

REPORT ON EXAMINATION

OF

NATIONAL GROUP INSURANCE

COMPANY

CORAL GABLES, FLORIDA

AS OF

DECEMBER 31, 2007

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	4
GENERAL	4
CAPITAL STOCK	5
PROFITABILITY OF COMPANY	6
DIVIDENDS TO STOCKHOLDERS	6
MANAGEMENT	6
CONFLICT OF INTEREST PROCEDURE.....	8
CORPORATE RECORDS	8
ACQUISITIONS, MERGERS, DISPOSALS, DISSOLUTIONS, AND PURCHASE OR SALES THROUGH REINSURANCE.....	9
SURPLUS DEBENTURES	9
AFFILIATED COMPANIES	9
ORGANIZATIONAL CHART	10
MANAGING GENERAL AGENT AGREEMENT	11
FIDELITY BOND AND OTHER INSURANCE	11
PENSION, STOCK OWNERSHIP AND INSURANCE PLANS	12
STATUTORY DEPOSITS	12
INSURANCE PRODUCTS	12
TERRITORY	12
TREATMENT OF POLICYHOLDERS.....	13
REINSURANCE	13
ASSUMED.....	13
CEDED	13
ACCOUNTS AND RECORDS	14
CUSTODIAL AGREEMENT	16
FINANCIAL STATEMENTS PER EXAMINATION	16
ASSETS	17
LIABILITIES, SURPLUS AND OTHER FUNDS	18
STATEMENT OF INCOME.....	19
COMMENTS ON FINANCIAL STATEMENTS	20
ASSETS	20
LIABILITIES	20

COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS..... 23
SUMMARY OF FINDINGS 24
SUBSEQUENT EVENTS..... 24
CONCLUSION 26

Tallahassee, Florida

February 5, 2009

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, 2007, of the financial condition and corporate affairs of:

**NATIONAL GROUP INSURANCE COMPANY
101 ALMERIA AVENUE
CORAL GABLES, FLORIDA 33134**

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, 2007, through December 31, 2007. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2006. This examination commenced, with planning at the Office, on December 8, 2008, to December 12, 2008. The fieldwork commenced on December 15, 2008, and was concluded as of February 5, 2009.

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.

The Financial Condition Examiners Handbook requires that the examination be planned and performed to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation and management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused surveillance examination approach.

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

Status of Adverse Findings from Prior Examination

The following is a summary of significant adverse findings contained in the Office's prior examination report as of December 31, 2006, along with resulting action taken by the Company in connection therewith.

General

The Company had not written insurance coverage for a period of two years in the lines of business of Fire, Inland Marine and Fidelity. **Resolution:** The Company's 2007 annual statement reflected written premium in the line of business of Fire. The Company writes Inland Marine and Fidelity coverage as part of a commercial package.

Cash

The Company reported \$227,736 of cash held out of the state of Florida, in Puerto Rico, in violation of Section 628.271 (2), Florida Statutes. **Resolution:** The Company transferred the cash held out of state, to a bank account in Florida, on April 16, 2008.

Consent Order

Pursuant to Consent Order #76503-04-CO filed June 3, 2004 with the Office, the Company did not get prior written approval for a material deviation from its Plan of Operation. **Resolution:** The issue was readdressed in Consent Order #97316-08-CO, filed September 17, 2008.

Agents' balances in the course of collection

The Company reported \$1,079,569, which included \$132,846 of premiums receivable that were over 90 days past due, in violation of Section 625.012, Florida Statutes. **Resolution:** At December 31, 2007, the Company reported \$336,698 as admitted receivables, which are non-admitted in this examination report. The Company started aging agents' balances in the course of collection in 2008. As of June 30, 2008, the Company properly admitted agents' balances in the course of collection, as reflected in the second quarter statement.

Taxes, licenses and fees

The Company reported \$0, which was not the amount due. An accrued amount of \$25,369 should have been reported in the 2006 annual statement. **Resolution:** The Company accrued an amount for taxes, licenses and fees in the 2007 annual statement; however, the accrual was reported incorrectly on the annual statement line for current federal and foreign income taxes. This examination report adjusted \$17,290 from federal and foreign income taxes to taxes, licenses and fees.

Federal and foreign income taxes

The Company reported \$0, which was not the amount due. An accrued amount of \$147,569 should have been reported in the 2006 annual statement. **Resolution:** The Company accrued and reported an amount for federal and foreign income taxes in the 2007 annual statement;

however, the accrual also included a provision for taxes, licenses and fees. This examination report adjusts federal and foreign income taxes by \$17,290 to taxes, licenses and fees.

