicant be granted the Surplus Note proceeds associated with this Program? <u>Florida Peninsula Insurance Company profits will be retained for at least 2 more years under our consent order with the OIR for doing our initial Citizens takeouts. Any dividends thereafter would only occur under the rules established by the OIR.</u>

4. Does the Applicant have a related company or other person or entity that is willing to guarantee the Applicant's Surplus Note under this Program? If yes, provide details. <u>No, Florida Peninsula is an independent corporation that does not have a guarantor.</u>

5. Although not required, is the Applicant willing to commit collateral for the purpose of securing the state's interest in the proceeds of the Surplus Note? <u>The surplus of Florida Peninsula Insurance Company could be used as collateral for the purposed of securing the state's interest in the proceeds of the Surplus Note.</u>

6. Although not required, is the Applicant willing to deposit 10% or more of the proceeds derived from the Surplus Note in an account managed by the state? <u>The company would prefer to have its funds managed by its external financial advisors at Wachovia and Evergreen Investments. If the SBA establishes this as a condition of the Surplus Note to qualified applicants, the company would comply.</u>

7. Although not required, is the Applicant willing to prepay interest and principal for one year in advance? <u>The company would be willing to consider this option when we formalize the Surplus Note.</u>

8. Are there any commitments that the Applicant is willing to make as a condition of issuing the Surplus Note that would lessen the risk of default? <u>We would be willing to discuss any options that the SBA may be using with other applicants.</u>

9. Has the Applicant fully placed its 2006 hurricane season reinsurance program? <u>The company has completed its private reinsurance program for the 2006 hurricane season.</u>

10. If the 2006 hurricane season reinsurance program has be fully placed, can the Insurer withstand a 1 in 100-year event? <u>Yes.</u>

11. What is the Applicant's current writing ratio? <u>The current net written premium to surplus ratio is 2.6:1.</u>

12. What was the Applicant's writing ratio for the last five years? The company just completed its first full year of operations in May 2006.

13. Is the Applicant willing to commit to a writing ratio in excess of the minimum for the duration of the Surplus Note? If so, note any adverse impact upon policyholder security? The company would not want to commit to a writing ratio in excess of the minimum at this time. If conditions existed that there would be no adverse affect upon policyholder security, we would consider writing to a higher ratio.

14. Does the Applicant have a rating from a rating agency? If so, indicate the agency and the rating, how long the rating has been in effect, and whether or not the Applicant has ever been downgraded by a rating agency and the circumstances?
The company has an "A" Exceptional rating from Demotech since its inception. The company has never been downgraded by a rating agency.

15. Is the Applicant currently being investigated by any federal or state regulatory authority? No, the company is not being investigated by any federal or state regulatory authority.

16. Is the Applicant under any type of regulatory control or order? The company operates under a consent order from the OIR.

Part IV: Documents which must be provided with this Application

1. A detailed business plan, which includes:
   a. A written description of the Applicant's current level of policy coverage for residential property in Florida covering the peril of wind.
   b. Pro forma statements which outline the policy writings for the next three years and that distinguish between wind and ex-wind policy writings.
   c. If the Applicant's ratio of Net Written Premium to Surplus does not equal or exceed 2:1, include a written strategy for increasing the ratio within sixty days of receiving the proceeds derived from the Surplus Note.
   d. A description of the Applicant's strategy to maintain or increase the Minimum Writing Ratio within 60 days of receiving the proceeds derived from the Surplus Note and to maintain such ratio for the duration of the Surplus Note.
2. A copy of the Applicant's most recent audited financial statement and copies of the audited financial statements for the prior two years.
3. A copy of the Applicant's most recent annual statement of the National Association of Insurance Commissioners required to be filed by authorized insurers pursuant to Section 624.424, F.S.
4. A resolution from the Applicant's governing board which contains the following:
   a. A statement clearly authorizing the Applicant to participate in the Program;
   b. A statement that the Applicant's governing board has reviewed the Surplus Note, Form SBA 15-2, which is available on the Board's website, www.sbafla.com, under "Insurance Capital Build-Up Incentive Program" then "Surplus Note," and that the Applicant is able to comply and intends to comply with the requirements of the Surplus Note including the requirement that the New Capital be unencumbered;
   c. A statement that the Applicant, if selected, intends to meet all the requirements of the Program including but not limited to meeting the Surplus and writing ratios.
5. Provide a list of all officers and board members.
6. Provide biographical information on the executive officers (e.g., CEO, CFO, COO).
7. A signed copy of the attestation in Part IX of this application.
8. If any items listed in this Application are not provided, please identify the item and provide an explanation as to why it was not provided.

Background

Florida is a continuously growing opportunity for insurance business. Its population has grown steadily at 6% over the last three years representing almost 1,000,000 new residents. In addition, new housing starts in Florida have been increasing dramatically. These conditions have resulted in significant growth in the demand for insurance and, as a natural consequence, in the State's residual property market, Citizens Property Insurance Corporation. By 2005, Citizens had grown to over 850,000 Florida policyholders. Given the Office of Insurance Regulation mandate from the Florida Legislature to involve the private market wherever possible and to reduce its exposures, there was an increasing pool of policies with excellent underwriting characteristics from which to choose, creating an opportunity to form another new insurance carrier in Florida.

Florida Peninsula Insurance Company (FPI) was established in 2005 as a Florida domiciled insurance company to provide wind-only hurricane insurance to residential customers in the state of Florida. This company is one of the first admitted Florida carriers to focus on providing windstorm-only insurance. It is privately funded by management and was initially capitalized to $8,000,000. Surplus going into the 2006 hurricane season is expected to be approximately $16,000,000.

