

REPORT ON EXAMINATION

OF

FIRST FLORIDIAN AUTO AND HOME

INSURANCE COMPANY

TAMPA, FLORIDA

AS OF

DECEMBER 31, 2005

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	3
PROFITABILITY OF COMPANY	3
DIVIDENDS TO STOCKHOLDERS	4
MANAGEMENT	4
AUDIT COMMITTEE	5
CONFLICT OF INTEREST PROCEDURE.....	5
CORPORATE RECORDS	6
ACQUISITIONS, MERGERS, DISPOSALS, DISSOLUTIONS, AND PURCHASE OR SALES THROUGH REINSURANCE.....	6
SURPLUS DEBENTURES	6
AFFILIATED COMPANIES	7
ORGANIZATIONAL CHART	7
TAX ALLOCATION AGREEMENT	8
INVESTMENT MANAGEMENT AGREEMENT.....	8
CORPORATE SERVICES AGREEMENT	8
FIDELITY BOND AND OTHER INSURANCE.....	8
PENSION, STOCK OWNERSHIP AND INSURANCE PLANS	9
STATUTORY DEPOSITS.....	9
INSURANCE PRODUCTS	9
TERRITORY	9
TREATMENT OF POLICYHOLDERS.....	10
REINSURANCE	10
ASSUMED.....	10
CEDED	10
ACCOUNTS AND RECORDS.....	10
CUSTODIAL AGREEMENT	11
OPERATING LEASES	12
INDEPENDENT AUDITOR AGREEMENT.....	12
RISK-BASED CAPITAL.....	12
FINANCIAL STATEMENTS PER EXAMINATION.....	12
ASSETS	13

LIABILITIES, SURPLUS AND OTHER FUNDS	14
STATEMENT OF INCOME.....	15
COMMENTS ON FINANCIAL STATEMENTS.....	16
LIABILITIES	16
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS.....	17
SUMMARY OF FINDINGS	18
CONCLUSION	19

Tallahassee, Florida

August 11, 2006

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, 2005, of the financial condition and corporate affairs of:

**FIRST FLORIDIAN AUTO AND HOME INSURANCE COMPANY
7840 WOODLAND CENTER BOULEVARD
TAMPA, FLORIDA 33614**

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, 2003 through December 31, 2005. 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 April 27, 2006 to April 28, 2006. The fieldwork commenced on May 15, 2006, and was concluded as of August 11, 2006. The examination included any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

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 assets and the determination of liabilities, as those balances affect the financial solvency of the Company.

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) were reviewed and utilized where applicable within the scope of this examination.

We valued and/or verified the integrity of the balances of the Company's assets and liabilities as reported in its annual statement as of December 31, 2005, as those balances affect the financial solvency of the Company.

Transactions subsequent to year-end 2005 were reviewed where relevant and deemed significant to the Company's financial condition.

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 contained in the Office's prior examination report of the Company.

HISTORY

General

The Company was incorporated in Florida on April 10, 1996 and commenced business on June 1, 1996 as First Floridian Auto and Home Insurance Company. It was a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code.

In accordance with Section 624.401(1), Florida Statutes, the Company was authorized to transact the following insurance coverage in Florida on December 31, 2005:

Fire
Homeowners Multi Peril
Inland Marine
Earthquake

Other Liability
Private Passenger Auto Liability
Private Passenger Auto Physical Damage

The articles of incorporation were not amended during the period covered by this examination. The bylaws were amended on March 10, 2005 to reduce the required Board of Directors meetings to one a year, to change the place of the Board of Directors meetings to any designated place and to add the provision of a written consent to actions without requiring a Board of Directors meeting.

Capital Stock

As of December 31, 2005, the Company's capitalization was as follows:

Number of authorized common capital shares	10,000,000
Number of shares issued and outstanding	5,000,000
Total common capital stock	\$5,000,000
Par value per share	\$1.00

Control of the Company was maintained by its parent, The Travelers Indemnity Company, who owned 100 percent of the stock issued by the Company, who in turn was 100 percent owned by Travelers Insurance Group Holdings Inc., a Delaware corporation, who in turn was 100 percent owned by Travelers Property Casualty Corporation (TPC), a Connecticut corporation. The ultimate parent is a publicly traded company, The St. Paul Travelers Companies, Inc. (SPT), a Minnesota corporation.

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 statement.

