

REPORT ON EXAMINATION
OF
FIRST COLONIAL INSURANCE
COMPANY

JACKSONVILLE, FLORIDA

AS OF

DECEMBER 31, 2006

BY THE
OFFICE OF INSURANCE REGULATION

TABLE OF CONTENTS

LETTER OF TRANSMITTAL	-
SCOPE OF EXAMINATION	1
STATUS OF ADVERSE FINDINGS FROM PRIOR EXAMINATION	2
HISTORY	2
GENERAL	2
CAPITAL STOCK	2
PROFITABILITY OF COMPANY	3
DIVIDENDS TO STOCKHOLDERS	3
MANAGEMENT	4
CONFLICT OF INTEREST PROCEDURE.....	5
CORPORATE RECORDS	5
ACQUISITIONS, MERGERS, DISPOSALS, DISSOLUTIONS, AND PURCHASE OR SALES THROUGH REINSURANCE.....	5
SURPLUS DEBENTURES	5
AFFILIATED COMPANIES	5
ORGANIZATIONAL CHART	6
COST SHARING AND ADMINISTRATIVE SERVICES AGREEMENT	7
SERVICE AND EXPENSE AGREEMENT	7
TAX ALLOCATION AGREEMENT.....	7
INVESTMENT MANAGEMENT AGREEMENT.....	7
FIDELITY BOND AND OTHER INSURANCE	7
PENSION, STOCK OWNERSHIP AND INSURANCE PLANS	8
STATUTORY DEPOSITS	8
INSURANCE PRODUCTS AND RELATED PRACTICES	9
TERRITORY	9
TREATMENT OF POLICYHOLDERS.....	9
REINSURANCE	9
ASSUMED.....	10
CEDED	10
ACCOUNTS AND RECORDS	10
CUSTODIAL AGREEMENT	11
INDEPENDENT AUDITOR AGREEMENT.....	11
MANAGING GENERAL AGENCY AGREEMENT.....	11
FINANCIAL STATEMENTS PER EXAMINATION	11
ASSETS	12
LIABILITIES, SURPLUS AND OTHER FUNDS	13

STATEMENT OF INCOME.....	14
COMMENTS ON FINANCIAL STATEMENTS.....	15
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS.....	16
SUMMARY OF FINDINGS	17
CONCLUSION	18

Tallahassee, Florida

May 18, 2007

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

Honorable Alfred W. Gross
Chairman, Financial Condition (E) Committee
Commissioner
Virginia Bureau of Insurance
State Corporation Commission
1300 East Main Street
Richmond, Virginia 23219

Julie McPeak
Secretary, Southeastern Zone, NAIC
Executive Director
Kentucky Office of Insurance
215 West Main Street
Frankfort, Kentucky 40601

Dear Sirs and Madam:

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:

**FIRST COLONIAL INSURANCE COMPANY
1776 AMERICAN HERITAGE LIFE DRIVE
JACKSONVILLE, FLORIDA 32224**

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

SCOPE OF EXAMINATION

This examination covered the period of January 1, 2004 through December 31, 2006. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2003. This examination commenced, with planning at the Office, on March 19, 2007, to March 23, 2007. The fieldwork commenced on March 26, 2007, and was concluded as of May 18, 2007.

This financial examination was an association zone 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 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 report, the A.M. Best Report, the Company's independent audit reports and certain work papers prepared by the Company's independent certified public accountant (CPA) 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.

Status of Adverse Findings from Prior Examination

There were no adverse findings in the examination as of December 31, 2003.

HISTORY

General

The Company was incorporated in Florida on February 17, 1987 and commenced business on April 28, 1987 as First Colonial Insurance Company.

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

Credit	Inland Marine
Private Passenger Automobile Physical Damage	Automobile Warranties
Service Warranties	

The articles of incorporation were not amended during the period covered by this examination. The bylaws were amended on June 13, 2006 to reflect the Company's current organization and ownership environment.

Capital Stock

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

Number of authorized common capital shares	5,000,000
Number of shares issued and outstanding	2,500,000
Total common capital stock	\$2,500 000

Par value per share

\$1.00

Control of the Company was maintained by its parent, American Heritage Life Insurance Company, which owned 100% of the stock issued by the Company, which was 100% owned by American Heritage Life Investment Corporation, which was owned by The Allstate Corporation. The ultimate controlling parent was the Allstate Corporation, a publicly traded company.