Florida Peninsula Insurance Holdings, Co (FPH) is the parent company for FPI and for Florida Peninsula Managers (FPM). These companies are managed by a six-person management team with extensive management experience including over 100 years of combined insurance experience. Additionally, Florida Peninsula has entered into third party agreements with firms possessing extensive knowledge and expertise in the Florida marketplace. Those external organizations include the MacNeill Group, Guy Carpenter and Company, and Colodny, Fass, Talenfeld, Karlinsky and Abate.

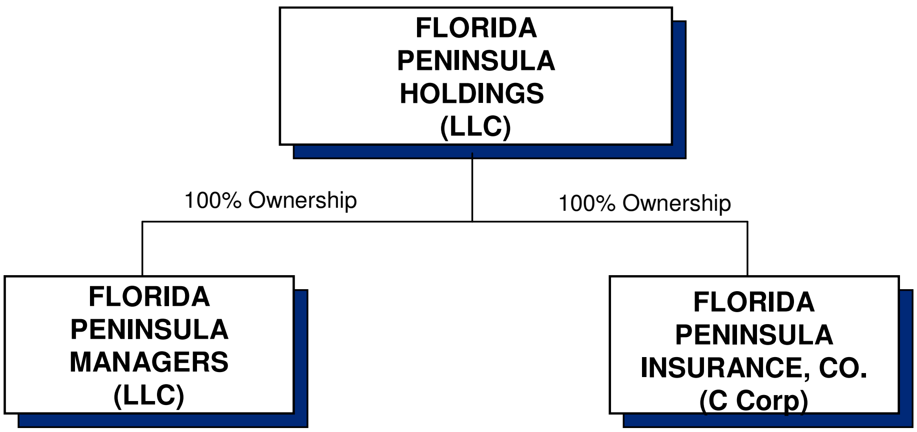
Florida Peninsula commenced operations by assuming a portfolio of 38,786 HRA policies from Citizens in May / June 2005. Two additional takeouts occurred in December 2005 and January 2006 of 38,080 policies and 8,979 policies respectively.

In spite of a record number of hurricanes that threatened the US and three storms that significantly impacted Florida (Dennis, Katrina and Wilma), Florida Peninsula had an excellent first year. During the year the company:

- Built the best Wind-Only book of business in Florida with a portfolio optimized on a Premium:PML basis
- Implemented systems and processes that enable the company to scale well beyond its current size
- Built a superior scalable claims process
- Outperformed the modeled expected results in each 2005 storm

Organization

FPH owns and controls 100% of FPI and FPM. FPH has no employees and is governed by a Board of Directors comprised of investors and managers including the CEO of FPI. FPI is governed by the same Board as the holding company and has the CEO as the only employee. FPM has six management employees and other administrative personnel as needed to provide all insurance company operations for FPI.



Management Team

The management of the group consists of a six-person team that has over 100 years insurance industry experience. Additionally, FPM has contracted with several industry leading vendors. The vendors include: MacNeill Group for policy administration, customer service, agent administration and underwriting; Guy Carpenter and Company for reinsurance, catastrophe modeling and portfolio optimization; Colodny, Fass, Talendfeld, Karlinsky and Abate for legal services; and CatManDo and NCA for claims.

The following is a summary of all FPI officers and board members:

PAUL M. ADKINS
Chairman

Paul M. Adkins – graduated magna cum laude from Dartmouth College in 1985 with a Bachelor of Arts degree in Computer Science. He received his MBA from Harvard University in June 1989. From 1985-1992 Mr. Adkins held various strategy consulting positions with the New York office of Booz, Allen & Hamilton.. In 1991, Mr. Adkins was co-founder and co-CEO of Seven Seas Communications, a company which grew to be the largest reseller of mobile satellite communications services in the world. Seven Seas was purchased by Stratos Global Communications, a subsidiary of Bell Canada, in 2000, where Mr. Adkins served as Vice

President and General Manager in charge of sales and operations for the combined companies and Corporate Vice President – Strategic Planning.

ROGER DESJADON
CEO

Roger L. Desjadon- graduated from Franklin & Marshall College in 1975 with a Bachelor of Arts in Government and Economics. He received his MBA from the University of Connecticut in 1981. He then continued to receive a degree in strategic realignment and joint ventures from the University of Pennsylvania, Wharton in 1999. From 1976-1995 Mr. Desjadon was the Regional Vice President of Aetna Life and Casualty. From 1995-1996 Mr. Desjadon was the Regional Vice President of Travelers Property and Casualty where he consolidated Aetna regional businesses into newly formed Travelers NJ companies. From 1996 to 2004 Mr. Desjadon served as President of Prudential Property and Casualty of NJ. In 2000 he served as Chief Administration Officer of Prudential Life Insurance Company. In 2001 Mr. Desjadon was named the President and CEO of Prudential Property and Casualty Insurance Company and served in this capacity until its divestiture. He orchestrated the turnaround and ultimate divestiture of Prudential's P&C companies in four separate transactions at the end of 2003. He established R.L. Desjadon Consulting Group in 2004.