	2005	2004	2003
Premiums Earned	253,262,482	212,859,931	183,440,881
Net Underwriting Gain/(Loss)	(10,115,976)	(42,196,023)	10,224,006
Net Income	6,561,195	(14,733,108)	18,216,284
Total Assets	492,182,580	426,730,971	412,253,361
Total Liabilities	328,222,532	271,701,133	236,516,199
Surplus As Regards Policyholders	163,960,048	155,029,838	175,737,162

Dividends to Stockholders

In accordance with Section 628.371, Florida Statutes, the Company declared and paid dividends to its stockholder in 2004 and 2003 in the amounts of \$6,500,000 and \$20,500,000, respectively.

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, 2005, were:

Directors

Name and Location

Principal Occupation

Kelley Lyn Buchanan
Avon, CT

President
Specialty Operations

Nancy Lee Baily
Tampa, FL

President and CEO
First Floridian Auto and Home Insurance Co.

Phyllis Mary Forsyth
Allendale, NJ

President and CEO
First Trenton Indemnity Company

Douglas Kenneth Russell
S. Windsor, CT

Sr. VP, Corporate Controller & Treasurer
The St. Paul Travelers Companies, Inc.

Richard Earl Welch, Jr.
Holden, MA

President and CEO
The Premier Ins. Co. of Massachusetts

Nicholas John Santoro
Avon, CT

Controller, Personal Lines

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

Senior Officers

Name	Title
Nancy Lee Baily	President & CEO
Edward James Fandel	CFO & Treasurer
Manuel Silvano Gonzalez	Vice President
David Houston Griner	Vice President
Pamela Sue McQuaid	Vice President
Judith Resony Kelly	Vice President
Patrick Thomas McCrink, III	Vice President
Perry Ian Cone	Secretary
John Steven Hill	Assistant Secretary

The Company utilized the audit committee of SPT, the ultimate parent, which was in accordance with Section 624.424(8)(c), Florida Statutes. Following are the members as of December 31, 2005:

Audit Committee

John Dasburg, Chairman
Janet Dolan
Thomas Hodgson
Clarence Otis
Laurie Thomsen

Conflict of Interest Procedure

The Company adopted a policy statement requiring annual disclosure of conflicts of interest, in accordance with Section 607.0832, Florida Statutes. No exceptions were noted during this examination period.

Corporate Records

The recorded minutes of the shareholder, Board of Directors and audit committee meeting were reviewed for the period under examination. The recorded minutes of the Board adequately documented its 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

On April 1, 2004, TPC and subsidiaries, which included the Company, merged with The St. Paul Companies, Inc. (St. Paul) forming SPT. Under the terms of the merger agreement, each share of TPC Class A and Class B common stock were exchanged for 0.4334 of a share of St. Paul common stock. At December 31, 2005, SPT was the ultimate controlling company.

Surplus Debentures

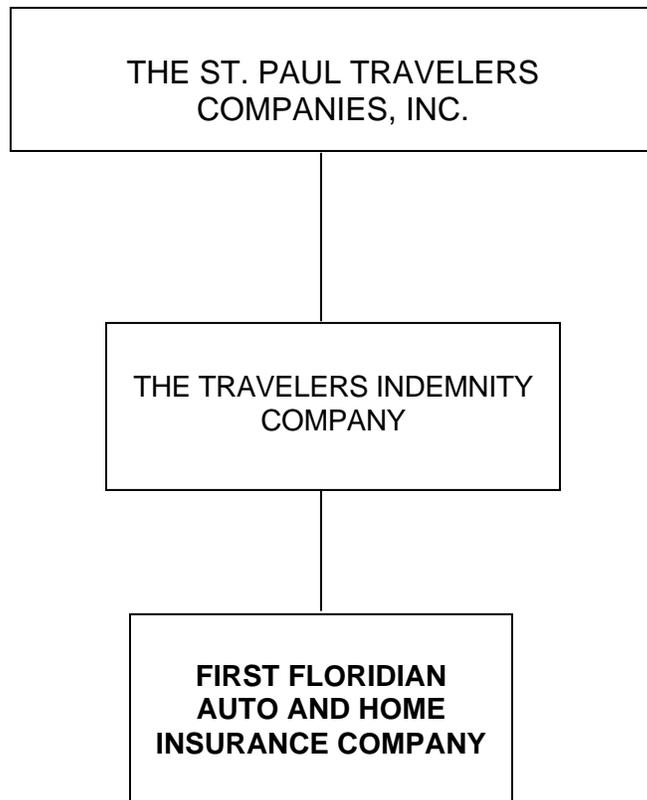
The Company did not have any surplus debentures at December 31, 2005.

