REPORT ON EXAMINATION

OF

TRANSPORTATION CASUALTY INSURANCE COMPANY

FORT LAUDERDALE, FLORIDA

AS OF

DECEMBER 31, 2002

BY THE

OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida

March 5, 2004

Kevin M. McCarty
Director
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 ("FS"), 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, 2002, of the financial condition and corporate affairs of:

TRANSPORTATION CASUALTY INSURANCE COMPANY
1600 WEST COMMERCIAL BLVD.
FORT LAUDERDALE, FLORIDA 33309

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, 2000 through December 31, 2002. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 1999. This examination commenced, with planning at the Office, on December 22, 2003. The fieldwork commenced on January 5, 2004, and was concluded as of March 5, 2004. 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 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 (“FAC”), 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 were reviewed and utilized where applicable within the scope of this examination.

We valued and/or verified the amounts of the Company's assets and liabilities as reported by the Company in its annual statement as of December 31, 2002. Transactions subsequent to year-end 2002 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.

Based on the review of the Company's control environment and the materiality level set for this examination, reliance was placed on work performed by the Company's CPAs, after verifying the statutory requirements, for the following accounts:

Mortgage Loans
Interest, Dividends and Real Estate Income Due & Accrued
Provision for Reinsurance

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, 1999, along with resulting action taken by the Company in connection therewith.

Accounts and Records

The Company had not recorded nor accrued any premiums for the 1999 portion of the renewal of 1999-2000 B & L Service policy.

Resolution: The Company subsequently recorded the proper amount of premiums for its B & L policy in its financial statements.

Amounts Withheld or Retained by Company for Others

The Company reported outstanding claims checks as a liability under "Amounts withheld or Retained by the Company for Others" instead of in "Cash".

Resolution: The Company subsequently complied with Section 625.012(1), and included outstanding checks in cash on deposit.

Agents Balances

The Company did not have a true aging of its agents balances as required by Rule 69O-138.024, Florida Administrative Code.

Resolution: The Company subsequently complied with Rule 69O-138.024, Florida Administrative Code, and produced a proper aging of receivables.

HISTORY

General

The Company was incorporated in Florida on November 13, 1985 and commenced business on December 6, 1985 as Transportation Casualty Insurance Company.

In accordance with Section 624.401(1), FS, the Company was authorized to transact the following insurance coverage in Florida on December 31, 2002:

Workers Compensation
Homeowners Multi Peril
Commercial Automobile Liability
Commercial Auto Physical Damage
Surety

The Company has not written insurance coverage in the last three years in the line of business of homeowners multi peril.

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

Capital Stock

As of December 31, 2002, the Company's capitalization was as follows:

Number of authorized common capital shares	25,000
Number of shares issued and outstanding	23,500
Total common capital stock	$2,350,000
Par value per share	$100.00

In 1998, the sole shareholder (Jesse P. Gaddis) of the Company's parent, TFG, Inc., sold his interest to a group of existing directors and management of the Company. In conjunction with this sale, TFG Capital, Inc., was established as the ultimate parent of the Company. Additionally, two affiliates of the Company were sold by their shareholders to the same ownership group that purchased TFG Capital, Inc. These two companies' ultimate parent was TFG Risk Services, Inc. While the ownership structure of the Company and its affiliates did change, the management structure did not. The change of ownership was approved by the Office and became effective July 8, 1998. The controlling stockholder of both TFG Capital, Inc. and TFG Risk Services, Inc., is Philip E. Morgaman who owns 77% of each company.

Profitability of Company

The Company reported a net underwriting gain (loss) of $938,611, ($1,510,979) and ($692,867) for the years ended 2002, 2001 and 2000, respectively. The Company reported a net income (loss) of $1,341,457, ($583,180) and $137,437 for the years ended 2002, 2001 and 2000, respectively.

Dividends to Stockholders

The Company did not pay any dividends to its stockholders; however, the Company declared and paid dividends to its policyholders in 2000, 2001 and 2002 in the amounts of $227,238, 126,884 and $146,270, respectively.