FRAN LATTANZIO
CFO

Francis J. Lattanzio - Fran received a master of science degree in mathematics from the University of North Carolina at Chapel Hill in 1973 and earned a bachelor of arts degree in mathematics from Holy Cross College in 1971. He is a Fellow of the Casualty Actuarial Society. As part of the examination process to achieve Fellowship in the Casualty Actuarial Society, Fran studied statutory accounting principles. This entailed detailed study of all facets of the Annual Statement, including Page 14, The Insurance Expense Exhibit, as well as Schedules D, F and P. While at Aetna Life & Casualty from 1973 to 1985, and 1989 to 1991, Fran worked in a series of financial and actuarial roles of increasing responsibility, culminating as CFO for the Personal Financial Security Division. That Division consisted of a $3 billion Auto and Homeowners business as well as $1 billion in Individual Life, Health and Annuities. During the course of conducting these financial roles, Fran either prepared or oversaw the preparation of monthly, quarterly and annual financial results on both a statutory and GAAP basis. In addition, as a consulting partner at both Tillinghast-Towers Perrin from 1985 to 1989 and Price Waterhouse from 1991 to 1995, Fran worked with insurance companies on a variety of financial reporting and other financial matters (annual reporting, loss reserve certification, merger and acquisition, runoff, rehabilitation, ...). Statutory accounting and insurance financial analysis have been an integral part of Fran's consulting experience. Major P&C company clients over the years have included: Chubb, Fireman's Fund, CIGNA P&C (now ACE US), Swiss Re, Crum & Forster, CNA, Zurich Financial and White Mountain.

GARY A. CANTOR
EVP

Gary A. Cantor – graduated summa cum laude from Boston University in 1984 with a bachelor's degree in Business Administration, majoring in accounting and operations management. He received his MBA from Harvard Business School in 1989. Before receiving his MBA, Mr. Cantor worked with Digital Equipment Corp. in a financial development program. After receiving his MBA, he was the general manager of Boatphone Inc., which was a licensed cell phone carrier for the Eastern Caribbean. In 1991 Mr. Cantor was co-founder and co-CEO of Seven Seas Communications, which grew to become the largest reseller of mobile satellite communications services in the world. This company was sold to Stratos Global Corporation in 2000, and Mr. Cantor facilitated the integration of Seven Seas into Stratos Global.

CLINT B. STRAUCH
COO

Clint B. Strauch - graduated from Florida State University in 1985 with a bachelor's degree in Psychology. Shortly after graduation, he began working for Allstate Insurance Company as a sales associate in a large Allstate Agency. Within two years, he was promoted to retail agent and given his own agency. He has 17 years of multi-line insurance sales experience in the State of Florida and has won numerous sales awards and promotions. He has owned and operated his own agency for more than 15 years, serving clients with the highest level of integrity and dedication. During that time, Mr. Strauch has overseen his staff and business operations. His familiarity in dealing with agents, customers, and underwriters has provided him with a strong base of technical and operational know-how. Additionally, he has completed all course requirements for the Certified Financial Planner (CFP) designation and currently holds the designation of Certified Insurance Counselor (CIC).

STACEY A. GIULIANTI
GC & EVP

Stacey A. Giulianti, Esquire - - Mr. Giulianti graduated from the University of Miami School of Law, *cum laude*, in 1993. While there, he was a Staff Member of the *University of Miami Law Review*. He began his career as an associate at Broward County, Florida's largest law firm, where he handled complex insurance and commercial litigation. He later founded the law firm of The Giulianti Group, P.A. Since Mr. Giulianti began practicing insurance law, he has handled over 10,000 first and third party insurance claims, lawsuits, and arbitrations. He has spoken on insurance law issues for the Academy of Florida Trial Lawyers, The Florida Bar, the National Business Institute, and private seminar companies.

He was an Adjunct Professor of Business and Insurance Law at Florida International University, Paralegal Studies Program, where he has taught for more than 10 years and authored many publications on insurance law. A member of the Academy of Florida Trial Lawyers since he began practicing insurance law, he now sits on the Insurance Law Task Force. In 1998, Mr. Giulianti was appointed a Traffic Magistrate in Broward County. Mr. Giulianti has served on a wide variety of City and County Advisory Boards, the Boards of Directors for local charitable groups, and various local chambers of commerce. He currently sits on the Board of Directors of the Florida Lawyers Legal Insurance Corporation.

Strategy / Competitive Advantage

Florida Peninsula Insurance Company is the first company focused on providing wind-only hurricane insurance to the Florida residential insurance marketplace. The company's strategy to date:

- Assume an optimized (Premium:PML) set of policies
- Provide wind-only coverage and achieve the relative elimination of attritional losses
- Focus on building a superior claims and customer service capabilities thereby increasing customer satisfaction
- Perform ongoing individual risk analysis and underwriting including physical on site home inspection
- Focus on variable cost with very low fixed costs thereby eliminating the need for "irrational growth".

Agents are a key part of customer service for Florida Peninsula. FPI currently has relationships with 1,600 agents throughout the state with 90% of the policies handled by 15% of the agents. These agents are critical links for renewals, underwriting and claims. FPI has aligned its underwriting and marketing resources with those agents who oversee the majority of its renewals. This focus enables the company to achieve maximum impact on the greatest portion of its customers.

The MacNeill Group handles the daily processing for FPI including the review of applications, the processing of renewals, call center operations and marketing support. MacNeill has an excellent reputation with the Department of Financial Services, Agencies and with the members of FPM.

FPI has invested heavily in systems designed to improve customer service and operational efficiency. The company is in the midst of implementing a system that will enable all its vendors and agents to have immediate web based access to policy and claim information. This comprehensive access will enable FPI to provide true "once and done" customer service where customers can get answers to their questions in a single phone call.

Products & Premiums

FPI provides residential property, wind-only, insurance coverage to Florida risks. Coverage forms include single family dwellings, condominiums and rental units and follow Citizens forms. To provide an optimal spread of risk, hurricane modeling was utilized to distribute exposure over the entire state of Florida.

The amount of coverage for any one risk is managed based on geographic location, construction type and other underwriting criteria. This strategy allows for management to spread property exposure to achieve favorable reinsurance costs.