Profitability of Company

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

	2006	2005	2004
Premiums Earned	107,158,938	89,741,365	55,843,601
Net Underwriting Gain/(Loss)	3,764,407	(17,349,294)	(16,010,479)
Net Income/(Loss)	5,999,553	(5,249,127)	(11,326,698)
Total Assets	350,517,408	238,641,513	178,425,097
Total Liabilities	243,452,845	168,026,810	147,515,647
Surplus As Regards Policyholders	107,064,563	70,614,703	30,909,450

Dividends to Stockholders

The Company did not declare or pay dividends to its stockholder during the period of 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
Anton Wanderon Jacksonville, Florida	Director, President
Gary Scott Stere Jacksonville, Florida	Director, Secretary
Gregory James Guidos Jacksonville, Florida	Director, Chief Financial Officer
Frank Jeffrey Deigl Chicago, Illinois	Director
Steven Emil Shebik Chicago, Illinois	Director, CEO

The Board of Directors in accordance with the Company's bylaws appointed the following Senior Officers:

Senior Officers

Name	Title
Steven Emil Shebik	Chief Executive Officer
Anton Wanderon	President
Gregory James Guidos	Chief Financial Officer
Gary Scott Stere	Secretary

The Company utilized the audit committee of the ultimate parent company, The Allstate Corporation, in accordance with Section 624.424(8)(c), Florida Statutes.

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 shareholders and Board of Directors were reviewed for the period under examination. The recorded minutes adequately documented the meetings and approval of Company transactions 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

The Company had no acquisitions, mergers, disposals, dissolutions, purchase or sales through reinsurance during the period under examination.

Surplus Debentures

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

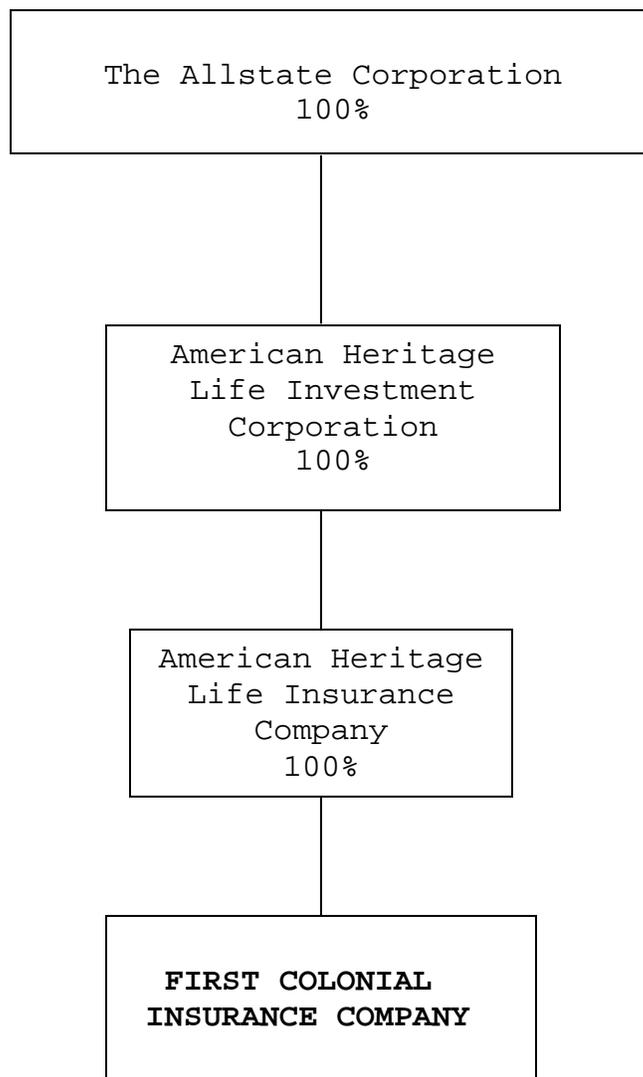
AFFILIATED COMPANIES

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 April 23, 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.

**FIRST COLONIAL INSURANCE COMPANY
ORGANIZATIONAL CHART**

DECEMBER 31, 2006



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

Cost Sharing and Administrative Services Agreement

The Company had a cost sharing and administrative services agreement with its parent, American Heritage Life Insurance Company, to provide services to the Company for day-to-day operations of certain property, equipment, and facilities.

Service and Expense Agreement

The Company and other affiliated companies had a service and expense agreement with the ultimate parent, The Allstate Corporation, for services including marketing, claims, underwriting and policyholder services

Tax Allocation Agreement

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

Investment Management Agreement

The Company and other affiliated companies have an investment management agreement with Allstate Investments, LLC to provide investment management services.