Management

The annual shareholder meeting for the election of directors was held in accordance with Sections 607.1601 and 628.231, FS. Directors serving as of December 31, 2002, were:

Directors

Name and Location	**Principal Occupation**
Philip E. Morgaman Boca Raton, Florida	Chairman
Mark Stephenson Fort Lauderdale, Florida	President and COO
John Camillo Fort Lauderdale, Florida	Vice-Chairman
Donald O’Boyle Parkland, Florida	Executive Vice President, CFO & Secretary
Neal Nichols Aldie, VA	Director
William Spruce Coral Springs, Florida	Director

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

Senior Officers

Name	Title
Mark Stephenson	President
Donald O'Boyle	Secretary and Treasurer

The Company's board appointed several internal committees in accordance with Section 607.0825, FS. Following are the principal internal board committees and their members as of December 31, 2002:

Executive Committee	Audit Committee	Investment Committee
Philip Morgaman	David B. Zugman	Philip Morgaman
Mark Stephenson	Neal C. Nichols	Mark Stephenson
John Camillo	William D. Spruce	Donald O'Boyle

Conflict of Interest Procedure

The Company did not maintain current disclosures of conflicts of interest, in accordance with Section 607.0832, FS as of December 31, 2002. The Company produced conflict of interest statements dated January 9, 2004.

Corporate Records

The recorded minutes of the shareholder, Board of Directors, and Executive and Investment Committee meetings 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, FS, including the authorization of investments as required by Section 625.304, FS.

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

The Company did not report any acquisitions, mergers, disposals, dissolutions, and purchase or sale through reinsurance during the period under examination

Surplus Debentures

As of December 31, 2002, there were no outstanding surplus debentures of the Company.

AFFILIATED COMPANIES

The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), FAC. The latest holding company registration statement was filed with the State of Florida on September 12, 2001 as required by Section 628.801, FS, and Rule 69O-143.046, FAC. The Company did not timely file an updated holding company registration statement to report subsequent changes in affiliates, as required. The Company filed an updated holding company registration statement on July 24, 2003.

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

Tax Allocation Agreement

The Company, along with its parent, filed a consolidated federal income tax return. On December 31, 2002, the agreement required that the Company's tax liability shall be allocated on the basis of the percentage of the total tax as if computed on a separate return basis.

Cost Sharing Agreement

The Company entered into a cost sharing agreement effective on July 8, 1998, with Professional Insurance Underwriters, Inc., (PIU) and its subsidiaries. The cost sharing charges were allocated monthly and billed and collected within the following quarter. The allocation of the cost sharing charges was determined by the management of PIU and agreed to by the management of the affiliated companies, including Transportation Casualty Insurance Company.

MGA Agreements

The Company had an agreement with PIU to serve as the Company's general agent. PIU wrote insurance on behalf of the Company and also performed other necessary functions to service the business.

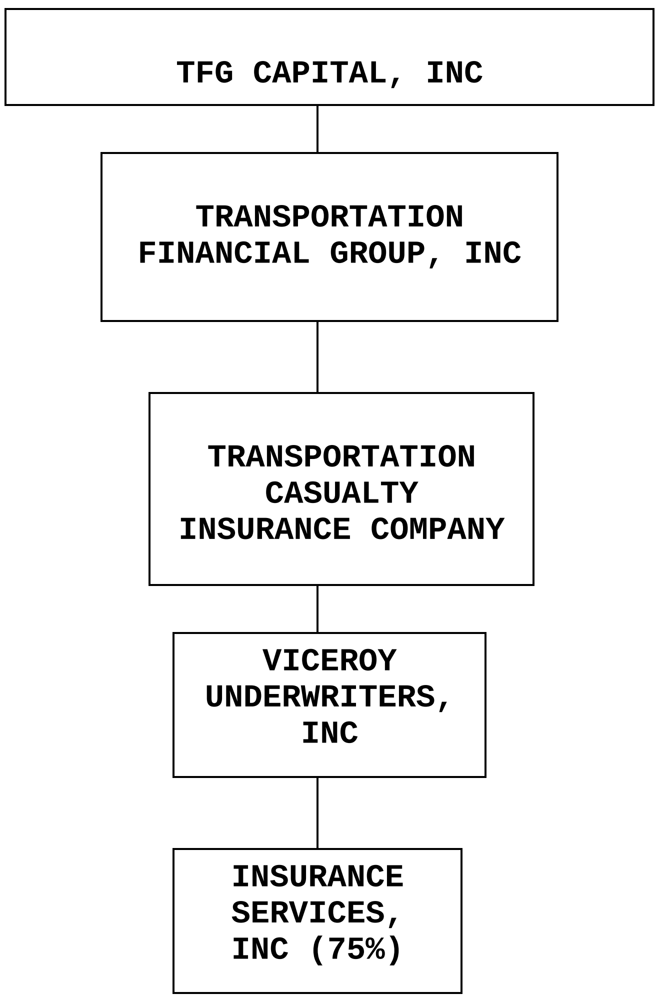
The Company was a guarantor of an affiliate's performance under a managing general agency agreement the affiliate had with a non-related third party. In 2002, the Company retained cash balances of approximately $2,459,000 as the agent for the third party with an offsetting liability included in the funds held balance.

