

REPORT ON EXAMINATION

of the

**SHEFFIELD INSURANCE COMPANY
215 CENTERVIEW DRIVE
SUITE 111
BRENTWOOD, TENNESSEE**

RECEIVED

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Dept. of Commerce & Insurance
Company Examinations

as of

DECEMBER 31, 2009

DEPARTMENT OF COMMERCE AND INSURANCE

STATE OF TENNESSEE

NASHVILLE, TENNESSEE

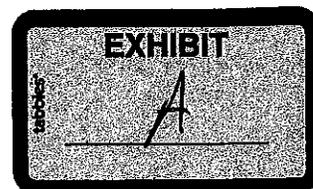


TABLE OF CONTENTS

<u>Item</u>	<u>Page</u>
Salutation.....	1
Introduction.....	1
Scope of Examination.....	1
Previous Examination Comments and Recommendations.....	2
Company History.....	2
Charter and Bylaws.....	4
Management and Control.....	5
Pecuniary Interest Tenn. Code Ann. § 56-3-103.....	6
Commission Equity.....	6
Corporate Records.....	6
Fidelity Bond and Other Insurance.....	7
Territory.....	7
Plan of Operation.....	8
Market Conduct Activities.....	8
Reinsurance.....	9
Retirement Plan and Other Employee Benefits.....	11
Loss Experience.....	11
Accounts and Records.....	11
Statutory Deposits.....	12
Agreements with Parent, Subsidiaries and Affiliates.....	12
Commitments and Contingencies.....	13
Subsequent Events.....	13
Financial Statement.....	14
Analysis of Changes in Financial Statement and Comments Resulting from Examination Financial Statement.....	18
Analysis of Changes in Financial Statement and Comments Resulting from Examination as They Affect Surplus.....	19
Comments and Recommendations.....	20
Conclusion.....	21
Affidavit.....	22
Organizational Chart.....	23

Brentwood, Tennessee
May 18, 2011

Honorable Julie M. McPeak
Commissioner
Tennessee Department of Commerce and Insurance
500 James Robertson Parkway
Nashville, Tennessee 37243

Dear Commissioner:

Pursuant to your instructions and in accordance with Tennessee insurance laws, regulations, and resolutions adopted by the National Association of Insurance Commissioners (NAIC), a financial examination and market conduct review was made of the condition and affairs of the

**SHEFFIELD INSURANCE COMPANY
BRENTWOOD, TENNESSEE**

hereinafter and generally referred to as the Company, and a report thereon is submitted as follows:

INTRODUCTION

This examination was called by the Commissioner of Commerce and Insurance of the State of Tennessee and commenced on January 19, 2011. The examination was conducted by duly authorized representatives of the Department of Commerce and Insurance, State of Tennessee.

SCOPE OF EXAMINATION

This examination report covers the period from March 14, 2005, the date of the last previous examination, to the close of business on December 31, 2009, and includes any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

The examination of the financial condition was conducted in accordance with guidelines and procedures contained in the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook. During the course of examination, assets were verified and valued and liabilities were determined and estimated as of December 31, 2009. The financial condition of the Company and its degree of solvency were thereby established. Test checks were made of income and disbursement items for selected

periods, and a general review was made of the Company's operations, practices, and compliance with applicable statutes and regulations.

All asset and liability items contained in the financial statement of this report were examined and verified with relative emphasis according to their amount and potential impact on capital and surplus. In addition, the following topics were reviewed:

- Company History
- Charter and Bylaws
- Management and Control
- Corporate Records
- Fidelity Bonds and Other Insurance
- Territory
- Plan of Operation
- Market Conduct Activities
- Reinsurance
- Retirement Plan and Other Employee Benefits
- Loss Experience
- Accounts and Records
- Statutory Deposits
- Agreements with Parent, Subsidiaries and Affiliates
- Pecuniary Interest
- Litigation
- Subsequent Events
- Financial Statement

PREVIOUS EXAMINATION COMMENTS AND RECOMMENDATIONS

The previous examination of the Company was conducted as of March 15, 2005. This was the Company's organizational examination. The comments in the comments and recommendation section of the organizational examination were not to address deficiencies in the Company. No previous issues existed from the organizational examination to address during this first full scope examination.

COMPANY HISTORY

The Company was incorporated on October 7, 2004 under the Tennessee Business Corporation Act as a for profit corporation authorized to transact business in the State of Tennessee. The Company's Certificate of Authority authorizes it to operate in the field of casualty insurance, effective May 9, 2005.