Holding company registration statement

The Company did not file an updated holding company registration statement to report subsequent changes in affiliates. **Resolution:** The Company filed an updated holding company registration statement to report subsequent changes in affiliates on February 29, 2008.

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 a holding company system, with the ultimate controlling parent, National Financial Group, owning the majority portion of the Company's direct parent, National Insurance Company, located in Puerto Rico. National Insurance Company owned 100% of the Company's stock and assumed 100% of the Company's business through a 100% quota share reinsurance contract. The Company owned 100% of Phoenix Insurance Underwriters, LLC (Phoenix), its managing general agent. Phoenix provided underwriting and insurance claim adjustment services for the Company.

The Company was party to Consent Order #76503-04-CO filed June 4, 2004. The Company was in compliance with that order.

In 2008, the Company became party to Consent Order #96666-08-CO filed September 2, 2008, and Consent Order #97316-08-CO filed September 17, 2008.

The Company was authorized to transact the following insurance coverage in Florida on December 31, 2007:

Fire	Glass
Commercial multi peril	Burglary and theft
Other liability	Commercial automobile liability
Fidelity	Commercial auto physical damage
Allied lines	Inland marine
Boiler & Machinery	

The Articles of Incorporation were not amended during the period covered by this examination.

The Bylaws were amended on August 15, 2007, by written consent of shareholders in lieu of meeting, to allow the annual meeting of the shareholders to be held during the month of August each year.

Capital Stock

As of December 31, 2007, 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, which was domiciled and incorporated in Puerto Rico. National Insurance Company owned 100% of the stock issued by the Company.

Profitability of Company

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

	2007	2006	2005
Premiums Earned	0	0	0
Net Underwriting Gain/(Loss)	56,745	207,102	0
Net Income	181,498	414,350	200,102
Total Assets	7,056,307	7,073,566	5,301,097
Total Liabilities	1,614,579	1,358,120	0
Surplus As Regards Policyholders	5,441,728	5,715,446	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 2007.

Management

The annual shareholders 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, 2007 were:

Directors

Name and Location

Carlos Manuel Benitez, Jr.
San Juan, Puerto Rico

Maria Julia Garcia
Bayamon, Puerto Rico

Principal Occupation

President and CEO
National Group Insurance Company

Treasurer
National Group Insurance Company

Lina Margarita Delgado (a) Miami, Florida	Executive Vice President and Secretary National Group Insurance Company
Jorge Enrique Benitez Guaynabo, Puerto Rico	Vice President National Insurance Company
Ramon Luis Colon (b) San Juan, Puerto Rico	Vice Chairman and CEO National Insurance Company
Edgardo Van Rhyn San Juan, Puerto Rico	President and COO National Insurance Company

(a) Juan Javier Barguez, Executive Vice President and Secretary, replaced Lina Margarita Delgado on the Board of Directors, effective August 20, 2008.

(b) Ramon Luis Colon retired, effective August 27, 2008.

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

Senior Officers

Name	Title
Carlos Manuel Benitez, Jr. (a)	President and CEO
Lina Margarita Delgado (b)	Executive Vice President and Secretary
Maria Julia Garcia	Treasurer

(a) Edgardo Van Rhyn replaced Carlos Manuel Benitez, Jr. as Company President and CEO effective May 2, 2008

(b) Lina Margarita Delgado resigned as Executive Vice President and Secretary effective August 15, 2008. She was replaced by Juan Javier Barguez.

The Company's Board appointed several internal committees in accordance with Section 607.0825, Florida Statutes. Following were the principal internal committees and their members as of December 31, 2007:

Executive Committee	Audit Committee	Investment Committee
Ramon Luis Colon ¹	Maria Julia Garcia ¹	Maria Julia Garcia ¹
Lina Margarita Delgado ²	Oscar Javier Rivera	Lina Margarita Delgado ²
Edgardo Van Rhyn	Luis Rivera Flores	Luis Rivera Flores

Luis Rivera Flores	Edgar Rodriguez	Jorge Enrique Benitez
Jorge Enrique Benitez	Mayra DiCristina	Mayra DiCristina

¹ Committee Chair

² Resigned in 2008; not replaced on Committees

As of December 31, 2007, only one member of the Company's audit committee was a director of the Company or an affiliated company. The Company was not in compliance with Florida Statutes, Section 624.424 (8) (c), which requires that an audit committee be comprised of three or more directors of the insurer or an affiliated company.

