

REPORT ON EXAMINATION
OF
FIDELITY FIRE & CASUALTY COMPANY
LAKE MARY, FLORIDA

AS OF
DECEMBER 31, 2006

BY THE
OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida

October 12, 2007

Kevin M. McCarty
Commissioner
Office of Insurance Regulation
State of Florida
Tallahassee, Florida 32399-0326

Dear Sir:

Pursuant to your instructions, in compliance with Section 624.316, Florida Statutes, 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, 2006, of the financial condition and corporate affairs of:

**FIDELITY FIRE & CASUALTY COMPANY
200 COLONIAL CENTER PKWY, SUITE 100
LAKE MARY, FLORIDA 32746**

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

SCOPE OF EXAMINATION

This examination covered the period of May 26, 2005 through December 31, 2006. This is the first examination of the Company by representatives of the Florida Office of Insurance Regulation (Office). This examination commenced, with planning at the Office, on September 10, 2007, to September 14, 2007. The fieldwork commenced on September 17, 2007, and was concluded as of October 12, 2007.

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.

In this examination, emphasis was directed to the quality, value and integrity of the statement of assets and the determination of liabilities, as those balances affect the financial solvency of the Company as of December 31, 2006. Transactions subsequent to year-end 2006 were reviewed where relevant and deemed significant to the Company's financial condition.

The examination included a review of the corporate records and other selected records deemed pertinent to the Company's operations and practices. In addition, the NAIC IRIS ratio reports and other reports as considered necessary were reviewed and utilized where applicable within the scope of this examination.

This report of examination is confined to financial statements and comments on matters that involve departures from laws, regulations or rules, or which are deemed to require special explanation or description.

HISTORY

General

The Company was incorporated in Florida on May 1, 2005 and commenced business on May 26, 2005 as Fidelity Fire & Casualty Company

The Company was party to Consent Order 81765-05-CO filed May 26, 2005 with the Office regarding the application for the issuance of a certificate of authority. The Company failed to comply with the following provisions of this consent order:

- The Company did not submit its Certification of Compliance with Executive Order 13224 which states that it implemented and complied with procedures to detect and prevent transactions with terrorists and terrorist support organizations. Executive Order 13224, signed by President George W. Bush on September 23, 2001, blocks the assets of terrorist and terrorist support organizations. The Executive Order also prohibits any transactions by U.S. persons involved in the blocked assets and interests. **Subsequent event:** The Company submitted a Certificate of Compliance with Executive Order 13224 to the Office on February 18, 2008.

The Company was authorized to transact the following insurance coverage in Florida on December 31, 2006:

Fire
Homeowners multi peril

Allied Lines

The Company did not write insurance coverage in the above lines of business at December 31, 2006. **Subsequent Event:** On March 1, 2007, the Company wrote insurance coverage in the lines of fire, allied lines and homeowners multi peril.

The articles of incorporation and the bylaws were not amended during the period covered by this examination.

Capital Stock

As of December 31, 2006, the Company's capitalization was as follows:

Number of authorized common capital shares	100,000
Number of shares issued and outstanding	100,000
Total common capital stock	\$100,000
Par value per share	\$1.00

Control of the Company was maintained by its parent, Fidelity Insurance Holdings, Inc., who owned 100% of the stock issued by the Company, which in turn was owned 10.6% by Lanier Porter, a Florida resident, 10% by Willis T. King, Jr., a Florida resident, 5.25% by Lemman Porter, a Florida resident, 5.25% by Dwayne Williams, a Florida resident, and the remaining 68.9% was owned by various other individuals and entities whose ownership was under 5%.

Subsequent Event:

On March 1, 2007, the Company's parent contributed capital to the Company in the amount of \$4,400,000.

Profitability of Company

The following table shows the profitability trend (in dollars) of the Company for the period of examination, as reported in the filed annual statements.

	2006	2005
Premiums Earned	0	(477,000)
Net Underwriting Gain/(Loss)	(19,422)	(1,159,839)
Net Income	63,752	(1,165,707)
Total Assets	5,903,045	5,834,293
Total Liabilities	5,000	0
Surplus As Regards Policyholders	5,898,045	5,834,293

Dividends to Stockholders

The Company did not declare or pay dividends to its stockholder during the period covered by this examination.

Management

The annual shareholder meeting for the election of directors was held in accordance with Sections 607.1601 and 628.231, Florida Statutes. Directors serving as of December 31, 2006, were:

Directors

Name and Location

Principal Occupation

Leman M. Porter
Heathrow, Florida

President of the Company & affiliate, First Protective Insurance Company

Lanier M. Porter
Maitland, Florida

CEO of the Company & affiliate, First Protective Insurance Company

Willis T. King, Jr.
Summit, New Jersey

Chairman of the Company & affiliate, First Protective Insurance Company

Dwayne R. Williams
Winter Springs, Florida

Executive VP of the Company & affiliate, First Protective Insurance Company

Harold M. Humphrey
Miami, Florida

VP Marketing, First Protective Insurance Company

* Emily R. King
Summit, New Jersey

Risk Manager, Frontline Insurance
Managers, Inc.