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 14, 2005, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

A simplified organizational chart as of December 31, 2005, reflecting the holding company system, is shown below. Schedule Y of the Company's 2005 annual statement provided a list of all related companies of the holding company group.

FIRST FLORIDIAN AUTO AND HOME INSURANCE COMPANY ORGANIZATIONAL CHART DECEMBER 31, 2005



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

Tax Allocation Agreement

The Company, along with its parent and other affiliated companies, filed a consolidated federal income tax return. On December 31, 2005, the method of tax allocation between the companies was based upon calculations on a separate return basis.

Investment Management Agreement

The Company had an investment management agreement with its parent at December 31, 2005. The parent provided investment services for all stocks, bonds and other securities owned by the Company. All investments made by the parent under the terms of this agreement were in the name of the Company or a nominee on its behalf with all the rights of ownership and possession residing with the Company.

Corporate Services Agreement

The Company and its parent had a corporate services agreement at December 31, 2005, to perform services for each other. The services included policy processing, claims, accounting, actuarial, customer, human resources, information technology, legal, compliance, and operations services. The fees for the services were the actual costs with the intention of no party realizing a profit or incurring a loss as a result of the agreement.

FIDELITY BOND AND OTHER INSURANCE

The Company maintained fidelity bond coverage of \$15,000,000 with a deductible of \$5,000,000, which adequately covered the suggested minimum amount of coverage for the Company as

recommended by the NAIC. The Company maintained various other insurance policies which covered property and business hazards.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company participated in a qualified defined benefit pension plan for its employees sponsored by the ultimate parent, SPT. The Company also participated in a 401(K) retirement plan, a deferred compensation plan, stock option incentive awards, health care and life insurance benefit plans sponsored by the ultimate parent, SPT, for the employees of the Company. The Company accounted for pension and postretirement benefit expenses as consolidated/holding company plans under SSAP 89, Accounting for Pensions.

STATUTORY DEPOSITS

The following securities were deposited with the State of Florida as required by Section 624.411, Florida Statutes:

State	Description	Rate	Maturity Date	Par Value	Market Value
FL	Baltimore Gas & Electric Co.	5.2%	12/15/06	<u>\$350,000</u>	<u>\$350,014</u>
TOTAL FLORIDA DEPOSITS				<u>\$350,000</u>	<u>\$350,014</u>

INSURANCE PRODUCTS

Territory

The Company was licensed only in the State of Florida.

Treatment of Policyholders

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

Ceded

The Company ceded risk on an excess of loss basis to its parent and participated in the Florida Hurricane Catastrophe Fund at the 90% participation level.

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

ACCOUNTS AND RECORDS

An independent CPA firm audited the Company's statutory basis financial statements annually for the years 2003, 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 maintained its principal operational offices in Tampa, Florida, where this examination was conducted.

The Company and non-affiliates had the following agreements at December 31, 2005:

Custodial Agreement

The Company joined its parent and other affiliates in an existing Global Custodial Services Agreement with Citibank. Citibank did not have to acknowledge the Company's addition to the agreement because the agreement provides for such an action for all related affiliates of the parent.

In addition, the Global Custodial Services Agreement did not comply with the following provision of the Florida Administrative Code:

Rule 69O-143.042(2)(j), Florida Administrative Code, states the custodian shall provide Forms D14-341 (A), (B), or (C); therefore, the agreement should be amended to require the custodian to provide the aforementioned forms.

Operating Leases

The Company had several non-cancellable operating lease agreements for office space through December 2010.

Independent Auditor Agreement

The Company had an agreement with KPMG, LLP to perform an audit of its GAAP and statutory financial statements for the years 2003, 2004 and 2005.