On October 21, 2004, the incorporator, approved by actions of written consent, adopted the charter and bylaws, elected the Board of Directors, and resigned as incorporator. The preceding actions of the incorporator were ratified by action of written consent on October 21, 2004 by the Board of Directors. Also by action of written consent, officers were granted certain powers and authority and the Company was authorized to issue 500,000 shares of common stock, one dollar (\$1) par value to each of Donald E. Capps and Donovan H. Gravlee for valid consideration received. The total number of shares of stock the corporation was authorized to issue was five million (5,000,000) shares of common stock, one dollar (\$1) par value.

On July 23, 2007, the Company's charter amendment was approved by the TDCI. The charter amendment was adopted by the shareholders and the Board of Directors on June 21, 2007 to be effective on or before August 1, 2007. The amended charter changed the common stocks' par value from one dollar (\$1) to two dollars (\$2). This change allowed the Company to maintain minimum capital requirements upon the redemption of 500,000 shares by Donald E. Capps. The transaction resulted in the Company having 500,000 shares issued and outstanding at two dollars (\$2) to Donovan H. Gravlee, therefore maintaining minimum capital requirements.

On October 14, 2008, the Company amended its charter to apportion and designate its 5,000,000 authorized shares of common stock into 4,900,000 shares of Class A voting common stock and 100,000 shares of Class B nonvoting common stock.

On October 15, 2008, the Board of Directors approved the issuance of 100 shares of its Class B nonvoting common stock at par value. Fifty-five shares were issued to Donovan H. Gravlee and 45 shares were issued to other members of the Company's management.

Effective December 22, 2009, Donovan H. Gravlee transferred 100% of ownership of voting common shares to Victoria Gravlee with Donovan H. Gravlee retaining all voting rights through entering an irrevocable proxy with Victoria Gravlee.

As of December 31, 2009, Donovan H. Gravlee is recognized as the Company's ultimate controlling person, and the Company has 500,100 shares of issued and outstanding common stock with a total par value of \$1,000,200.

The following exhibit depicts certain aspects of the growth and financial history of the Company according to annual statements filed with the TDCI:

<u>Year</u>	<u>Earned Premiums</u>	<u>Incurred Losses & LAE</u>	<u>Admitted Assets</u>	<u>Capital and Surplus</u>	<u>Net Income</u>
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2005	\$509,819	\$286,697	\$6,253,054	\$3,942,388	(\$243,136)
2006	\$3,210,695	\$2,072,575	\$8,934,327	\$3,863,572	\$119,226
2007	\$4,074,014	\$2,406,036	\$10,957,742	\$4,140,984	\$253,750
2008	\$6,062,492	\$3,053,696	\$12,638,809	\$4,286,417	\$414,889
2009	\$5,302,796	\$4,107,870	\$13,742,384	\$3,998,184	(\$268,638)

CHARTER AND BYLAWS

Charter:

The Charter was filed and recorded with the Tennessee Secretary of State on October 7, 2004, after having been approved by the TDCI. The stated purpose of the Company is:

"To engage in the business of insurance as a principal, including but not limited to property and casualty insurance, and to engage in any other lawful business under the laws of the State of Tennessee."

The original Charter authorized the corporation to issue 5,000,000 shares of common stock, one dollar (\$1) par value.

On June 21, 2007, a Charter amendment was adopted by the shareholders and the Board of Directors to be effective on or before August 1, 2007 changing the common stocks' par value from one dollar (\$1) to two dollars (\$2). On October 14, 2008, the Company amended its charter to apportion and designate its 5,000,000 authorized shares of common stock into 4,900,000 shares of Class A voting common stock and 100,000 shares of Class B nonvoting common stock. On June 16, 2009, Articles of Amendment to the Charter were adopted by the Board of Directors to be effective when filed with the Secretary of State's office changing the address of the principal corporate office.

The corporation's existence is perpetual and its principal corporate office is established at 215 Centerview Drive, Suite 111, Brentwood, TN 37027.

Bylaws:

The Bylaws of the Company in effect at March 14, 2005 were adopted by the written consent of the Board on October 21, 2004 at the meeting of the incorporators and have been amended once during the examination period. Such action was taken by written consent by the Board of Directors on June 9, 2006. The bylaws are such as are generally found in corporations of this type and contain no unusual provisions.

