

REPORT ON EXAMINATION
OF
NATIONAL GROUP INSURANCE
COMPANY
CORAL GABLES, FLORIDA

AS OF
DECEMBER 31, 2005

BY THE
OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida

March 2, 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, 2005, of the financial condition and corporate affairs of:

**NATIONAL GROUP INSURANCE COMPANY
238 PALERMO STREET
CORAL GABLES, FLORIDA 33134**

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

SCOPE OF EXAMINATION

This examination covered the period of January 1, 2005 through December 31, 2005. This examination commenced, with planning at the Florida Office of Insurance Regulation (Office), on December 19, 2006. The fieldwork commenced on January 15, 2007, and was concluded as of March 2, 2007. 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, A.M. Best Report was reviewed and utilized where applicable within the scope of this examination.

We valued and 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 was confined to financial statements and comments on matters that involve departures from laws, regulations or rules, or which were deemed to require special explanation or description.

Based on the review of the Company's control environment and the materiality level set for this examination, reliance was not placed on work performed by the Company's CPAs, due to the fact that the Company was exempt from an audit.

Status of Adverse Findings from Prior Examination

This was the first examination by representatives of the Office. There were no prior summary of adverse findings.

HISTORY

General

The Company was incorporated in Florida on June 9, 2004 and commenced business on August 4, 2004 as National Group Insurance Company. 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 was issued December 31, 2005.

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	Allied Lines
Commercial Multi Peril	Inland Marine
Other Liability	Commercial Automobile Liability
Commercial Auto Physical Damage	Fidelity
Glass	Burglary and Theft
Miscellaneous Casualty	

The premium rating approval delayed the start of writing premiums until July 2006.

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

Capital Stock

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

Number of authorized common capital shares	1,000,000
Number of shares issued and outstanding	250,000
Total common capital stock	\$250,000
Par value per share	\$1.00

Control of the Company was maintained by its parent, National Insurance Company, who owned 100% of the stock issued by the Company. The Company owned 100% of Phoenix Insurance Underwriters, LLC.

Profitability of Company

The Company wrote no business during the year 2005.

	2005
Premiums Earned	0
Net Underwriting Gain/(Loss)	0
Net Income	200,102
Total Assets	5,301,097
Total Liabilities	0
Surplus As Regards Policyholders	5,301,097

Dividends to Stockholders

In accordance with Section 628.371, Florida Statutes, the Company did not declare or pay dividends to its stockholder in 2005.

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

Carlos M. Benitez, Jr.
San Juan, PR

President & CEO
National Group Insurance Company

Maria Julia C. de Garcia
San Juan, PR

Treasurer
National Group Insurance Company

Hilda F. Guzman
Miami, Florida

Secretary
National Group Insurance Company

Roberto Dana
Miami, Florida

Vice Chairman
National Group Insurance Company

Lina M. Delgado
Coral Gables, Florida

Executive Vice President
National Group Insurance Company

Jorge Benitez
Coral Gables, Florida

Vice President
National Group Insurance Company

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

Senior Officers

Name	Title
Carlos M. Benitez, Jr.	President and CEO
Maria Julia C. de Garcia	Treasurer
Hilda F. Guzman	Secretary
Roberto Dana	Vice President

The Company's board appointed several internal committees in accordance with Section 607.0825, Florida Statutes. Following were the principal internal board committees and their members as of September 15, 2006:

Executive Committee	Audit Committee	Finance and Investment Committee
Ramon L. Cruz Colon¹	Maria Julia C. de Garcia¹	Maria Julia C. de Garcia¹
Lina M. Delgado-Lucca	Oscar Rivera	Lina M. Delgado-Lucca
Edgardo Van Rhyn	Luis Rivera Flores	Ramon L. Cruz Colon

¹ Chairperson

Corporate Records

The recorded minutes of the shareholder, Board of Directors, and certain internal committees 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

The Company had no acquisitions, mergers, disposals, dissolutions, and purchase or sales through reinsurance.