Subsequent Event: As reflected in the minutes of the Board of Directors meeting held December 30, 2008, the Company elected three Board members to its audit committee, satisfying Florida Statutes, Section 624.424 (8) (c), Florida Statutes. The Board members elected include: Maria Julia Garcia, Jorge Enrique Benitez and Juan Javier Barguez.

Conflict of Interest Procedure

In April of 2007, the Company adopted a policy statement requiring annual disclosure of conflicts of interest in accordance with the NAIC Financial Condition Examiners Handbook.

Corporate Records

The minutes of the Board, shareholder and certain internal committees were reviewed for the period under examination. The Board minutes did not adequately document its meetings and approval of Company transactions and events in accordance with Section 607.1601, Florida Statutes, because the Board minutes did not include the authorization of investments as required by Section 625.304, Florida Statutes.

Subsequent Event: As reflected in the minutes of the Board meeting held December 30, 2008, the Board retroactively authorized investment transactions that occurred in the examination period in compliance with Section 625.304, Florida Statutes.

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

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

Surplus Debentures

The Company did not have any surplus debentures at December 31, 2007.

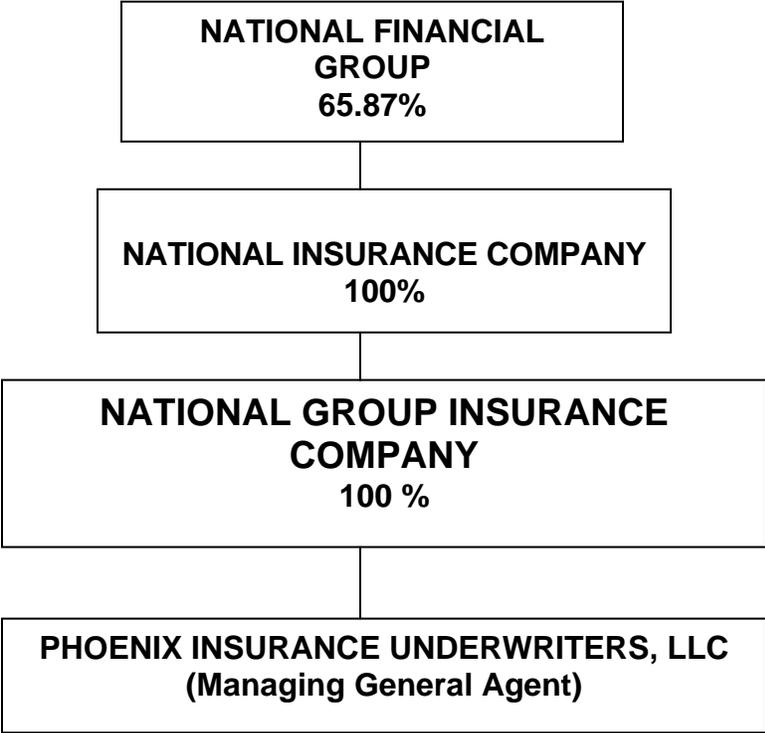
AFFILIATED COMPANIES

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

A simplified organizational chart as of December 31, 2007, reflecting the holding company system, is shown below.

**NATIONAL GROUP INSURANCE COMPANY
ORGANIZATIONAL CHART**

DECEMBER 31, 2007



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

Managing General Agent Agreement

The initial managing general agent (MGA) agreement and its two amendments were reviewed. Phoenix Insurance Underwriting, LLC, the Company's subsidiary and MGA, provided underwriting, premium accounting and claim services for the Company.

Phoenix Insurance Underwriters, LLC, had not been settling premium account payables due the Company under provisions of the MGA agreement. The MGA agreement states that "premium accounts are due and payable to the Company 60 days from the close of the month within which the premium was generated." At December 31, 2007, the MGA had premium payables due to the Company over 90 days old in violation of Section 626.7451 (3), Florida Statutes.

Subsequent event: The Company provided an aging schedule as of March 31, 2009 and MGA payment confirmations.

In addition, the Company did not record the \$25 per policy MGA fee as premium in violation of Section 627.403, Florida Statutes. **Subsequent event:** A review of the 2008 Annual Statement indicated correction of this reporting issue.