An annual meeting of the shareholders of the Company shall be hold at such time and place, either within or without this State, as may be designated from time to time by the directors. Special meetings of the shareholders may be called by the Board of Directors or by the holders of at least ten percent (10%) of the stock of the Corporation entitled to vote at such meeting. The place of such annual and special meetings shall be designated by the directors. If no such place is fixed by the Board, the meeting shall be held at the principal office of the Corporation. A majority of shares entitled to vote on a matter by a voting group constitutes a quorum of that group for action on that matter.

The business and affairs of the Corporation shall be managed under the direction of a board of directors. The number of directors shall be not less than two (2) members. The board may hold regular or special meetings either within or without the State of Tennessee. A majority of the directors shall constitute a quorum.

The officers for the corporation shall be a Chairman of the Board, a President, a Secretary, a Treasurer and such other offices as the Board of Directors shall from time to time deem necessary. One person may simultaneously hold more than one (1) office except the President may not simultaneously hold the office of Secretary.

MANAGEMENT AND CONTROL

Management:

The Bylaws provide that all corporate powers shall be exercised by or under the authority of and the business and affairs of the Corporation managed under the direction of the Board of Directors consisting of no fewer than two (2) members. Board members are elected by the shareholders. As of December 31, 2009, the Board of Directors of the Company was composed of the following:

<u>Name</u>	<u>Address</u>	<u>Position</u>
Donovan H. Gravlee	Birmingham, Alabama	Ultimate Controlling Person, SIC
William Todd Larry	Birmingham, Alabama	President/CEO, SIC

As of December 31, 2009, the following persons held office in the Company:

William Todd Larry, President and CEO
William Dixon Lewis, Secretary
Benjamin Joseph Harris, Treasurer
Donovan H. Gravlee, Vice President
Karl David Peterson, Vice President

Control:

Donovan H. Gravlee is recognized as the ultimate controlling person. Victoria Gravlee owns 100% of the Company's 500,000 issued and outstanding voting common stock. In conjunction with the transfer of 100% ownership to Victoria Gravlee, an irrevocable proxy was entered in which Donovan H. Gravlee retained all rights to vote all of the gifted shares. An organizational chart is attached at the end of this report.

PECUNIARY INTEREST TENN. CODE ANN. § 56-3-103

The Company has established a conflict of interest policy for its directors and officers. The affected persons file conflict of interest statements annually. A check for compliance with Tenn. Code Ann. § 56-3-103 found that no director or officer of the Company had a pecuniary interest in the investment or disposition of Company funds.

COMMISSION EQUITY

The Company cedes premiums under reinsurance agreements on a written basis and in the event of termination, the Company would be obligated to return any unearned ceding commissions to the reinsurers. The reinsurance agreements remain in force until cancellation or expiry of the policies in the event of termination; therefore, no return of premium or ceding commission would be required. The quota-share agreement allows for a provisional ceding commission on net direct written premiums (direct written premium less premium ceded for excess reinsurance) collected. Through the aforementioned and other various provisions in the agreements, the Company has no ultimate or contingent liability for commission equity.

CORPORATE RECORDS

The Company's original Certificate of Authority was issued May 9, 2005. The Certificate of Authority is current and is effective until suspended or revoked.

The minutes of the meetings of the Company's shareholders were provided to the examiners. The shareholder's primary function is to elect directors to the board annually.

The minutes of the meetings of the Company's board of directors were provided to the examiners for the period under examination. The minutes were complete as to necessary detail and appear to properly reflect the acts of the Company's board. Review of the minutes indicates that investment transactions were approved by the Board of Directors.

FIDELITY BOND AND OTHER INSURANCE

As of December 31, 2009, the Company is included as a named insured on the coverage with affiliates Argos Group, Inc. and Argos Risk Management Services, LLC. The professional and executive liability coverage is underwritten by Endurance American Specialty Insurance Company. The fidelity bond has an aggregate limit of \$5,000,000 and retention of up to \$100,000. The minimum range recommended by the NAIC Financial Condition Examiners Handbook for a company of this size is \$150,000 to \$175,000. The Company had fidelity coverage which exceeded the minimum suggested coverage.

The Company's policy is summarized as follows:

<u>Type or Class of Coverage</u>	<u>Limits, Retentions, and Deductibles</u>
Fidelity Coverage (Executive Liability)	\$1,000,000 Management liability; \$1,000,000 Employment practices liability; \$1,000,000 Fiduciary liability; \$5,000,000 Premier insurance services professional liability per policy period for all claims; \$5,000,000 aggregate limit of liability per policy period for all claims; \$25,000 retention each claim for management liability and employment practices liability; \$100,000 retention each claim for premier insurance services professional liability

Endurance American Specialty Insurance Company was authorized to transact business in Tennessee as of December 31, 2009.