Surplus Debentures

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

AFFILIATED COMPANIES

The latest holding company registration statement was filed with the State of Florida on December 31, 2005, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

The following agreement was in effect between the Company and its affiliate:

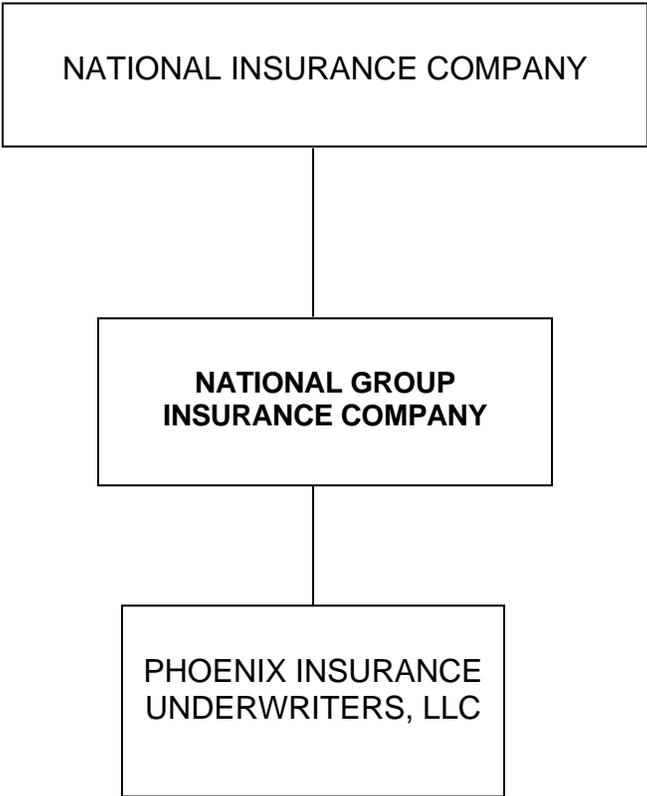
Managing General Agent Agreement

The Company entered into a managing general agent (MGA) agreement with Phoenix Insurance Underwriters, LLC, an affiliate, on November 24, 2003. The agreement became effective on January 1, 2004. The agreement was amended on May 7, 2004 and June 9, 2004 to change the configuration of the commissions and to substitute the Company for National Insurance Company for all new and renewal business quoted by Phoenix Insurance Underwriters, LLC to National Insurance Company.

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.

**NATIONAL GROUP INSURANCE COMPANY, INC.
ORGANIZATIONAL CHART**

DECEMBER 31, 2005



OTHER INSURANCE

The Company had other adequate insurance coverage for the operation of the business.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company did not have a pension plan, stock ownership or insurance plans.

STATUTORY DEPOSITS

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

Florida Statutes:

	<u>STATE</u>	<u>DESCRIPTION</u>	<u>RATE</u>	<u>MATURITY DATE</u>	<u>PAR VALUE</u>	<u>MARKET VALUE</u>
FL		USTBDS	4.4%	05/15/07	\$ 325,000	\$ 323,765
TOTAL FL DEPOSITS					<u>\$ 325,000</u>	<u>\$ 323,765</u>
TOTAL SPECIAL DEPOSITS					<u>\$ 325,000</u>	<u>\$ 323,765</u>

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory

The Company has not written insurance coverage in any of the lines of business approved as of December 31, 2005. The Company started writing business in July 2006 after obtaining rate approvals from the Office.

Treatment of Policyholders

The Company established procedures for handling written complaints in accordance with Section 626.9541(1)(j), Florida Statutes, as used by the parent company, National Insurance Company.

The Company has not established a claims procedure manual other than that used by its parent company for handling each type of claim in accordance with Section 626.954(1)(i)3,a, Florida Statutes.

REINSURANCE

The reinsurance contracts were not reviewed, due to the lack of writing premiums until July 2006, by the Company's appointed actuary.

Assumed

The Company assumed no risk on insurance.

Ceded

The Company ceded no risk on insurance for any basis because no premiums were written until July 2006.

ACCOUNTS AND RECORDS

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 Coral Gables, Florida, where this examination was conducted.