FIDELITY BOND AND OTHER INSURANCE

The Company maintained fidelity bond coverage with an aggregate limit of \$500,000 and a deductible of \$10,000, which adequately covered the Company and its MGA, based on the suggested minimum amount of coverage as recommended by the NAIC.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

Employees of the Company were not covered under pension or stock ownership plans, but were covered under life insurance and long term disability 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>Par Value</u>	<u>Market Value</u>
FL	U.S. T-Note, 4.5%, 3/31/2012	<u>325,000</u>	<u>339,235</u>
Total Florida Deposits		<u>\$ 325,000</u>	<u>\$ 339,235</u>
Total Special Deposits		<u><u>\$ 325,000</u></u>	<u><u>\$ 339,235</u></u>

INSURANCE PRODUCTS

Territory

At December 31, 2007, the Company was authorized to transact insurance only in the State of Florida. As described in the Subsequent Events section of this report, on August 22, 2008, the Company received its Certificate of Authority to transact insurance business in the State of Georgia.

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) 3.a., Florida Statutes.

REINSURANCE

The Company's 100% quota share reinsurance contract was reviewed and it was determined that the agreement complied with NAIC standards, with respect to the insolvency clause, transfer of risk, and the reporting and settlement deadline information.

Assumed

The Company assumed no reinsurance in 2007.

Ceded

The Company ceded 100% of its business to its parent, National Insurance Company.

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

ACCOUNTS AND RECORDS

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

An independent CPA firm audits the Company's statutory basis financial statements annually, in accordance with Section 624.424 (8), Florida Statutes. The 2007 supporting audit work papers were prepared by the CPA as required by Rule 69O-137.002, Florida Administrative Code. A CPA letter to the Board citing awareness to the Insurance Code and the Rules and Regulations of the Office of Insurance Regulation of the State of Florida, could not be provided to the examination team, as required by Florida Administrative Code 69O.137.002 (6)(b).

Subsequent Event: The independent CPA provided a letter citing awareness to the rules and regulations of the Office of Insurance Regulation of the State of Florida, applicable to the 2008 audit, on January 21, 2009.

The examination actuarial review as of December 31, 2007 indicated that the Company's gross loss and loss adjustment expense (LAE) reserves were \$585,000 higher than the Company's booked gross loss and LAE reserves of \$1,176,000, as reflected in the Schedule P - Part 1 of the 2007 annual statement. This material difference represented a 49.7% increase over the December 31, 2007 gross annual statement reserves. Therefore, the Company did not report adequate reserves, as required in Section 625.091 (1), Florida Statutes. **Subsequent event:** The Company provided the actuary's documentation to verify the Company booked gross Loss and Loss adjustment expenses reserves at the upper range level for 2008.

As indicated previously under Status of Adverse Findings from Prior Examination, an accrual for taxes, licenses and fees was not reflected in the 2007 annual statement. However, it was determined that \$17,290 of the \$100,910 liability accrual for current federal and foreign income taxes was related to taxes, licenses and fees. Therefore, the Company did not properly accrue liabilities and correctly report account balances in the 2007 annual statement, as required by Consent Order #97316-08-CO and NAIC Annual Statement Instructions and SSAP 5, Paragraphs 2 and 3. **Subsequent event:** A review of the 2008 Annual Statement indicated correction of this reporting issue.

As indicated previously under Status of Adverse Findings from Prior Examination, the Company incorrectly reported \$100,910 in the annual statement for the liability current federal and foreign income taxes. An accrued liability of \$83,620 should have been reported, since \$17,290 of the amount reported was related to the liability taxes, licenses and fees. Therefore, the Company did not properly accrue liabilities and correctly report account balances in the 2007 annual statement, as required by Consent Order #97316-08-CO, NAIC Annual Statement Instructions, SSAP 10, and SSAP 5, Paragraphs 2 and 3. **Subsequent event:** A review of the 2008 Annual Statement indicated correction of this reporting issue.

The Company incorrectly reported \$388,878 in the annual statement for aggregate write-ins for liabilities. An aggregate write-in liability of \$66,382 should have been reported, since \$322,496 of the amount reported for aggregate write-in liabilities included payables to parent, subsidiaries and affiliates. Therefore, the Company did not properly accrue liabilities and correctly report account balances in the 2007 annual statement, as required by NAIC Annual Statement Instructions and SSAP 5, Paragraphs 2 and 3. **Subsequent event:** A review of the 2008 Annual Statement indicated correction of this reporting issue.