TERRITORY

As of December 31, 2009, the Company was licensed to transact business in Tennessee only. The Certificate of Authority was reviewed without exception.

During 2009, the Company wrote direct premium in one (1) state:

<u>State</u>	<u>Amount</u>
Tennessee	<u>\$3,784,491</u>
Total	<u>\$3,784,491</u>

PLAN OF OPERATION

The Company issues workers' compensation and employers' liability policies to a variety of small business owners. The Company's business is produced by licensed individuals and licensed business entities. Duties are performed in accordance with the Company's agency agreement which is signed by the producer. Under terms of appointment of the agreement, the producer acts as an independent contractor.

The figures below show the premiums for the Company as of December 31, 2009, as reported in Schedule T of the Company's Annual Statement:

State	Direct Premiums Written	Direct Premiums Earned	Direct Losses Paid	Direct Losses Incurred	Direct Losses Unpaid	Finance and Service Charges Not Included in Premiums
Tennessee	<u>\$3,784.49</u>	<u>\$3,911,444</u>	<u>\$1,465,245</u>	<u>\$2,053,544</u>	<u>\$4,148,265</u>	<u>\$90,343</u>
Totals	<u>\$3,784.49</u> <u>1</u>	<u>\$3,911,444</u>	<u>\$1,465,245</u>	<u>\$2,053,468</u>	<u>\$4,148,265</u>	<u>\$90,343</u>

MARKET CONDUCT ACTIVITIES

In accordance with the policy of the Department of Commerce and Insurance, State of Tennessee, a market conduct review was made of the Company as of December 31, 2009 in conjunction with this examination. The following items were addressed:

Policy Forms and Rates:

The Company files policy forms and rates appropriately. The Company adopts prospective loss costs provided by the National Council on Compensation Insurance, Inc. and additionally adds the multiplier.

Advertising:

The Company advertises by brochure through Argos Risk Group, Inc. This brochure includes a telephone number and a website www.argosinc.com.

Claims Review:

A sample of open and closed claim files reviewed during the examination indicated that claims were being paid in accordance with policy provisions and settlements were made promptly upon receipt of proper evidence of the Company's liability.

Policyholder Complaints:

Inquiries made to the TDCI Consumer Insurance Services indicated no significant concerns or complaints with the Company during the period under examination. Company provided information that no particular concerns have been addressed outside of the normal course of business.

REINSURANCE

The Company's reinsurance agreements were reviewed and found to contain the standard provisions for arbitration, cancellation, errors and omissions, exclusions, insolvency, offset, settlement, taxes and termination. The Company's reinsurance agreements appear to effectuate proper transfer of risk in accordance with SSAP No. 62 and NAIC guidelines. The following is a summary of the reinsurance agreements in effect as of December 31, 2009:

Reinsurance Assumed:

The Company assumes Workers' Compensation and Employers' Liability policies written by Benchmark Insurance Company. This business was written to cover the insured by Benchmark in Alabama, Mississippi, and Tennessee.

Reinsurance Ceded:

(1)

Type: Quota-share
Reinsurers: Benchmark Insurance Company, 50% participation; Transatlantic Reinsurance Company, 20% participation
Term: July 1, 2008 through any June 30 by no less than 90 days prior notice by either party
Premium: Proportionate share of premium for ceded risk
Commission: 38.6%
Coverage: Up to \$500,000 per occurrence plus pro rata allocated loss adjustment expense.
Intermediary: Trean Reinsurance Services, LLC

(2)

Type: Excess of Loss (First)
Reinsurer: Midwest Employers Casualty Company
Term: July 1, 2009 through June 30, 2010
Premium: Greater of \$530,700 or 4.35% of direct written premium
Commission: N/A

Coverage: Up to \$9,500,000 per occurrence plus pro rata allocated loss adjustment expense in excess of \$500,000 ultimate net loss plus pro rata allocated loss adjustment expense.

Intermediary: Trean Reinsurance Services, LLC

(3)

Type: Excess of Loss (Second)

Reinsurers: Arch Accident & Health ApS on behalf of Arch Reinsurance Europe Underwriting Limited, 50% participation; Underwriting Members at Lloyds, 50% participation

Term: July 1, 2009 through June 30, 2010

Premium: Greater of \$180,000 or 1.193% of direct written premium

Commission: N/A

Coverage: Up to \$10,000,000 per occurrence plus pro rata allocated loss adjustment expense in excess of \$10,000,000 retention per occurrence plus pro rata allocated loss adjustment expense.