An independent CPA did not audit the Company's statutory basis financial statements for 2005, in accordance with Section 624.424(8), Florida Statutes, because it had an exemption for filing audited financial statements.

The Company and non-affiliates had the following agreements:

Custodial Agreement

The Company had a custodial agreement with Citigroup dated July 6, 2004.

Risk-Based Capital

The Company did not have a reported risk-based capital 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."

NATIONAL GROUP INSURANCE COMPANY
Assets

DECEMBER 31, 2005

	Per Company	Examination Adjustments	Per Examination
Bonds	\$ 5,208,809		\$ 5,208,809
Cash and Short-term investments	51,637		51,637
Interest and dividend income due & accrued	40,651		40,651
	<hr/>		
Totals	\$ 5,301,097	0 \$	5,301,097
	<hr/> <hr/>		

NATIONAL GROUP INSURANCE COMPANY
Liabilities, Surplus and Other Funds

DECEMBER 31, 2005

Liabilities	Per Company	Examination Adjustments	Per Examination
Total Liabilities	\$0	\$0	\$0
Common capital stock	\$250,000		\$250,000
Gross paid in and contributed surplus	4,750,000		4,750,000
Unassigned funds (surplus)	<u>301,097</u>		<u>301,097</u>
Surplus as regards policyholders	<u>\$5,301,097</u>		<u>\$5,301,097</u>
Total liabilities, surplus and funds	<u><u>\$5,301,097</u></u>	<u>\$0</u>	<u><u>\$5,301,097</u></u>

NATIONAL GROUP INSURANCE COMPANY
Statement of Income

DECEMBER 31, 2005

Underwriting Income	
Premiums earned	\$0
DEDUCTIONS:	
Losses incurred	0
Total underwriting deductions	<u>\$0</u>
Net underwriting gain or (loss)	\$0
Investment Income	
Net investment income earned	\$198,710
Net realized capital gains or (losses)	1,392
Net investment gain or (loss)	<u>\$200,102</u>
Other Income	
Total other income	\$0
Net income before dividends to policyholders and before federal & foreign income taxes	\$200,102
Dividends to policyholders	0
Net Income, after dividends to policyholders, but before federal & foreign income taxes	<u>\$200,102</u>
Federal & foreign income taxes	0
Net Income	\$200,102
Capital and Surplus Account	
Surplus as regards policyholders, December 31 prior year	\$5,100,995
Gains and (Losses) in Surplus	
Net Income	\$200,102
Aggregate write-ins for gains and losses in surplus	0
Examination Adjustment	0
Change in surplus as regards policyholders for the year	<u>\$200,102</u>
Surplus as regards policyholders, December 31 current year	<u><u>\$5,301,097</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses

\$-0-

The Company wrote no premiums. No opinion was rendered on the losses and loss adjustment expenses as 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 since there were no policies issued as of December 31, 2005.

The Office actuary reviewed work papers and provided a letter of exemption for the Company.

CAPITAL AND SURPLUS

The Company's surplus meets the surplus requirement as required by the State of Florida. A comparative analysis of changes in surplus is shown on the next page.

**NATIONAL GROUP 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	\$	5,301,097
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	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:			
No adjustments.			
LIABILITIES:			
No adjustments.			
Net Change in Surplus:			0
Surplus as Regards Policyholders December 31, 2005, Per Examination			\$ 5,301,097

SUMMARY OF FINDINGS

Compliance with previous directives

This was a first year examination of the Company. There were no prior comments or directives issued by the Office.

Current examination comments and corrective action

There are not items of interest or corrective action to be taken by the Company regarding findings in the examination as of December 31, 2005.

CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **National Group 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 \$5,301,097, which was in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned, Kethessa Carpenter, CPA, Financial Examiner/Analyst Supervisor, Jay Ambler, Financial Examiner/Analyst and Joe Boor, FCAS, Office Actuary, participated in the examination.

Respectfully submitted,

Mike Hampton, CPA, CFE, DABFA, CFE, CPM
Financial Examiner/Analyst Supervisor
Florida Office of Insurance Regulation