

REPORT ON EXAMINATION
OF
FIRST COMMERCIAL
TRANSPORTATION AND PROPERTY
INSURANCE COMPANY

MIAMI, FLORIDA

AS OF

DECEMBER 31, 2006

BY THE
OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida

April 15, 2008

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:

First Commercial Transportation and Property Insurance Company
2300 W. 84th Street
Hialeah, Florida 33016-5568

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

SCOPE OF EXAMINATION

This examination covered the period of January 1, 2003 through December 31, 2006. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2002. This examination commenced, with planning at the Office, on June 18, 2007, to June 20, 2007. The fieldwork commenced on July 5, 2007, and was concluded as of April 15, 2008.

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, 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

The previous financial statutory examination of the former company, Southern Group Indemnity, Inc., was performed for the period ending December 31, 2002. There were several examination findings, which also included information technology findings. The status of the adverse findings from the prior examination of Southern Group Indemnity, Inc. is not presented, because as provided in the History section below, in October 2005, Southern Group Indemnity, Inc. entered into administrative supervision with the State of Florida. In May 2006, Southern Group Indemnity, Inc. was acquired by First Commercial Insurance Company.

The agreement and the information systems of the new company are now the same as the acquiring company, First Commercial Insurance Company.

HISTORY

General

The Company, formerly Southern Group Indemnity, Inc. is a domestic stock company that is licensed only in the State of Florida. Under the terms of a consent order dated May 12, 2006, the Company was acquired by First Commercial Insurance Company, with the ultimate parent becoming First Commercial Holding Group. The Company was incorporated under Florida law on September 28, 1990. The Company was purchased from Statewide Holding Group, Inc., formerly

known as Club Marketing and Sales, Inc. The Company name was changed to First Commercial Transportation and Property Insurance Company on May 12, 2006.

The former Company was primarily a commercial auto liability writer in 2005. In October 2005, Southern Group Indemnity, Inc. filed a monthly financial statement indicating it was impaired and ceased writing business. Southern Group Indemnity, Inc. then entered into administrative supervision which ended with its acquisition by First Commercial Insurance Company on May 12, 2006. The Company was recapitalized during the second quarter of 2006 to meet statutory requirements for minimum surplus. The Company was currently rated "D" by A.M. Best and "NR" by Standard and Poor's.

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

Homeowners multi peril	Fire
Private passenger auto liability	Commercial automobile liability
Private passenger auto physical damage	Commercial auto physical damage

The articles of incorporation and the bylaws were amended during the period covered by this examination. In the first amendment, the principal office location of the Company was changed. In the second amendment, the name of the Company was changed to First Commercial Transportation and Property Insurance Company.

Capital Stock

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

Number of authorized common capital shares	500,000
Number of shares issued and outstanding	500,000

Total common capital stock	\$500,000
Par value per share	\$1.00

Control of the Company was maintained by its parent, First Commercial Insurance Company, which owned 100% of the stock issued by the Company, which in turn was 100% owned by First Commercial Holding Group Corp., which in turn was 100% owned by CEIB Marketing Group, LLC/ Newport Star LLC, which in turn was 100% owned by Reginald Beane (20%), Luis Espinosa (30%), Rene Cambert (30%), and Michael Camilleri (20%).

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. The figures presented in the table for the years 2005, 2004 and 2003 were from the annual statements filed by Southern Group Indemnity, Inc.

	2006	2005	2004	2003
Premiums Earned	2,776,785	8,364,474	9,000,408	6,870,723
Net Underwriting Gain/(Loss)	(3,168,764)	(3,377,326)	(698,244)	(655,476)
Net Income/(Loss)	(2,758,245)	(3,120,202)	(678,054)	187,826
Total Assets	9,602,450	12,159,207	14,145,126	10,361,974
Total Liabilities	5,519,288	11,315,694	9,938,620	6,582,988
Surplus As Regards Policyholders	4,083,162	843,513	4,206,506	3,778,986

Dividends to Stockholders

The Company did not declare nor pay dividends to its stockholders during the examination period.