An accrual for the liability "Other expenses" was not reflected in the 2007 annual statement. Therefore, the Company did not properly accrue liabilities and correctly report account balances in the 2007 annual statement, as required by NAIC Annual Statement Instructions and SSAP 5, Paragraphs 2 and 3. **Subsequent event:** A review of the 2008 Annual Statement indicated correction of this reporting issue.

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 in effect at December 31, 2007:

Custodial Agreement

The Company had a Custodial Agreement with Citibank, NA of San Juan, Puerto Rico. This agreement met the requirements of Rule 69O-143, Florida Administrative Code.

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2007, 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 financial statement sections below:

NATIONAL GROUP INSURANCE COMPANY
Assets

DECEMBER 31, 2007

	Per Company	Examination Adjustments	Per Examination
Bonds	\$3,941,500		\$3,941,500
Cash	1,795,380		1,795,380
Agents' Balances:			
Uncollected premium	1,259,216	\$336,698	922,518
Interest and dividend income due and accrued	60,211		60,211
	<hr/>		
Totals	\$7,056,307	\$336,698	\$6,719,609
	<hr/> <hr/>		

NATIONAL GROUP INSURANCE COMPANY
Liabilities, Surplus and Other Funds

DECEMBER 31, 2007

	Per Company	Examination Adjustments	Per Examination
Ceded reinsurance premiums payable	\$1,122,565		\$1,122,565
Taxes, licenses and fees	0	\$17,290	17,290
Current federal and foreign income taxes	100,910	(17,290)	83,620
Amounts withheld or retained by company for account of others	2,226		2,226
Payable to parent, subsidiaries and affiliates	0	322,496	322,496
Aggregate write-ins for liabilities	388,878	(322,496)	66,382
Total Liabilities	\$1,614,579	\$0	\$1,614,579
Common capital stock	\$250,000		\$250,000
Gross paid in and contributed surplus	4,750,000		4,750,000
Unassigned funds (surplus)	441,728		441,728
Surplus as regards policyholders	\$5,441,728	\$336,698	\$5,105,030
Total liabilities, surplus and other funds	\$7,056,307	\$336,698	\$6,719,609

NATIONAL GROUP INSURANCE COMPANY
Statement of Income

DECEMBER 31, 2007

Underwriting Income	
Premiums earned	\$0
Deductions:	
Other underwriting expenses incurred	(\$56,745)
Total underwriting deductions	<u>(56,745)</u>
Net underwriting gain or (loss)	(\$56,745)
Investment Income	
Net investment income earned	<u>\$207,248</u>
Net investment gain or (loss)	\$207,248
Other Income	
Net income before dividends to policyholders and before federal and foreign income taxes	\$282,408
Federal and foreign income taxes incurred	<u>100,910</u>
Net Income, after dividends to policyholders, but before federal and foreign income taxes	<u>\$181,498</u>
Net Income	\$181,498
Capital and Surplus Account	
Surplus as regards policyholders, December 31 prior year	\$5,715,447
Net Income	\$181,498
Change in net unrealized capital gains or (losses)	(98,000)
Change in nonadmitted assets	(184,279)
Aggregate write-ins for gains and losses in surplus	(172,938)
Examination adjustments	<u>(336,698)</u>
Change in surplus as regards policyholders for the year	<u>(\$610,417)</u>
Surplus as regards policyholders, December 31 current year	<u><u>\$5,105,030</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Assets

Cash \$1,795,380

Cash of \$1,622,169 was held at Citibank, NA in Puerto Rico as of December 31, 2007. Cash held out of the State of Florida was in violation of Section 628.271 (2), Florida Statutes.

Subsequent Event: The Company transferred the cash held out of state, to a bank account located in Florida, on April 16, 2008.

Agents' balances in the course of collection \$922,518

Agents' balances in the course of collection reported as \$1,259,216 were reduced by \$336,698, which represented premiums receivable over 90 days old. The Company was in violation of Section 625.012, Florida Statutes, which only permits premiums receivable less than 90 days old as admitted assets.

Subsequent Event: The Company provided evidence that as of June 30, 2008 and as of September 30, 2008, agents' balances in the course of collection were current and properly reported, as reflected in the 2008 second and third quarterly statements.

Liabilities

Taxes, licenses and fees \$17,290

Taxes, licenses and fees reported as \$0 were increased by \$17,290 for the amount of tax due as of December 31, 2007, which was improperly shown in Current Federal and Foreign Income Taxes.

Current federal and foreign income taxes \$83,620

Current federal and foreign income taxes reported as \$100,910 were reduced by \$17,290 for the amount of taxes, licenses and fees due as of December 31, 2007, which had been improperly included in this line item.