Intermediary: Trean Reinsurance Services, LLC

Benchmark Insurance Company, Transatlantic Reinsurance Company, and Midwest Employers Casualty Company are authorized in the state of Tennessee. Underwriting members at Lloyds (Faraday Underwriting Limited, Liberty Syndicate Management Limited, and S.A. Meacock & Company Limited) are authorized in the state of Tennessee. Arch Re Accident & Health ApS is unauthorized in the state of Tennessee.

Unearned Ceding Commission:

The Company's reinsurance agreements cede premiums on a written basis, and therefore, in the event of termination, the Company would be obligated to return any unearned ceding commissions to the reinsurers. However, the agreements provide that in the event of termination, the reinsurance continues to apply to all policies in force until their expiry or cancellation in the normal course of business. There is no return of premium or ceding commission at the termination of an agreement because the policies continue in full force. Therefore, the Company is deemed to have no ultimate liability for unearned ceding commissions.

RETIREMENT PLAN AND OTHER EMPLOYEE BENEFITS

As of December 31, 2009, the Company had no employees. Employee services are provided by an affiliate company, Argos Group, Inc. under the terms of a general agency agreement. Under the agreement, the Company obtains day-to-day administration, underwriting, and policyholder services.

LOSS EXPERIENCE

Year	Losses Incurred	LAE Incurred	Premiums Earned	Loss Ratio
2005	\$247,485	\$39,212	\$509,819	56.2%
2006	\$1,882,326	\$190,249	\$3,210,695	64.6%
2007	\$1,909,901	\$496,135	\$4,074,014	59.1%
2008	\$2,583,092	\$470,604	\$6,062,492	50.4%
2009	<u>\$3,861,918</u>	<u>\$245,952</u>	<u>\$5,302,796</u>	<u>77.5%</u>
Total	\$10,484,722	\$1,442,152	\$19,159,816	62.2%

ACCOUNTS AND RECORDS

During the course of examination, such tests and audit procedures were made as were considered necessary, including substantial verification of postings, extensions and footings and reconciliation of subsidiary ledgers to control accounts where necessary. General ledger trial balances were reconciled with copies of annual statements for the years 2005, 2006, 2007, 2008 and 2009.

Accounting records conform to generally accepted insurance accounting practices and appear to properly reflect the operations during the period under examination and the status of the Company at the date of examination.

The Company's Risk Based Capital Report was reviewed.

An annual audit of the Company is performed by an independent accounting firm.

STATUTORY DEPOSITS

In compliance with statutory requirements, the Company maintained the following deposits at December 31, 2009:

<u>Where Deposited and Description</u>	<u>Par Value</u>	<u>Statement Value</u>	<u>Market Value</u>
United States Treasury Note 4.63%, Due 2/15/10	<u>\$120,000</u>	<u>\$120,039</u>	<u>\$120,628</u>

Total deposits held for the benefit of all policyholders of the Company	<u>\$120,000</u>	<u>\$120,039</u>	<u>\$120,628</u>
Total	<u>\$,120,000</u>	<u>\$120,039</u>	<u>\$120,628</u>

AGREEMENTS WITH PARENT, SUBSIDIARIES AND AFFILIATES

The Company is a member of an insurance holding company system as defined by Tenn. Code Ann. § 56-11-101 and is subject to Tenn. Code Ann. § 56-11-101, *et seq.* "Insurance Holding Company System Act of 1986". The Company files a Holding Company Registration Statement annually as required by Tenn. Code Ann. § 56-11-105. The required Forms B and C were filed April 29, 2009.

General Agency Agreement: Effective August 1, 2007, the Company entered into an agreement with an affiliate, Argos Group, Inc. Under terms of the agreement, Argos Group, Inc. provides the Company with services for day-to-day administration, underwriting, and policyholder services. For services provided, the terms of the agreement require the Company pay a management fee of 18.36% of net direct written premium collected, inclusive of all agents' commission, plus the expense constant for each policy issued. The agreement shall terminate with either party providing 120 days prior written notice to the other party. Effective January 1, 2008, the agreement was amended to change the management fee to the current 18.36% of net direct written premium collected, inclusive of all agents' commission, plus the expense constant for each policy issued. The agreement as amended was approved by the TDCI on June 13, 2008.