Risk-Based Capital

The Company reported its risk-based capital at an adequate level

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2005, 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 FLORIDIAN AUTO AND HOME INSURANCE COMPANY
Assets

DECEMBER 31, 2005

	Per Company	Examination Adjustments	Per Examination
Bonds	\$ 396,783,219		\$ 396,783,219
Stocks:			
Preferred	1,859,019		1,859,019
Common	1,121,885		16,769,346
Cash and cash equivalents	16,769,346		16,769,346
Investment income due & accrued	4,652,131		4,652,131
Agents' Balances:			
Uncollected premium	4,656,167		4,656,167
Deferred premium	48,195,184		48,195,184
Reinsurance recoverable	2,010,903		2,010,903
Current federal income tax recoverable and interest thereon	5,075,696		5,075,696
Net deferred tax asset	11,296,321		11,296,321
Aggregate write-in for other than invested assets	(237,291)		(237,291)
Totals	<u>\$ 492,182,580</u>		<u>\$ 492,182,580</u>

FIRST FLORIDIAN AUTO AND HOME INSURANCE COMPANY
Liabilities, Surplus and Other Funds

DECEMBER 31, 2005

	Per Company	Examination Adjustments	Per Examination
Losses and loss adjustment expenses	\$166,201,693		\$166,201,693
Commissions payable & contingent commissions	9,412,635		9,412,635
Other expenses	1,696,362		1,696,362
Taxes, licenses and fees	14,400,000		14,400,000
Unearned premiums	118,999,343		118,999,343
Advance premium	2,100,362		2,100,362
Ceded reinsurance premiums payable	12,192,000		12,192,000
Remittances and items not allocated	53,711		53,711
Payable to parent, subsidiaries and affiliates	<u>3,166,426</u>		<u>3,166,426</u>
Total Liabilities	\$328,222,532		\$328,222,532
Common capital stock	\$5,000,000		\$5,000,000
Gross paid in and contributed surplus	129,350,000		129,350,000
Unassigned funds (surplus)	<u>29,610,048</u>		<u>29,610,048</u>
Surplus as regards policyholders	<u>\$163,960,048</u>		<u>\$163,960,048</u>
Total liabilities, surplus and other funds	<u>\$492,182,580</u>	<u>\$0</u>	<u>\$492,182,580</u>

FIRST FLORIDIAN AUTO AND HOME INSURANCE COMPANY
Statement of Income

DECEMBER 31, 2005

Underwriting Income

Premiums earned	\$253,262,482
DEDUCTIONS:	
Losses incurred	158,854,307
Loss expenses incurred	27,375,967
Other underwriting expenses incurred	77,148,184
Aggregate write-ins for underwriting deductions	0
Total underwriting deductions	<u>\$263,378,458</u>
Net underwriting gain or (loss)	(\$10,115,976)

Investment Income

Net investment income earned	\$18,790,871
Net realized capital gains or (losses)	85,890
Net investment gain or (loss)	<u>\$18,876,761</u>

Other Income

Net gain or (loss) from agents' or premium balances charged off	(\$350,495)
Finance and service charges not included in premiums	1,738,347
Aggregate write-ins for miscellaneous income	(136,504)
Total other income	<u>\$1,251,348</u>

Net income before dividends to policyholders and before federal & foreign income taxes	\$10,012,133
Dividends to policyholders	0
Net Income, after dividends to policyholders, but before federal & foreign income taxes	<u>\$10,012,133</u>
Federal & foreign income taxes	<u>3,450,938</u>
Net Income	\$6,561,195

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year	\$155,029,838
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Gains and (Losses) in Surplus

Net Income	\$6,561,195
Net unrealized capital gains or losses	(289,137)
Change in non-admitted assets	1,692,733
Change in deferred income tax	965,419
Change in surplus as regards policyholders for the year	\$8,930,210
Surplus as regards policyholders, December 31 current year	<u><u>\$163,960,048</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses \$166,201,693

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, 2005, 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 FLORIDIAN AUTO AND HOME INSURANCE COMPANY
Comparative Analysis of Changes in Surplus

DECEMBER 31, 2005

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, 2005, Annual Statement	\$ 163,960,048
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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, 2005, Per Examination			\$ 163,960,048

SUMMARY OF FINDINGS

Compliance with previous directives

The Company had no adverse findings in the 2002 examination report issued by the Office.

Current examination comments and corrective action

The following is a brief summary of items of interest and corrective action to be taken by the Company regarding findings in the examination as of December 31, 2005.

Custodial Agreement

The Global Custodial Services Agreement did not comply with the following provision of Rule 69O-143.042, Florida Administrative Code:

The custodian is required to provide Forms D14-341(A), (B) or (C),

We recommend the Company amend the custodial agreement with Citibank to require the custodian to provide the aforementioned forms.

CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **First Floridian Auto and Home Insurance Company** as of December 31, 2005, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was \$163,960,048, which was in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned, John Berry, Financial Examiner/Analyst Supervisor and Joe Boor, FCAS, Office Actuary, participated in the examination.

Respectfully submitted,

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