* The 2006 Annual Statement for Fidelity Fire & Casualty Company erroneously included Emily R. King as a director. This error was repeated on the Quarterly Statement for March 31, 2007. The error was noted and the Company filed an amended and corrected Jurat page for the Annual Statement for 2006 on July 31, 2007, which did not include Emily R. King as a director. All subsequent Quarterly and Annual Statements have accurately reflected the directors of Fidelity Fire & Casualty Company. The Holding Company Registration Statement identified the correct directors and did not include Emily R. King.

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

Senior Officers

Name	Title
Leman M. Porter	President & Secretary
Dwayne R. Williams	Executive Vice President & Treasurer
Benjamin Treuil	Chief Financial Officer
Lanier M. Porter	Chief Executive Officer

The Company's Board did not appoint internal committees as of December 31, 2006.

Subsequent Event: The Company's Board appointed several internal committees on February 27, 2007, in accordance with Section 607.0825, Florida Statutes. Following are the principal internal Board committees and their members:

Audit Committee

Emily R. King¹
Dwayne R. Williams
Harold M. Humphrey
James Accursio

Investment Committee

Willis T. King, Jr. ¹
Leman M. Porter
Benjamin Treuil
Dwayne R. Williams

Mitchell Rabin

¹ Chairman

Conflict of Interest Procedure

The Company adopted a policy statement requiring annual disclosure of conflicts of interest in accordance with the NAIC Financial Condition Examiners Handbook. No exceptions were noted during this examination period.

Corporate Records

The recorded minutes of the shareholder, Board of Directors, 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 in accordance with Section 607.1601, Florida Statutes, including the authorization of investments as required by Section 625.304, Florida Statutes.

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

There were no acquisitions, mergers, disposals, dissolutions, and purchases or sales through reinsurance during the period under examination.

Surplus Debentures

The Company had no surplus debentures during the period under examination.

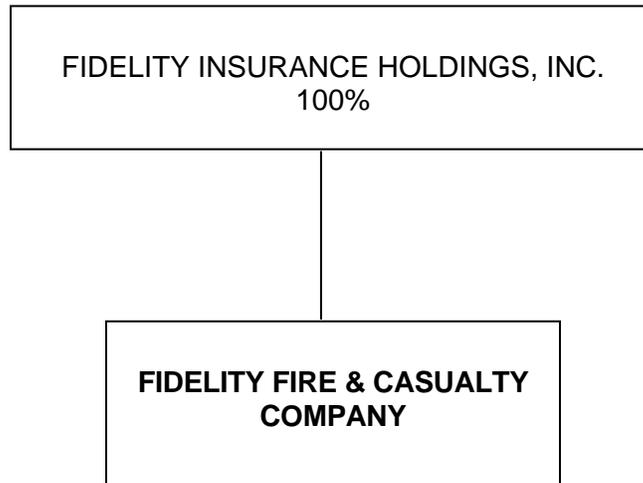
AFFILIATED COMPANIES

The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code. The latest holding company registration statement was filed with the State of Florida on June 30, 2007, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

A simplified organizational chart as of December 31, 2006, reflecting the holding company system, is shown below. Schedule Y of the Company's 2006 annual statement provided a list of all related companies of the holding company group.

FIDELITY FIRE & CASUALTY COMPANY ORGANIZATIONAL CHART

DECEMBER 31, 2006



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

Tax Allocation Agreement

The Company, along with its parent and affiliates, filed a consolidated federal income tax return. On December 31, 2006, the method of allocation between the companies was based upon calculations on a separate return basis.

Management Agreement

The Company entered into a management agreement on March 1, 2007 with its parent, Fidelity Insurance Holdings, Inc., to provide financial, investment, benefit, reinsurance, and other management services. The parent received 5% of net earned premium for the services provided.

Managing General Agent Agreement

The Company entered into a managing general agent (MGA) agreement on March 1, 2007 with an affiliate, Fidelity Insurance Managers, Inc., to provide underwriting, marketing and related claim services. The MGA received 10% of net earned premium for underwriting services, marketing, and related administrative services, 10.5% of net written premium as commissions on new and renewal business production, and a \$25 MGA processing fee. The MGA also received 15.5% of gross incurred losses, or 1% for a catastrophe loss, for the claim services provided, along with 40% of recoveries from subrogation claims that were brought by the Company. The Company was responsible for all legal fees and costs along with all fees for consultants and experts.

FIDELITY BOND AND OTHER INSURANCE

The Company did not maintain fidelity bond coverage up to \$75,000, the suggested minimum amount of coverage for the Company as recommended by the NAIC, at December 31, 2006.

Subsequent Event: The Company purchased fidelity bond coverage up to \$450,000, with a deductible of \$10,000, on March 1, 2007.

The Company, along with certain affiliates, also maintained Directors and Officers (D&O) liability insurance coverage with limits of \$1,000,000.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company did not have any employees at December 31, 2006.