Claims Service Agreement: Effective August 1, 2007, the Company entered into an agreement with an affiliate, Argos Risk Management Services, LLC. Under terms of the agreement, Argos Risk Management Services, LLC provides claims processing and administration to the Company. For services provided, the terms of the agreement require the Company pay a fee of 4.00% of the net direct premium collected. The agreement shall terminate with either party providing 120 days prior written notice to the other party. Effective January 1, 2008, the agreement was amended to change the management fee to the current 4.00% of the net direct premium collected. The agreement as amended was approved by the TDCI on June 13, 2008.

COMMITMENTS AND CONTINGENCIES

From the examination data made available, it appears that the only matters of law in which the Company was involved during the period under review were those arising out of the normal course of business. The outcome of such actions should not have a material effect

on the financial position of the Company.

SUBSEQUENT EVENTS

Subsequent to the December 31, 2009 date of examination, the Company and Regions Morgan Keegan Trust - Birmingham executed an amended custodial agreement that contained the proper provisions as required by Tenn. Comp. R. & Regs. § 0780-1-46.04. The amended custodial agreement was signed by authorized representatives of the Company on March 10, 2011 and Regions Morgan Keegan Trust - Birmingham on March 10, 2011. See the "Comments" section of this report for further information.

Subsequent to the December 31, 2009 date of execution, the Company formally adopted a written privacy policy. The policy was adopted on April 27, 2011. The Company has utilized these policies and procedures since the Company's inception, but the policies and procedures were not formalized. See the "Comments" section of this report for further information.

FINANCIAL STATEMENT

There follows a statement of assets, liabilities and statement of income at December 31, 2009, together with a reconciliation of capital and surplus for the period under review, as established by this examination:

ASSETS

	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$4,493,386		\$4,493,386
Common stocks	205,813		205,813
Cash and short-term investments	5,565,971		5,565,971
Investment income due and accrued	51,233		51,233
Uncollected premiums and agents' balances in course of collection	475,710	283,374	192,336
Deferred premiums, agents' balances and installments booked but deferred and not yet due	2,253,400	220,186	2,033,214
Amounts recoverable from reinsurers	197,092		197,092
Current federal and foreign income tax recoverable and interest thereon	312,875		312,875
Net deferred tax asset	639,956	78,288	561,248
Aggregate write-ins for other than invested assets	<u>330,415</u>	<u>201,199</u>	<u>129,216</u>
Totals	<u>\$14,525,431</u>	<u>\$783,047</u>	<u>\$13,742,384</u>

LIABILITIES, SURPLUS, AND OTHER FUNDS

Losses	\$5,345,189
Reinsurance payable on paid losses and loss adjustment expenses	297,118
Loss adjustment expenses	272,251
Other expenses (excluding taxes, licenses and fees)	458,346
Taxes, licenses and fees (excluding federal and foreign income tax)	135,319
Unearned premiums	2,084,382
Advance premium	160,269
Ceded reinsurance premiums payable	890,278
Amounts withheld or retained by company for account of others	<u>101,048</u>
Total Liabilities	<u>9,744,200</u>
Aggregate write-ins for special surplus funds	95,685
Common capital stock	1,000,200
Gross paid in and contributed surplus	3,124,631
Unassigned funds (surplus)	<u>(222,332)</u>
Total capital and surplus	<u>3,998,184</u>
Totals	<u>\$13,742,384</u>

STATEMENT OF INCOME

UNDERWRITING INCOME

Premiums earned		\$5,302,796
Deductions: Losses incurred	\$3,861,918	
Loss expenses incurred	245,952	
Other underwriting expenses incurred	<u>1,845,862</u>	
Total underwriting deductions		<u>5,953,732</u>
Net underwriting gain		(650,936)

INVESTMENT INCOME

Net investment income earned	<u>200,745</u>	
Net investment gain		<u>200,745</u>

OTHER INCOME

Net gain or (loss) from agents' or premium balances charged off		(16,664)
Finance and service charges not included in premiums		90,343
Net income before federal income taxes		(376,512)
Federal income taxes incurred		<u>(107,874)</u>
Net income		<u>(\$268,638)</u>

CAPITAL AND SURPLUS

Surplus as regards policyholders, December 31 prior year		\$4,286,417
Net income	(\$268,638)	
Change in net deferred income tax	(102,300)	
Change in non-admitted assets	<u>82,705</u>	
Change in surplus as regards policyholders for the year		(288,233)
Surplus as regards policyholders, December 31 current year		<u>\$3,998,184</u>