FPI selected its portfolio by considering many underwriting elements such as; age of home, type of construction, coverage form, geographic location, deductible levels, coverage amount levels, occupancy, roof type, and prior experience, in order to maximize underwriting profitability through reduced claims.

As of the beginning of 2006, Florida Peninsula had 79,925 policies in force with in-force premium of $105 M. In order to keep pace with reinsurance market costs, the general rising market rate indications and trends, and its own anticipated adequacy, the company has recently filed a proposed rate increase that incorporates all of these factors. This change is consistent with similarly situated policies in Citizens and the “wind” portion of multi-peril policies provided by other carriers. The filing was made on a “use and file” basis with a scheduled effective date of 6/15/06 for renewals.

To expand its business, the Company is constantly analyzing Citizens policy base for optimal future take-outs that “fit” its model and is exploring similar private takeout opportunities with other non residual market companies. The key focus of the company is on developing and maintaining a well-balanced book of business, maintaining spread, and achieving pricing and underwriting superiority yielding a book that is as diversified as possible.

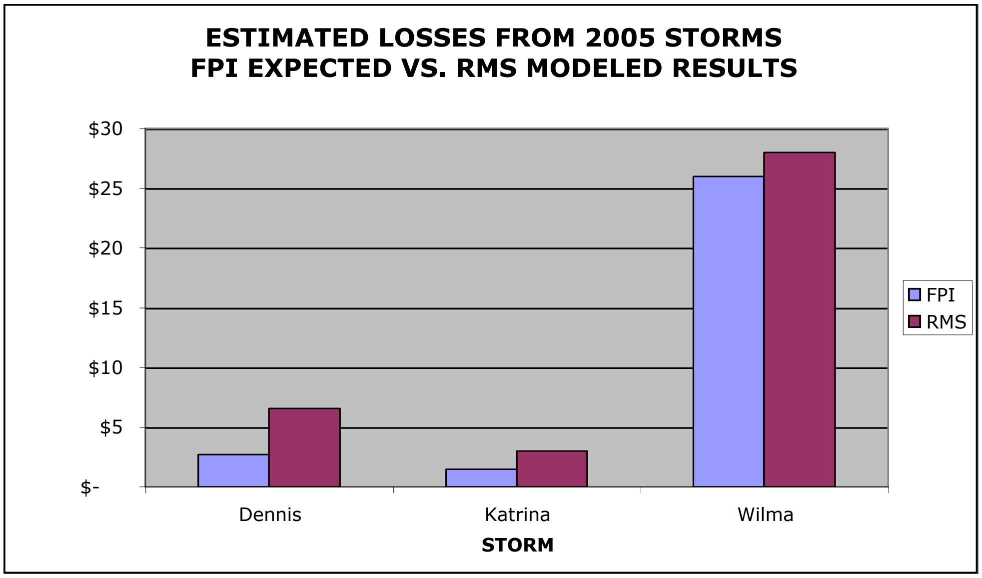
Claims

In 2005, FPM established a strategic alliance with a privately held Cat Claims organization, Catmando. Throughout 2005 FPM and CMD (CatManDo) have jointly built a CAT Claims recruiting and training platform. FPI understands that during a catastrophe claims resources are limited and every insurance company is seeking “core” adjusters. FPM/FPI is an innovator and builder in the wind-only insurance marketplace and has elected not to be one more insurance company chasing limited supply when demand is at its greatest.

The company’s and CMD’s innovative claims model actually increases the number of trained Catastrophe field adjusters thus reducing the company’s dependence on the existing CAT adjuster pool. Adjustment recruits and trainees are sought from “complementary” fields outside of the insurance business. These recruits receive general training in adjusting and specific training in FPI policy forms, claims practices, and claims procedures. Claims supervision and site management, though employed by CMD, is closely linked to FPI and is aligned throughout all levels of both organizations. The benefit is obvious. FPI gets dedicated and aligned adjusters that have a close working relationship with FPI ownership, and a thorough understanding of our needs and even our policy. In its first year in operation, the company had approximately 100 trained adjusters in place with roughly 60 required to be actively involved in the settlement of some 6,000 claims reported.

Throughout 2005, team leaders were in place to oversee every 15 adjusters and provide quality assurance and improved customer satisfaction. These company dedicated adjusters are extremely familiar with our policy and are outfitted with the latest automated tools. Each trained CAT adjuster is normally assigned a working case load of 100 “files”. Each “event” therefore, is planned for based upon FPI’s expectations of storm size, anticipated claim numbers, and an extrapolation from early call center activity. For example, FPI has a performance standard that calls for 85% of the claims from an event to be adjusted within 60 days. Hence, a 1000 claim event would require 10 adjusters that would have to perform (on average) 17 adjuster reviews/daily or 85/week. This process was derived from years of experience and is invaluable in managing claim duration and ultimate severities.

To supplement this approach (as a contingency), FPM is structuring complimentary TPA agreements through Catmando with national catastrophe firms.



Ultimately, all of FPI's adjustments are reviewed by an owner/partner of FPM. In addition, claims over $25,000 receive a 2nd review from a separate partner. It's worth repeating that EVERY CAT claim paid by FPM in 2005 received the scrutiny of an owner/partner.

Claims Handling Process – Policyholders contact their agent or phone FPI's toll free claims number where coverage is confirmed, initial information is gathered, and a claim record and preliminary "reserve" are established. CMD/TPA initiates the claims adjustment process by taking the first notice of loss and then assigning an adjuster to contact and meet with the policyholder. FPI maintains interactive and live electronic data on all new claims, including the policyholder's information, policy number, type of loss and initial loss reserve. FPM extends no claims authority to its agents and is the only party that issues actual claim checks. Adjuster complete files are forwarded to FPI for review and payment.