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>\$ 250,000</u>	<u>\$ 250,000</u>
TOTAL SPECIAL DEPOSITS		<u>\$ 250,000</u>	<u>\$ 250,000</u>

INSURANCE PRODUCTS

The Company did not write insurance coverage at December 31, 2006. **Subsequent Event:** The Company wrote insurance coverage at March 1, 2007.

Territory

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

REINSURANCE**Assumed**

The Company did not assume risk as of December 31, 2006.

Ceded

The Company ceded risk on a catastrophic excess of loss basis to various Lloyd's syndicates in the amount of \$477,000 in year 2005. Subsequently, the Company did not write any risks for the years 2005 and 2006.

ACCOUNTS AND RECORDS

The Company maintained its principal operational offices in Lake Mary, Florida, where this examination was conducted.

The Company was exempt from the requirement of having a Certified Public Accountant audit the statutory basis financial statements for 2005 and 2006, in accordance with Section 624.424(8)(b), Florida Statutes.

As of December 31, 2006, the Company had no direct written premium and no policyholders.

The Company's accounting records were maintained on a computerized system. The Company's balance sheet accounts were verified with the line items of the annual statement submitted to the Office.

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2006, 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."

FIDELITY FIRE & CASUALTY COMPANY
Assets

DECEMBER 31, 2006

	Per Company	Examination Adjustments	Per Examination
Cash & short-term investments	\$5,896,143		\$5,896,143
Investment income due & accrued	6,902		6,902
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Totals	\$5,903,045		\$5,903,045
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FIDELITY FIRE & CASUALTY COMPANY
Liabilities, Surplus and Other Funds

DECEMBER 31, 2006

	Per Company	Examination Adjustments	Per Examination
Payable to parent, subsidiaries and affiliates	\$5,000		\$5,000
Total Liabilities	\$5,000		\$5,000
Common capital stock	\$100,000		\$100,000
Gross paid in and contributed surplus	6,900,000		6,900,000
Unassigned funds (surplus)	(1,101,955)		(1,101,955)
Surplus as regards policyholders	\$5,898,045		\$5,898,045
Total liabilities, surplus and other funds	\$5,903,045		\$5,903,045

FIDELITY FIRE & CASUALTY COMPANY
Statement of Income

DECEMBER 31, 2006

Underwriting Income

Premiums earned		\$0
	Deductions:	
Losses incurred		0
Loss expenses incurred		0
Other underwriting expenses incurred		19,422
Total underwriting deductions		\$19,422
Net underwriting gain or (loss)		(\$19,422)

Investment Income

Net investment income earned		\$83,174
Net realized capital gains or (losses)		0
Net investment gain or (loss)		\$83,174

Other Income

Total other income		\$0
Net income before dividends to policyholders and before federal & foreign income taxes		\$63,752
Dividends to policyholders		0
Net Income, after dividends to policyholders, but before federal & foreign income taxes		\$63,752
Federal & foreign income taxes		0
Net Income		\$63,752

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year		\$5,834,293
Net Income		\$63,752
Examination Adjustment		0
Change in surplus as regards policyholders for the year		\$63,752
Surplus as regards policyholders, December 31 current year		\$5,898,045

COMMENTS ON FINANCIAL STATEMENTS

Assets

Cash and Short term investments \$ 5,896,143

The Company did not have a custodial agreement with Lexington Asset Management, Ltd. as of December 31, 2006. At December 31, 2006, Lexington Asset Management, Ltd. held Company assets totaling \$5,555,741. Lexington Asset Management, Ltd. did not respond to the Office's letter requesting confirmation of this amount. Also, during this examination, the examiners were unsuccessful in its attempt to talk to employees at Lexington Asset Management, Ltd.

Subsequent Event: During June 2007, the Company transferred its short term investments from Lexington Asset Management, Ltd. to Bank of America.

Liabilities

Losses and Loss Adjustment Expenses \$ 0

The Company was exempt from filing an actuary opinion as of December 31, 2006 since they had no written premiums, no premiums in force and no corresponding loss and loss adjustment expense reserves.

Capital and Surplus

The amount reported by the Company of \$5,898,045, exceeds the minimum amount of \$4,000,000 required by Section 624.408, Florida Statutes.

A comparative analysis of changes in surplus is shown below.

**FIDELITY FIRE & CASUALTY COMPANY
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS**

DECEMBER 31, 2006

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, 2006, per Annual Statement	\$5,898,045
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	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:			
No adjustment			
LIABILITIES:			
No adjustment			
Net Change in Surplus:			0
Surplus as regards policyholders December 31, 2006, per Examination			\$5,898,045

SUMMARY OF FINDINGS

Current examination comments and corrective action

There were no items of interest or corrective action to be taken by the Company regarding findings in the examination as of December 31, 2006.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Fidelity Fire & Casualty Company** as of December 31, 2006, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was \$5,898,045, in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned, John Berry, Financial Examiner/Analyst Supervisor, Stephen Feliu, CFE (Fraud), Financial Examiner/Analyst, participated in the examination.

Respectfully submitted,

Donna Letterio, CFE, CPA, MS
Financial Specialist
Florida Office of Insurance Regulation