RECONCILIATION OF CAPITAL AND SURPLUS
FOR THE PERIOD UNDER EXAMINATION

Surplus as regards policyholders December 31	2005	2006	2007	2008	2009
Previous Year	\$0	\$3,942,388	\$3,863,572	\$4,140,984	\$4,286,417
Net Income	(243,136)	119,226	253,750	256,874	(268,638)
Change in net unrealized capital gains or (losses) less capital gains tax	29,332	(12,108)			
Change in net deferred income tax	122,479	99,656	182,661	337,603	(102,300)
Change in nonadmitted assets	(90,918)	(173,617)	(242,341)	(449,244)	82,705
Capital: paid in	1,000,000			200	
Surplus: paid in	3,124,631				
Aggregate write-ins for gains and losses in surplus		(111,973)	83,342		
Change in surplus as regards policyholders for the year	3,942,388	(78,816)	277,412	145,433	(288,233)
Surplus as regards to policyholders December 31					
Current Year	\$3,942,388	\$3,863,572	\$4,140,984	\$4,286,417	\$3,998,184

**ANALYSIS OF CHANGES IN FINANCIAL STATEMENT
AND COMMENTS RESULTING FROM EXAMINATION**

Differences in various items were noted during the course of examination; however, none were considered to produce a material effect on surplus funds as regards policyholders, either singly or in the aggregate.

ANALYSIS OF CHANGES IN FINANCIAL STATEMENT
AS THEY AFFECT SURPLUS

No schedule or comment is applicable. All noted differences were below the materiality threshold established for examination purposes.

COMMENTS AND RECOMMENDATIONS

Comments:

- The Company and Regions Moran Keegan Trust – Birmingham executed an amendment to the custodial agreement with the proper provisions as required by Tenn. Comp. R. & Regs. § 0780-1-46. The amended custodial agreement was signed by an authorized representative of the Company on March 10, 2011 and Regions Morgan Keegan Trust - Birmingham on March 10, 2011. Corrective actions taken by the Company are discussed in the “Subsequent Events” section of this report.
- The Company adopted a written privacy policy on April 27, 2011. The Company has utilized the policies and procedures within the recently adopted policy since the Company’s inception, but the policies and procedures were not formalized. See the “Subsequent Events” section of this report for further information.

CONCLUSION

Insurance examination practices and procedures, as promulgated by the National Association of Insurance Commissioners, have been followed in connection with the verification and valuation of assets and the determination of liabilities of Sheffield Insurance Company of Brentwood, Tennessee.

In such manner, it was determined that, as of December 31, 2009, the Company had admitted assets of \$13,742,384 and liabilities, exclusive of capital, of \$9,744,200. Thus, there existed for the additional protection of the policyholders, the amount of \$3,998,184 in the form of aggregate write-ins for special surplus funds, paid-up capital, gross paid-in and contributed surplus and unassigned funds (surplus).

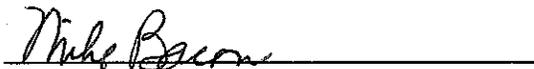
The courteous cooperation of the officers and employees of the Company extended during the course of the examination is hereby acknowledged.

In addition to the undersigned, Mr. Gregory Wilson, FCAS, MAAA and Mr. Glenn Tobleman, FCAS, FSA, MAAA of Lewis & Ellis, Inc. participated in the work of this examination.

Respectfully submitted,



Bryant Cummings, CFE
Insurance Examiner
State of Tennessee
Southeastern Zone, N.A.I.C.



Mike Bacon
Insurance Examiner
State of Tennessee
Southeastern Zone, N.A.I.C.

AFFIDAVIT

The undersigned deposes and says that he has duly executed the attached examination report of Sheffield Insurance Company dated May 18, 2011, and made as of December 31, 2009, on behalf of the Tennessee Department of Commerce and Insurance. Deponent further says he is familiar with such instrument and the contents thereof, and that the facts therein set forth are true to the best of his knowledge, information and belief.



Bryant Cummings, CFE
Insurance Examiner
State of Tennessee
Southeastern Zone, N.A.I.C.