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
Reginald Beane Coral Springs, Florida	President, Company
Rene Cambert Miami Lakes, Florida	Treasurer, Company
Luis Espinosa Coral Gables, Florida	CEO & Secretary, Company
Michael Camilleri Boca Raton, Florida	General Counsel, First Commercial Group
Carlos Aguero Cranford, New Jersey	Director, Company
Marco Gutierrez Miami, Florida	Director, Company
John S. Maloney New York, New York	CFO, Company

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

Senior Officers

Name	Title
Reginald Beane	President
Luis Espinosa	CEO & Secretary
Rene Cambert	Treasurer
John Maloney (a)	CFO

(a) Mr. Maloney resigned on July 3, 2007 as CFO and had not been replaced as of the report date.

The Company's board appointed several internal committees in accordance with Section 607.0825, Florida Statutes. Following are the principal internal committees and their members as of December 31, 2006:

Executive Committee	Audit Committee	Investment Committee
Reginald Beane ¹	Luis Espinosa ¹	Luis Espinosa ¹
Luis Espinosa	Carlos Aguero	Rene Cambert
Rene Cambert	Marcos Gutierrez	Michael Camilleri

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

In October of 2005, the Company filed a monthly financial statement indicating it was impaired and ceased writing. The Company then entered into administrative supervision which ended with its acquisition by First Commercial Insurance Company on May 12, 2006. The Company was recapitalized during the second quarter of 2006 to meet statutory requirements for minimum surplus.

Surplus Debentures

The Company did not have any surplus debentures during the examination period.

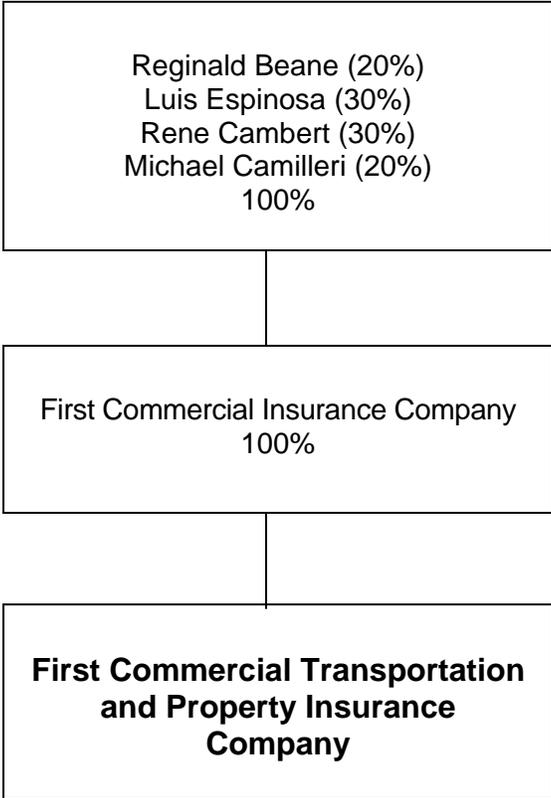
AFFILIATED COMPANIES

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 12, 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 stockholders and companies of the holding company group.

**First Commercial Transportation and Property Insurance Company
Organizational Chart**

December 31, 2006



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

Managing General Agent Agreement

The Company and First Commercial Underwriters, LLC had an agreement in which First Commercial Underwriters, Inc. was the managing general agent (MGA) for the Company.

Claims Service Agreement

The Company had a claims service agreement with First Commercial Claims Services, LLC. All claims were handled by First Commercial Claims Services, LLC.

Tax Allocation Agreement

The Company had a tax allocation agreement with several affiliates. A consolidated tax return was filed and the tax liability was allocated among the participating companies.

FIDELITY BOND AND OTHER INSURANCE

The Company maintained fidelity bond coverage up to \$1,000,000, which adequately covered the suggested minimum amount of coverage for the Company as recommended by the NAIC. Financial Condition Examiners Handbook.

The Company also maintained Employment practices liability insurance coverage with limits of \$1,000,000 annual aggregate and a deductible of \$15,000, Commercial property insurance coverage with limits of \$224,000 for covered property at scheduled locations and \$276,000 for media on the computer equipment and a deductible of \$500, and Workers' compensation and Employer's liability insurance policy with limits of \$100,000 each accident for bodily injury by accident or disease, per accident or employee, and \$500,000 policy limit for bodily injury by disease.

PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS

The Company had a 401K Profit Sharing Plan with the Principal Financial Group for employees. The Company's plan qualified under the Internal Revenue Service Code 401 (a). The Company made a provision in the financial statements of their obligation under the profit sharing plan.

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,	\$300,000	\$300,000
FL	CD, 4.52%, 10/03/07	300,000	300,000
FL	CD, 4.35%, 05/01/08	150,000	150,000
FL	CD, 4.65%, 10/23/07	<u>250,000</u>	<u>250,000</u>
TOTAL FLORIDA DEPOSITS		<u>\$1,000,000</u>	<u>\$1,000,000</u>
TOTAL SPECIAL DEPOSITS		<u>\$1,000,000</u>	<u>\$1,000,000</u>

INSURANCE PRODUCTS

The Company issued fire, homeowner's multi peril, private passenger auto liability, commercial auto liability, private passenger auto physical damage, and commercial auto physical damage. The above were issued through Creative Insurance Underwriters, Southern Group Insurance Management, and APEX Managers, Inc. The MGA agreements were cancelled with the acquisition of the Company by First Commercial Insurance Company in May 2006.

Territory

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

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 no risk during the examination.

Ceded

The Company ceded risk on a quota share and excess of loss basis to authorized United States unaffiliated reinsurers, authorized non-United States reinsurers, unauthorized United States reinsurers, and unauthorized non-United States reinsurers. The quota share percentage varied by line of business. After the acquisition of the Company by First Commercial Insurance Company in May 2006, the Company had only one quota share agreement in effect with a 60% ceding commission and a provisional commission rate of 27.5%.

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 offices in Miami Lakes, Florida, where this examination was conducted.

Subsequent Event: The Company moved its principal operational office to Hialeah, Florida in May 2007.

An independent CPA audited the Company's statutory basis financial statements annually for the years 2003, 2004, 2005, and 2006, 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:

Independent Actuary Agreement

The Company had an independent actuary agreement with ACR Solutions.

Managing General Agent Agreement

The Company had MGA agreements with Creative Insurance Underwriters Inc. and APEX Managers, Inc. in which the MGA managed the commercial auto and homeowners line of business respectively. The MGA agreements were cancelled when the Company was purchased by First Commercial Insurance Company in May 2006.

Independent Auditor Agreement

The Company had an independent auditor agreement with Thomas Howell Ferguson P.A.

Industrial Lease Agreement

The Company had an agreement with MICC Venture for the lease on the building. The lease expires April 30, 2008.

Copier Lease and Service Agreement

The Company had an agreement with Lanier Copier for the lease and servicing of the Company's copiers.

FINANCIAL STATEMENTS

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.

**First Commercial Transportation and Property Insurance Company
Assets**

December 31, 2006

	Per Company	Examination Adjustments	Per Examination
Cash:	\$9,143,234		\$9,143,234
Interest income due & accrued	67,940		67,940
Agents' Balances:			
Uncollected premium	38,873		38,873
Reinsurance recoverable	201,115		201,115
Electronic data processing equipment	101,288		101,288
Receivable from parents, subsidiaries and affiliates	50,000		50,000
Total Assets	\$9,602,450	\$0	\$9,602,450

**First Commercial Transportation and Property Insurance Company
Liabilities, Surplus and Other Funds**

December 31, 2006

	Per Company	Examination Adjustments	Per Examination
Losses	\$4,030,121		\$4,030,121
Loss adjustment expenses	768,717		768,717
Other expenses	71,725		71,725
Commissions Payable	13,027		13,027
Provision for Reinsurance	171,800		171,800
Drafts outstanding	463,898		463,898
Total Liabilities	\$5,519,288		\$5,519,288
Common capital stock	\$500,000		\$500,000
Gross paid in and contributed surplus	12,488,421		12,488,421
Unassigned funds (surplus)	<u>(8,905,259)</u>		<u>(\$8,905,259)</u>
Surplus as regards policyholders	<u>\$4,083,162</u>		<u>\$4,083,162</u>
Total liabilities, surplus and other funds	<u>\$9,602,450</u>	<u>\$0</u>	<u>\$9,602,450</u>