Catastrophe Management – FPM has designed a catastrophe management plan to effectively handle a hurricane striking the state of Florida affecting its policyholders. This process of "queuing" was highlighted above and we believe it is a point of difference that has translated into a competitive advantage. In the case of a Catastrophe, adjusters will be tightly managed with a Site Manager for each storm and an experienced team leader for every 15 adjusters. FPM is convinced that our aligned oversight combined with company specific claims and policy form training provides better customer service through faster reviews, better support to our agents, and ultimately better results.

Marketing

As an innovator, FPI recognizes the important role in motivating agents can play in policy retention, underwriting, and proper insurance to value. The company is actively analyzing commission structure and retention initiatives that give it greater underwriting and pricing effect.

FPI contracts with MacNeill Group to appoint agents for the policies selected for Citizens removal. This approach provides an efficient means for completing the agency appointments with an expected appointment success rate of greater than 90% that allows for a more stable financial model to be produced.

Initial contracts are limited to servicing and renewing those policies removed from Citizens. During FPI's first year of operation it reviewed the profitability of its agents and its spread of risk throughout the state of Florida and is now developing an Exposure Management program that allows agents to write limited new business in order to maintain Florida Peninsula's policy count (to be completed in 2006). Additional takeouts may also be pursued, although unlikely during storm season, if the opportunity is compelling.

As the primary point of contact for policyholders, agents need more sophisticated customer service tools. FPI is developing an internet based system that allows agents to monitor the status of policies and perform key policy administration functions on-line. FPI intends to have agent service, "once and done" desk top capability, and innovative alignment programs Florida agents have never experienced in the wind insurance market.

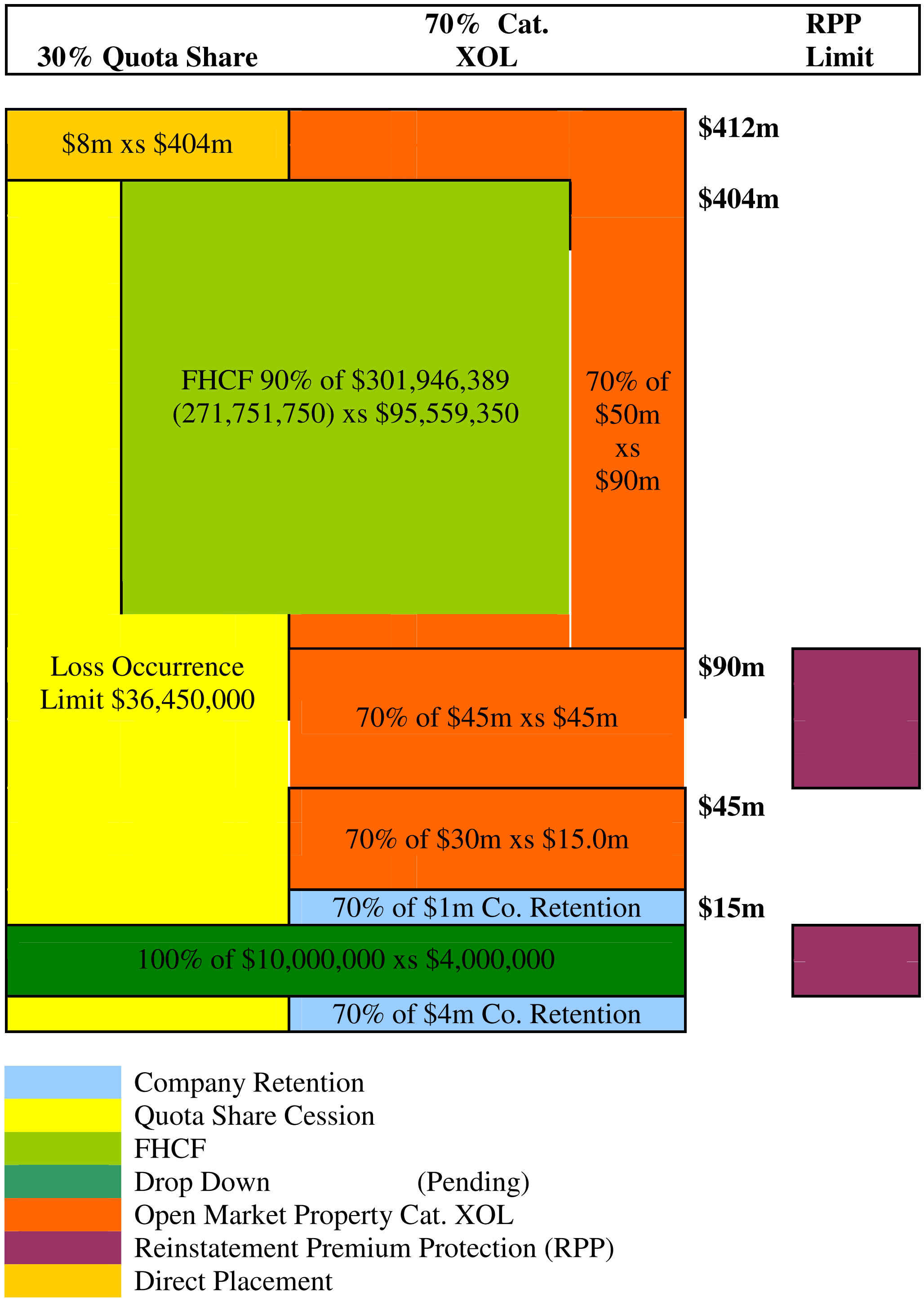
Reinsurance

Florida Peninsula successfully removed a total of 85,767 polices from Citizens high risk account during 2005/2006. The take-outs were accomplished in three stages:

May /June 2005 -	38,708
December 2005 -	38,080
January 2006 -	8,979
Total	85,767

As of June 1, 2006, all of these polices combined to represent FPI¹s renewal portfolio. Of the 85,767 policies, as of the time of the catastrophe modeling FPI had 79,839 polices as part of the renewal portfolio. Due to the fact that the take-outs were completed at different times of the year, the reinsurance contracts have varying expiration dates which means that the December/January take-outs will renew at June 1, 2006, and the remaining polices from the May/June take-outs will portfolio into the covers at July 1, 2006. Noting this, the exposure to the renewal program will in essence "rampup" through July 1, 2006.