FIDELITY BOND AND OTHER INSURANCE

The Company was included in the Allstate Corporation's fidelity bond coverage up to \$10,000,000. The deductible is \$25,000,000 which they will assume before the \$10,000,000 bond coverage is activated. This adequately covered the suggested minimum amount of

coverage as recommended by the NAIC. The Allstate Corporation provided all other insurance coverage for their subsidiaries.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company had no 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, and with various state officials as required or permitted by law:

State	Description	Par Value	Market Value
FL	USTNTS, 7.875%, 02/15/21	\$ 150,000	\$ 195,340
FL	USTNTS, 8.125%, 08/15/21	800,000	1,067,888
FL	USTNTS, 7.250%, 08/15/22	300,000	376,242
FL	USTNTS, 7.625%, 11/15/22	500,000	649,065
FL	USTNTS, 5.500%, 05/15/09	<u>1,050,000</u>	<u>1,167,800</u>
TOTAL FLORIDA DEPOSITS		<u>\$2,800,000</u>	<u>\$3,355,891</u>
GA	USTBDS, 7.250%, 08/15/22	\$ 35,000	\$ 43,895
LA	USTBDS, 4.000%, 11/15/12	20,000	19,310
MA	USTBDS, 8.125%, 05/15/21	300,000	399,444
MA	USTBDS, 6.625%, 02/15/27	200,000	243,750
NV	USTBDS, 8.125%, 08/15/19	500,000	653,240
NH	USTBDS, 6.250%, 08/15/23	500,000	575,510
NM	USTBDS, 5.910%, 03/27/08	120,000	120,975
NM	USTBDS, 8.125%, 03/27/08	180,000	235,166
NC	USTBDS, 8.125%, 08/15/19	175,000	228,634
NC	USTBDS, 8.000%, 11/15/21	125,000	165,703
OK	USTBDS, 8.125%, 08/15/21	300,000	400,383
SC	USTBDS, 8.000%, 11/15/21	175,000	231,985
VA	USTBDS, 7.250%, 08/15/22	<u>450,000</u>	<u>564,363</u>
TOTAL OTHER DEPOSITS		<u>\$3,080,000</u>	<u>\$3,882,359</u>
TOTAL SPECIAL DEPOSITS		<u><u>\$5,800,000</u></u>	<u><u>\$7,238,250</u></u>

INSURANCE PRODUCTS

Territory

The Company was authorized to transact insurance in the following states and the District of Columbia:

Alabama	Alaska	Arizona	Arkansas	Colorado
Delaware	Florida	Georgia	Hawaii	Idaho
Illinois	Indiana	Iowa	Kansas	Kentucky
Louisiana	Maine	Maryland	Massachusetts	Michigan
Minnesota	Mississippi	Missouri	Montana	Nebraska
Nevada	New Hampshire	New Jersey	New Mexico	North Carolina
North Dakota	Ohio	Oklahoma	Oregon	Pennsylvania
Rhode Island	South Carolina	South Dakota	Tennessee	Texas
Utah	Vermont	Virginia	Washington	West Virginia
Wisconsin				

Treatment of Policyholders

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

The Company maintained a claims procedure manual that included detailed procedures for handling each type of claim in accordance with Section 626.9541 (1)(i)3a, Florida Statutes.

REINSURANCE

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

Assumed

The Company assumed risk on a quota share basis from affiliated and non-affiliated insurance companies.

Ceded

The Company ceded risk on quota share basis to authorized and unauthorized reinsurers. The Company ceded to numerous producer owned reinsurance companies on a 100% quota share basis. The reserves were collateralized by trust accounts and/or letters of credit.

The reinsurance contracts were reviewed by the Company's appointed actuary and were utilized in determining the ultimate loss opinion.

ACCOUNTS AND RECORDS

The Company maintained its principal operational office in Jacksonville, Florida, where this examination was conducted.

An independent CPA audited the Company's statutory basis financial statements annually for the years 2004 and 2005, in accordance with Section 624.424(8), Florida Statutes. Supporting work papers were prepared by the CPA as required by Rule 69O-137.002, Florida Administrative Code.

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

The Company and non-affiliates had the following agreements:

Custodial Agreement

The Company had a custodial agreement with Citibank, which was in compliance with Rule 690-143.042, Florida Administrative Code.

Independent Auditor Agreement

The Company had an agreement with Deloitte & Touche, LLP to perform an audit of its statutory financial statements for the years 2006, 2005, and 2004.

Managing General Agency Agreement

The Company had an agreement with Credit Guard of Florida, Inc., who acted as a managing general agent as defined under Section 626.091, Florida Statutes.

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."