**First Commercial Transportation and Property Insurance Company
Statement of Income**

DECEMBER 31, 2006

Underwriting Income	
Premiums earned	\$2,776,785
Deductions:	
Losses incurred	3,234,179
Loss expenses incurred	1,406,893
Other underwriting expenses incurred	1,304,477
Aggregate write-ins for underwriting deductions	0
Total underwriting deductions	<u>\$5,945,549</u>
Net underwriting gain or (loss)	(\$3,168,764)
Investment Income	
Net investment income earned	\$191,026
Net realized capital gains or (losses)	167,440
Net investment gain or (loss)	<u>\$358,466</u>
Other Income	
Net gain or (loss) from agents' or premium balances charged off	
Finance and service charges not included in premiums	0
Aggregate write-ins for miscellaneous income	52,053
Total other income	<u>\$52,053</u>
Net income before dividends to policyholders and before federal & foreign income taxes	(\$2,758,245)
Dividends to policyholders	
Net Income, after dividends to policyholders, but before federal & foreign income taxes	<u>(\$2,758,245)</u>
Federal & foreign income taxes	
Net Income	<u>(\$2,758,245)</u>
Capital and Surplus Account	
Surplus as regards policyholders, December 31 prior year	\$843,513
Net Income	(\$2,758,245)
Change in unrealized capital gains or losses	(130,110)
Change in non-admitted assets	299,803
Change in provision for reinsurance	(171,800)
Change in excess statutory over statement reserves	
Surplus adjustments: Paid in	6,000,001
Aggregate write-ins for gains and losses in surplus	
Examination Adjustment	(2,230,000)
Change in surplus as regards policyholders for the year	<u>\$3,239,649</u>
Surplus as regards policyholders, December 31 current year	<u><u>\$4,083,162</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Assets

Cash \$9,143,234

The Company held all cash in open depositories and had no security investments.

Liabilities

Losses and Loss Adjustment Expenses \$4,798,838

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.

Select Actuarial Services, contracted actuary by the Office, provided an opinion on the reserves carried by the Company. The contracted actuary opined that the Company had a deficiency in reserves of \$2,230,000 or 46% at year end 2006.

Capital and Surplus \$4,083,162

The amount reported by the Company in the filed annual statement for December 31, 2006 was \$4,083,162, which exceeded the minimum of \$4,000,000 required by Section 624.408, Florida Statutes. However, as a result of the reserve deficiency as stated by the contracted actuary, the Company's surplus was reduced by \$2,230,000. This adjusted the surplus of the Company to \$1,853,162 which was below the minimum statutory amount required amount of \$4,000,000.

Subsequent Event

The Company provided documentation to the Office to support its increase in reserves in the amount of \$2,293,203 at December 2007. This increased surplus to \$4,083,162 to meet the minimum required amount in Section 624.408, Florida Statutes.

A comparative analysis of changes in surplus is shown below.

**First Commercial Transportation and Property 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 December 31, 2006, per Annual Statement	\$4,083,162
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	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:			
No adjustment			\$0
LIABILITIES:			
No adjustment			\$0
Net Change in Surplus:			0
Surplus as Regards Policyholders December 31, 2006, Per Examination			\$4,083,162

SUMMARY OF FINDINGS

Compliance with previous directives

The Company was acquired in May 2006 by First Commercial Insurance Company. The old business was run off and the Company started writing business again in January 2007.

SUBSEQUENT EVENTS

As of February 8, 2008, the Company met with the Office and later provided to the Office documentation of the discussion of the net increase in reserves totaling \$2,293,203. Due to the discussion of the increase in reserves, the required surplus was increased from a deficiency of \$1,853,162 to \$4,083,162 which met required surplus in accordance with 624.408, Florida Statutes.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **First Commercial Transportation and Property 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 \$1,853,162 as of December 31, 2006. The Company subsequently provided documentation of the increase in reserves and capital of \$2,293,203. For the reporting period of December 31, 2006 the Company reported Surplus as regards policyholders as \$4,083,162, which was in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned, Michael Hampton, CPA, CFE, DABFA, CFE, CPM, Financial Examiner/Analyst Supervisor, Lou Sobers, Financial Examiner/Analyst Supervisor, and Mary Frances Miller, FCAS, MAAA participated in the examination.

Respectfully submitted,

Maurice Fuller
Financial Examiner/Analyst II
Florida Office of Insurance Regulation