When determining the reinsurance purchase for 2006, FPI based the decision on the catastrophe modeling results produced by AIR Clasic2 v7.0 for the average estimated 1 in 100 year PML for the 2006 storm season. This approach produced a 1 in 100 year result of approximately $412.0m. The chart on the following page provides a pictorial view of the reinsurance program purchased by Florida Peninsula incepting June 1, 2006.


30% Quota Share
70% Cat. XOL
RPP Limit
$8m xs $404m
$412m
$404m
FHCF 90% of $301,946,389 (271,751,750) xs $95,559,350
70% of $50m xs $90m
Loss Occurrence Limit $36,450,000
$90m
70% of $45m xs $45m
$45m
70% of $30m xs $15.0m
70% of $1m Co. Retention
$15m
100% of $10,000,000 xs $4,000,000
70% of $4m Co. Retention
Company Retention
Quota Share Cession
FHCF
Drop Down (Pending)
Open Market Property Cat. XOL
Reinstatement Premium Protection (RPP)
Direct Placement

Broker Market Reinsurance Placement -

1. Property Catastrophe Excess of Loss

   Layer 1: $30,000,000 xs $15,000,000
   Layer 2: $45,000,000 xs $45,000,000
   Layer 3: $50,000,000 xs $90,000,000

   The FHCF (Florida Hurricane Catastrophe Fund) will inure to the benefit of the Property Catastrophe Program, 30% Quota Share and the Company. The initial estimate of the FHCF is 90% of $301,946,389 excess of $95,559,350.

2. Reinstatement Premium Protection Excess of Loss - FPI has secured reinstatement premium protection for 45% of the 2nd Layer of the Property Catastrophe Excess of Loss program.

3. Quota Share Reinsurance
   FPI has secured a 30% Quota Share for the perils of wind and hail only. Since this is not all perils policy, the expected non-catastrophe loss ratio is expected to be single digit (approx. 2%) from other wind events. The quota share has a loss occurrence limit which is based on the gross ceded earned premium of the company. Currently, the estimated earned premium is $135,000,000, therefore providing a gross loss occurrence limit of $121,500,000 (100%). The quota share also has an aggregate limitation of 125% of the gross ceded earned premium. The gross aggregate limit is currently estimated to be $168,750,000 (100%). The ceding commission is 23.0%. The reinsurers will share in the cost of both Florida Hurricane Catastrophe Fund layers in the same proportion as they participate in the quota share. For the period June 1, 2006 through May 31, 2007 the premium is estimated to range between $145,000,000 - $155,000,000 written, and $130,000,000 - $140,000,000 earned.

4. Post-Surplus Note Reinsurance: Florida Peninsula will purchase additional reinsurance to cover any additional takeouts or writings prior to June 1, 2007. The company will work with Guy Carpenter and its reinsurers to put in place a program that both management and the OIR are comfortable with prior to any assumptions of additional policies. In June 2007, the company will have a comprehensive program for its entire portfolio that meets all OIR requirements. Going forward, the company plans to retain a significant portion of the non-wind risk from its multi-peril homeowners policies.

Future Plans

Florida Peninsula is planning on issuing $25 million of New Capital from its parent, Florida Peninsula Holdings, LLC and a $25 million Surplus Note from the SBA to grow the company's Surplus. With this new Capital, Florida Peninsula plans on expanding its policy base significantly over the next several years. The Company will have in excess of $60 million in Surplus.

The company plans to expand into multi-peril homeowners policies (primarily including wind coverage). Initially, the company plans to work with Citizens and private companies to initiate large takeouts that will allow the company to grow its policy base and premiums very quickly. The company has begun to analyze the Citizens PLA account and has initiated discussions with some private companies who want or need to shed some of their exposure in Florida.

	Policy Growth
1st Year	85,000 – 120,000
2nd Year	50,000 – 100,000
3rd Year	50,000 – 100,000

With expected average premiums between $2,000 and $2,700, the company should have new in-force premiums of approximately $240 million and total in-force premiums of approximately $360 million by the end of the 1st year.

Policy selection will be based on all the attributes of the property including construction, age of home, roof type, and location. In addition, the company will work with Guy Carpenter, its reinsurance broker, to select policies that are spread throughout the state and have a relatively low PML to Premium ratio.

After the initial takeouts, the company plans to start enlisting its key agents to begin writing business for the Company. A combination of takeouts and agent writings make up the growth plan from 2007 through 2009.

Operational Initiatives

To meet the operational and management needs of this much larger company, the company has already begun several initiatives:

1. The company has committed to further integration of its policy administration, claims management, and financial and accounting systems. The new system will allow our customer service and agent service representatives to access all relevant information in a very fast and efficient manner. The company has contracted with its policy administration system vendor, BIPT, to add a full homeowners module to our current system.