Payable to parent, subsidiaries and affiliates \$322,496

Payable to parent, subsidiaries and affiliates reported as \$0 were increased by \$322,496 for the amount of payable due its parent as of December 31, 2007, which was improperly shown as an aggregate write-in.

Aggregate write-ins for liabilities \$66,382

Aggregate write-ins for liabilities reported as \$388,878 were reduced by \$322,496 for the amount of payable due its parent as of December 31, 2007, which had been improperly included in this line item.

Adjusting and other LAE reserves \$0

The Company did not properly report Adjusting and Other LAE reserves, as reflected in the Schedule P - Part 1 of the 2007 annual statement. No adjustment was made to the financial statements.

Gross loss reserves \$1,176,000

The examination actuarial review as of December 31, 2007 indicated that the Company's gross loss and loss adjustment expense (LAE) reserves were \$585,000 greater than the Company's booked gross loss and LAE reserves of \$1,176,000, as reflected in the Schedule P - Part 1 of the 2007 annual statement. No adjustment was made to the financial statements.

Other expenses\$0

The Company did not report the liability “Other expenses” in the 2007 annual statement. An accrual for “Other expenses” should have been reported. No adjustment was made to the financial statements.

A comparative analysis of changes in surplus is shown below.

**NATIONAL GROUP INSURANCE COMPANY
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS**

DECEMBER 31, 2007

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, 2007, per Annual Statement	\$5,441,728
---	-------------

	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:			
Agents' balances in the course of collection	\$7,056,307	\$6,719,609	(\$336,698)
LIABILITIES:			
Taxes, licenses and fees	0	17,290	17,290
Current federal and foreign income taxes	100,910	83,620	(17,290)
Payable to parent, subsidiaries and affiliates	0	322,496	322,496
Aggregate write-ins for liabilities	388,878	66,382	(322,496)
Net Change in Surplus:			(336,698)
Surplus as Regards Policyholders December 31, 2007, Per Examination			\$5,105,030

SUMMARY OF FINDINGS

Compliance with previous directives

The Company had not taken the necessary actions to comply with the comments made in the 2006 examination report issued by the Office. The Company had been accruing for “taxes, licenses and fees” and “current federal and foreign income taxes;” however, the Company had been reporting the accruals together on one annual or quarterly statement line, instead of the proper annual or quarterly statement line for each accrual. **Subsequent event:** A review of the 2008 Annual Statement indicated correction of the reporting issues.

Current examination comments and corrective action

There are no exceptions or findings in the examination as of December 31, 2007.

SUBSEQUENT EVENTS

In 2008, the Company became party to Consent Order #96666-08-CO filed September 2, 2008, and Consent Order #97316-08-CO filed September 17, 2008. Under Consent Order #96666-08-CO the Company paid \$10,500 in administrative fines and costs for failure to timely submit rate filings. Under Consent Order #97316-08-CO the Company paid \$20,000 in administrative fines and costs related to the following:

- Removal of lines of business that the Company was not writing
- Cash held outside of the state of Florida
- Deviation from the Company's filed Plan of Operation

- Non-admitting agents' balances in course of collection over 90 days old
- Proper accrual and reporting of taxes, licenses and fees and current federal and foreign income taxes
- Filing an updated holding company registration statement
- Providing documentation of compliance with the consent order within 60 days after execution of the order

On August 22, 2008, the Company received its Certificate of Authority to transact business in the State of Georgia. The Company is authorized to engage in the business of property, marine, transportation and casualty, excluding workers' compensation, through June 30, 2009.

Edgardo Van Rhyn was elected President and CEO of the Company on May 2, 2008, replacing Carlos Manuel Benitez, Jr.

Lina Margarita Delgado, a Board member and Executive Vice President and Secretary of the Company, resigned effective August 15, 2008. She was replaced, both on the Board and as Executive Vice President and Secretary, by Juan Javier Bargez, effective August 20, 2008.

CONCLUSION

The 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, 2007, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as Regards Policyholders was \$5,105,030, in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned, Patricia Casey Davis, CFE, CPA; Matt Perkins, CFE; and Ed Payne, CFE of INS Regulatory Insurance Services, Inc., and Michael W. Morro, ACAS, MAAA, of INS Consultants, Inc., participated in the examination.

Respectfully submitted,

Kethessa Carpenter, CPA
Financial Examiner/Analyst Supervisor
Florida Office of Insurance Regulation