Subscribed and sworn to before me

this 18th day of

May, 2011

Notary Helen W. Dorsey

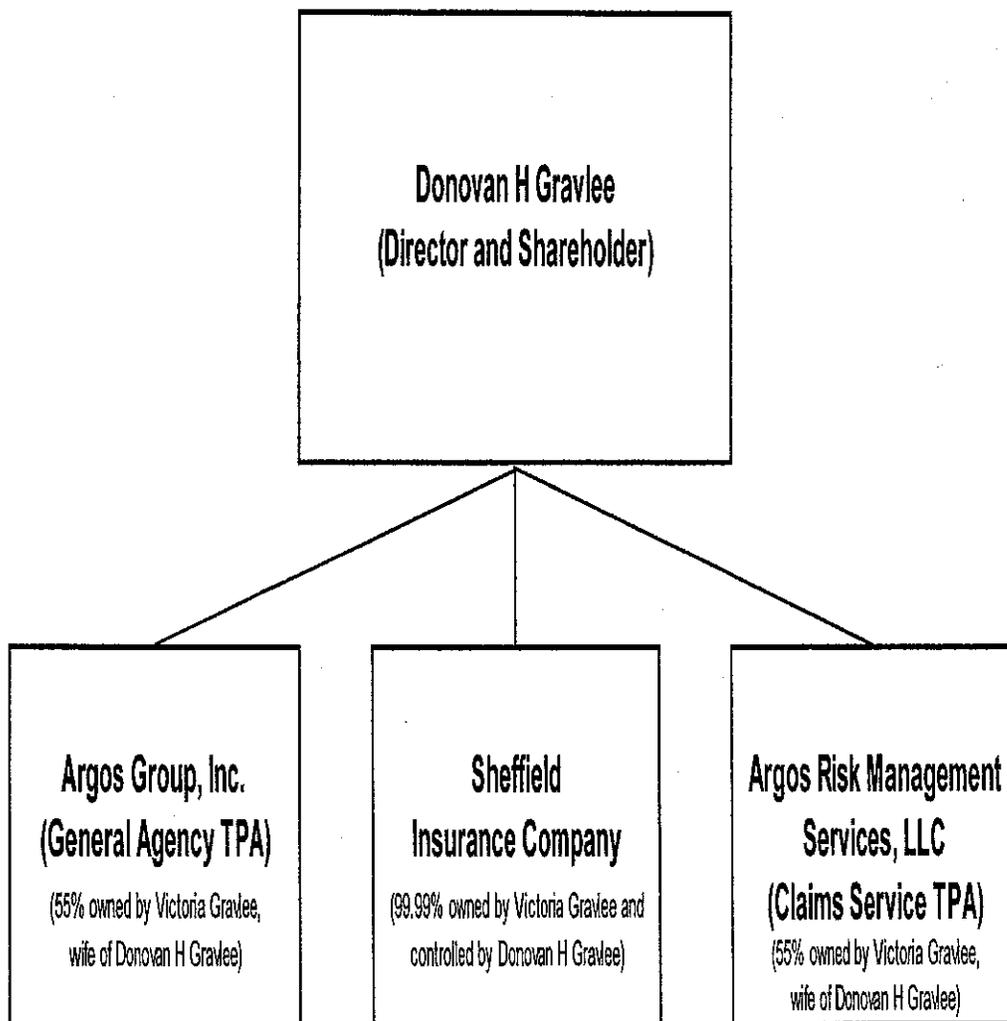
County Davidson

State Tennessee

Commission Expires 03/03/2014



ORGANIZATIONAL CHART



Refer to Notes 10 and 13 of accompanying Notes to Financial Statements for additional information regarding ownership changes involving the entities presented above.



SHEFFIELD INSURANCE COMPANY

May 26, 2011

Mr. Horace E. Gaddis, Jr., CFE
Insurance Examinations Director
Department of Commerce and Insurance
500 James Robertson Parkway
Nashville, TN 37243

RE: Examination of Sheffield Insurance Company

Dear Mr. Gaddis:

We are in receipt of your letter dated May 19, 2011 along with a copy of the financial condition Examination Report of Sheffield Insurance Company as of December 31, 2009. We are in agreement with the Report and hereby waive our right to a rebuttal.

Please pass along our thanks to everyone involved and specifically to Mr. Cummings and Mr. Bacon for all of their hard work and professionalism; it was a pleasure working with them throughout the process.

Sincerely yours,
Sheffield Insurance Company

W. Todd Larry
President & CEO

RECEIVED
2011 MAY 31 PM 2:57
FINANCIAL AFFAIRS
ANALYTICAL UNIT