2. The company has expanded its claims adjusting network. While CatManDo is still our lead adjusting firm, we have contracted with National Claims Adjusters, Inc (NCA) as a second company for 2006 and have interviewed approximately 5 other firms that could assist us in the event of a huge storm.

3. The company has signed a new lease to more than double the size of its headquarters office to approximately 9,000 square feet. The company and the MGA are in the process of hiring additional accounting, operations, and claims management personnel

in anticipation of this growth. In addition, MacNeill group is committing additional supervisory, underwriting, and customer service resources to Florida Peninsula.

4. The company has engaged a national and a Florida based actuarial firm to help develop its multi-peril homeowners program and rate structure. This will be completed by the end of the summer.

5. The company has engaged Insurance Risk Services to conduct Insurance to Value inspections.

6. The company has engaged CBIZ, a large accounting consulting firm, to do a complete review of the company's internal controls, including modules for our major vendors.

7. The Company has begun negotiations with several large reinsurance companies to establish a more strategic relationship which would garner capacity on a multi-year basis. We will work with these strategic partners in establishing a policy portfolio which they can support for more than one year at a time.

ProForma Section:

Assumptions

1. The company will maintain its current wind-only policies but future policy assumptions and writings will be multiperil. The proformas show a combined Summary of Wind-Only and Multi-Peril as well as separate pages for the Wind-Only Business and the Multi-Peril Business.

2. The Pro-Formas assume that the Company will add 85,000 – 120,000 multi-peril policies by the end of the first year and an additional 50,000+ policies in the second and third years. The company's infrastructure will be able to handle an even more aggressive growth plan, but believes this more conservative approach is prudent at least until we are comfortable that we can secure more long term reinsurance commitments.

3. Non-CAT loss ratios for Multi-peril policies are forecast at 22% compared with 2% for Wind-Only Policies. However, reinsurance costs are forecast as lower as a percent of premium for Multi-peril policies.

4. Multi-peril policy retention is forecast at 85% per annum.

5. General assumptions include a combined federal and state tax rate of 40%, premium tax rate of 1.75%, and an inflation factor of 8% per annum.

FLORIDA PENINSULA FINANCIAL MODEL SUMMARY

Insurance Company: Statutory Income Statement

000 omitted

	2006	2007	2008	2009
Direct Plus Assumed Premium Earned (Wind)	$112,891	$134,472	$128,741	$107,0
Direct Plus Assumed Premium Earned (Multiperil)	$16,667	$262,598	$427,947	$602,4
Direct Plus Assumed Premium Earned (Wind & Multiperil Combined)	$129,558	$397,069	$556,688	$709,5
Ceded Premium Earned (Reinsurance Costs)	$78,341	$247,410	$332,704	$413,1
Net Earned Premiums	$51,217	$149,660	$223,985	$296,4
Direct Plus Assumed Incurred Loss	$5,925	$60,461	$96,723	$134,6
Direct Plus Assumed Incurred Loss & LAE	$12,403	$80,314	$124,558	$170,1
Ceded Incurred Loss & LAE (Reimbursed by Reinsurance)	$1,848	$18,854	$30,162	$42,0
Net Incurred Loss & LAE (Retained after Reinsurance)	$10,555	$61,460	$94,395	$128,1
Direct Commissions Paid	$0	$0	$0	$
Ceding Commissions	$12,689	$35,393	$47,594	$59,1
Net Commissions	-$12,689	-$35,393	-$47,594	-$59,1
Direct Other Contract. Agree'mts (MGA, service contracts…)	$32,389	$99,267	$139,172	$177,3
Expenses (MGA Fee, Premium Tax and All Other)	$35,687	$110,113	$154,587	$197,2
Underwriting Gain (or Loss)	$17,664	$13,479	$22,597	$30,1
Investment Income	$1,260	$4,123	$5,853	$7,5
Pre-Tax Income	$18,924	$17,602	$28,450	$37,6
Federal and State Income Tax	$7,570	$7,041	$11,380	$15,0
After Tax Income	$11,355	$10,561	$17,070	$22,5
Ending Surplus	$68,143	$78,704	$95,773	$118,3
Net Premium to Surplus Ratio		1.9	2.3	2

FLORIDA PENINSULA FINANCIAL MODEL
WIND ONLY

Statutory Income Statement

000 omitted

	2006	2007	2008	2009
Direct Plus Assumed Premium Earned	$112,891	$134,472	$128,741	$107,061
Ceded Premium Earned	$71,568	$101,951	$95,654	$77,955
Net Earned Premiums	$41,323	$32,521	$33,087	$29,106
Direct Plus Assumed Incurred Loss & LAE	$7,903	$9,413	$9,012	$7,494
Ceded Incurred Loss & LAE	$704	$839	$803	$668
Net Incurred Loss & LAE	$7,198	$8,574	$8,209	$6,827
Direct Commissions Paid	$0	$0	$0	$0
Ceding Commissions	$10,238	$14,584	$13,684	$11,152
Net Commissions	-$10,238	-$14,584	-$13,684	-$11,152
Expenses (MGA Fee, Premium Tax and All Other)	$31,045	$36,980	$35,404	$29,442
Underwriting Gain (or Loss)	$13,318	$1,551	$3,158	$3,989
Investment Income	$1,080	$1,286	$1,232	$1,024
Pre-Tax Income	$14,398	$2,837	$4,389	$5,014