FIRST COLONIAL INSURANCE COMPANY
Assets

DECEMBER 31, 2006

	Per Company	Examination Adjustments	Per Examination
Bonds	\$289,714,316		\$289,714,316
Stocks:			
Preferred stocks	982,511		982,511
Common stocks	111,886		111,886
Cash, cash equivalents, and short-term investments	28,264,251		28,264,251
Other invested assets	1,084,042		1,084,042
Interest income due & accrued	3,673,802		3,673,802
Uncollected premiums and agents' balances in course of collection	15,807,713		15,807,713
Reinsurance:			
Amounts recoverable	2,122,609		2,122,609
Funds held by reinsured companies	1,534,263		1,534,263
Other amounts receivable	144,840		144,840
Net deferred tax asset	6,510,286		6,510,286
Aggregate write-ins for other than invested assets	566,889		566,889
Totals	\$350,517,408		\$350,517,408

FIRST COLONIAL INSURANCE COMPANY
Liabilities, Surplus and Other Funds

DECEMBER 31, 2006

	Per Company	Examination Adjustments	Per Examination
Losses	\$29,435,493		\$29,435,493
Loss adjustment expenses	237,315		237,315
Commissions payable, contingent commissions	2,857,773		2,857,773
Other expenses (excluding taxes, licenses and fees)	7,297,683		7,297,683
Taxes, licenses and fees	2,254,603		2,254,603
Current federal income taxes	7,943,095		7,943,095
Unearned premiums	162,856,040		162,856,040
Ceded reinsurance premiums payable	4,318,589		4,318,589
Funds held by company under reinsurance treaties	14,158,422		14,158,422
Remittances and items not allocated	175,828		175,828
Provision for reinsurance	3,382,691		3,382,691
Drafts outstanding	4,169,610		4,169,610
Payable to parent, subsidiaries and affiliates	732,809		732,809
Payable for securities	243,282		243,282
Aggregate write-ins for liabilities	3,389,612		3,389,612
			<hr/>
Total Liabilities	\$243,452,845		\$243,452,845
Common capital stock	\$2,500,000		\$2,500,000
Gross paid in and contributed capital	124,745,000		124,745,000
Unassigned funds (surplus)	(20,180,437)		(20,180,437)
			<hr/>
Surplus as regards policyholders	\$107,064,563		\$107,064,563
			<hr/>
Total liabilities, capital and surplus	\$350,517,408		\$350,517,408
			<hr/> <hr/>

FIRST COLONIAL INSURANCE COMPANY
Statement of Income

DECEMBER 31, 2006

Underwriting Income		
Premiums earned		\$107,158,938
	Deductions:	
Losses incurred		73,850,372
Loss expenses incurred		(231,438)
Other underwriting expenses incurred		29,775,596
Aggregate write-ins for underwriting deductions		0
Total underwriting deductions		<u>\$103,394,530</u>
Net underwriting gain or (loss)		\$3,764,408
Investment Income		
Net investment income earned		\$11,344,129
Net realized capital gains or (losses)		(424,485)
Net investment gain or (loss)		<u>\$10,919,644</u>
Other Income		
Net gain or (loss) from agents' or premium balances charged off		(\$476,012)
Finance and service charges not included in premiums		0
Aggregate write-ins for miscellaneous income		(6,660)
Total other income		<u>(\$482,672)</u>
Net income before dividends to policyholders and before federal & foreign income taxes		\$14,201,380
Dividends to policyholders		0
Net Income, after dividends to policyholders, but before federal & foreign income taxes		<u>\$14,201,380</u>
Federal & foreign income taxes		<u>8,201,827</u>
Net Income		\$5,999,553
Capital and Surplus Account		
Surplus as regards policyholders, December 31 prior year		\$70,614,704
Gains and (Losses) in Surplus		
Net Income		\$5,999,553
Change in net deferred income tax		2,857,161
Change in provision for reinsurance		904,988
Change in nonadmitted assets		(311,844)
Paid in surplus		27,000,000
Examination Adjustment		0
Change in surplus as regards policyholders for the year		<u>\$36,449,858</u>
Surplus as regards policyholders, December 31 current year		<u><u>\$107,064,562</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Losses and Loss Adjustment Expenses

\$29,672,808

An outside actuarial firm appointed by the Board of Directors, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2006, make a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

The Office actuary reviewed work papers provided by the Company and was in concurrence with this opinion.

**FIRST COLONIAL INSURANCE 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 per December 31, 2006, Annual Statement	\$107,064,563
---	---------------

	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:			
No adjustment.			
LIABILITIES:			
No adjustment.			
			0
Surplus as Regards Policyholders December 31, 2006, Per Examination			\$107,064,563

SUMMARY OF FINDINGS

Compliance with previous directives

The Company has taken the necessary actions to comply with the comments made in the 2003 examination report issued by the Office.

Current examination comments and corrective action

There were no material findings or corrective actions to be taken with regard to this examination.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **First Colonial Insurance 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 \$107,064,563, which was in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned, Michael Hampton, CFE, CPA, DABFA, CFE, CPM, Financial Examiner/Analyst Supervisor, Tina Hancock, Financial Examiner/Analyst II, and Joe Boor, FCAS, Office Actuary, participated in the examination.

Respectfully submitted,

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