FLORIDA PENINSULA FINANCIAL MODEL
MULTIPERIL

Statutory Income Statement

000 omitted

	2006	2007	2008	2009
Direct Plus Assumed Premium Earned	$16,667	$262,598	$427,947	$602,484
Ceded Premium Earned	$6,773	$145,459	$237,049	$335,187
Net Earned Premiums	$9,894	$117,139	$190,898	$267,296
Direct Plus Assumed Incurred Loss & LAE	$4,500	$70,901	$115,546	$162,671
Ceded Incurred Loss & LAE	$1,143	$18,016	$29,359	$41,334
Net Incurred Loss & LAE	$3,357	$52,886	$86,186	$121,337
Direct Commissions Paid	$0	$0	$0	$0
Ceding Commissions	$2,451	$20,808	$33,911	$47,949
Net Commissions	-$2,451	-$20,808	-$33,911	-$47,949
Expenses (MGA Fee, Premium Tax and All Other)	$4,642	$73,133	$119,183	$167,792
Underwriting Gain (or Loss)	$4,347	$11,928	$19,439	$26,117
Investment Income	$180	$2,836	$4,622	$6,507
Pre-Tax Income	$4,527	$14,764	$24,061	$32,624

Part V: False or Misleading Statements

Any application or any documents provided with the application which contain false or misleading statements, will, if discovered prior to the execution of a Surplus Note, cause the application to be rejected, and if discovered after the execution of a Surplus Note, will cause the Surplus Note to be in default.

The Company understands the above clause and has not knowingly provided any false or misleading statements. Some of the information in this application contains projections or other forward-looking statements regarding future events or the future financial performance of the Company. We wish to caution you that these statements are only predictions and that actual events or results may differ materially. We refer you to the Company's statutory annual statement, which contains and identifies important factors that could cause the actual results to differ materially from those contained in our projections or forward-looking statements, including: limited operating history; seasonal fluctuations in quarterly results; dependence on new product development; rapid market change; reliance on sales by others; management of growth; dependence on key personnel; technology risks; and financial risk management.

Part VI: Limitations

The Insurer is limited in how funds from the Surplus Note can be used. Funds received from this Surplus Note cannot be invested in any items not authorized under Part II of Section 625, F.S. The Board reserves the right to confirm the use of the funds at any time during the duration of the Surplus Note.

<u>The Company understands these Limitations and understands the Board's right to confirm the use of the funds at any time during the duration of the Surplus Note.</u>

Part VII: Selection Period

The Applicant and its agents, officers, principals, and employees will not engage in any written or verbal communication regarding its application or its participation in this Program during the "selection period" (defined below) with the Office or the Board or any employee thereof, whether or not such individual or employee is assisting in the evaluation of applications. Any unauthorized contact may disqualify the Applicant from further consideration. Normal business communications not related to the processing of the Surplus Note are allowed.

The Applicant will not engage in any lobbying efforts or other attempts to influence the Office, the Board, or any financial or insurance consultant employed by the Board in an effort to influence the Board's decision with respect to executing the Surplus Note with a particular Insurer or Insurers under the Program. Any and all such efforts made by the Applicant or its agents, officers, principals, employees, or lobbyists will be disclosed to the Executive Director of the Board within five calendar days of its becoming known.

The "Selection Period" for this application begins on the date the application is submitted and continues until the Applicant is notified that it was or was not selected to participate in the Program.

The Company understands the above Statements and will comply with the Selection Period Rules outlined.

Part VIII: Delivery Address; Number of Copies; Format; Costs

The Board shall not be liable or responsible for any costs incurred by any Applicant filing this application.

Submit ten (10) bound copies of the application and all accompanying documentation, an unbound original document, and an electronic copy of the responses on a CD in PDF format. All materials shall be in the order set forth in the application, identified, and divided by part. Responses to each part should be kept together and include a divider page between each part.

The application, along with all the required documentation shall be sent to the Board at the following address:

State Board of Administration of Florida
c/o The Florida Hurricane Catastrophe Fund
P.O. Box 13300
Tallahassee, FL 32317-3300

STATE BOARD OF ADMINISTRATION OF FLORIDA
INSURANCE CAPITAL BUILD-UP INCENTIVE PROGRAM ("PROGRAM")
APPLICATION

Part IX: Attestation

To be eligible and to be considered for participation in the Program, Applicants must meet each of the statutory requirements listed below. To certify that the Applicant meets each requirement, check each of the boxes which follow the list of requirements.

1. The Surplus Note amount sought by the Applicant, or if the Applicant is part of a group, the amount sought by all group members when added together, does not exceed $50 million.
2. An Applicant filing an application prior to July 1, 2006, must be able, prior to the execution of the Surplus Note, to show that the New Capital contributed equals the amount of the approved Surplus Note. The New Capital contributed must be in the form of Cash* or Cash Equivalents* as defined in Rule 19ER06-3, F.A.C.
3. An Applicant filing applications after July 1, 2006, must be able, prior to the execution of the Surplus Note, to show that the New Capital contributed is twice the amount of the approved Surplus Note. The New Capital must be in the form of Cash or Cash Equivalents.
4. Applicant's Surplus, New Capital contributions, and the Surplus Note must total at least $50 million.

Applicant must be willing to commit to meeting a Minimum Writing Ratio of Net Written Premium to Surplus of 2:1 for the 20-year term of the Surplus Note.

Affirms Applicant meets minimum qualifications.

☐

☐ Affirms Surplus Note, Form SBA 15-2, has been reviewed and terms and conditions contained therein can be met by Applicant.

☐ Acknowledges and accepts all terms and conditions of Surplus Note.

We are each, respectively, executive officers of the Insurer making this application, acting within our authority in making the declarations listed in this application.

BY: ____________________________________ **BY:**

TYPED NAME: _________________________ **TYPED NAME:**

TITLE:__________________________________ **TITLE:**

DATE: __________________________________ **DATE:**