Line of Credit

The Company was a guarantor for a bank line of credit in the amount of $2,980,245 for Premium Partners Fund, an affiliate. The line of credit provided that the Company shall incur no additional indebtedness or liability without prior approval of the bank.

A simplified organizational chart as of December 31, 2002, reflecting the holding company system, is shown below. Schedule Y of the Company's 2002 annual statement provided a list of all related companies of the holding company group.

TRANSPORTATION CASUALTY INSURANCE COMPANY
ORGANIZATIONAL CHART
DECEMBER 31, 2002



FIDELITY BOND AND OTHER INSURANCE

The Company maintained fidelity bond coverage up to $10,000,000, which adequately covered the suggested minimum amount of coverage for the Company as recommended by the NAIC.

PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS

On December 31, 2002, the Company had no employees of its own, and all services for the operation of the Company were provided by an affiliated company.

STATUTORY DEPOSITS

The following securities were deposited with the State of Florida as required by Section 624.411, FS, and with various state officials as required or permitted by law:

State	Description	Par Value	Market Value
FL	Cash Deposit	$ 300,000	$ 300,000
TOTAL FLORIDA DEPOSITS		$ 300,000	$ 300,000
GA	Evergreen Treasury Money Market Fund	$ 85,000	$ 85,000
TOTAL OTHER DEPOSITS		$ 85,000	$ 85,000
Total Special Deposits		$385,000	$385,000

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operation

The Company was authorized to transact insurance in the following states, in accordance with Section 624.401(2), FS:

Florida	Georgia

Treatment of Policyholders

The Company had established procedures for handling written complaints in accordance with Section 626.9541(1)(j), FS. The Company maintained a claims procedure manual that included detailed procedures for handling each type of claim.

REINSURANCE

The Company transferred a portion of its risks to unaffiliated and affiliated domestic and foreign reinsurers through quota share, excess of loss and facultative arrangements during the period under examination. The reinsurance agreements reviewed were found to comply with NAIC standards with respect to the standard insolvency clause, arbitration clause, transfer of risk, reporting and settlement information deadlines.

Assumed

Swiss Reinsurance America Corporation

Effective September 1, 2000, the Company assumed commercial automobile liability, workers compensation and employers liability risks from Swiss Reinsurance America Corporation originally underwritten and produced by PIU for North American Specialty Insurance Company.

Commercial Automobile

The Company assumed the first $75,000.

Workers Compensation/Employers Liability

The Company assumed the first $75,000.

A portion of the business assumed under this arrangement was retroceded to International Livery and Coachmen's Insurance Company ("ILCIC"), an affiliated, unauthorized reinsurer.

Sydney Reinsurance Corporation

Effective October 1, 1999, the Company assumed commercial automobile liability, excluding livery risks from Sydney Reinsurance Corporation ("Sydney") originally underwritten and produced by PIU for QBE Insurance Corporation ("QBE").

QBE issued commercial automobile coverage with $1 million policy limits and reinsured $750,000 in excess of its primary retention of $250,000. QBE protected its primary retention with an 80/20 quota share placed with Sydney. Sydney in turn retroceded up to 40%, or 50% of their interest in the program. The Company assumed 15% of Sydney's interests, or $37,500 of the first $250,000 per loss occurrence. Sydney earned a 27.5% ceding commission on business ceded through this treaty.

QBE Insurance Corporation

Effective January 1, 2001, the Company assumed commercial automobile liability, excluding livery risks from QBE originally underwritten and produced by PIU.

QBE issued commercial automobile coverage with $1 million policy limits and reinsured 40% of the entire policy limit via quota share reinsurance. The Company assumed 15% of the amount ceded limited to $150,000 per loss occurrence. QBE earned a 27.5% ceding commission and participated in 20% of program profits.

Hudson Insurance Company

Commercial Automobile Physical Damage

Effective July 1, 2001, the Company assumed commercial automobile physical damage risks from Hudson Insurance Company ("Hudson") originally underwritten and produced by PIU.

Hudson issued policies for commercial automobile physical damage coverage and reinsured 90% of the entire policy limit via quota share reinsurance. The Company assumed a 10% part of the 90% amount ceded. Hudson earned an adjustable ceding commission that ranged from a minimum/provisional rate of 27.5% at a loss ratio of 60% or greater and 42.5% at a loss ratio of 40% or less.

Commercial Automobile Liability

Effective August 1, 2001, the Company assumed commercial automobile liability risks from Hudson originally underwritten and produced by PIU.

Hudson issued policies for commercial automobile liability coverage and reinsured 75% of the entire policy limit, limited to $1 million, via quota share reinsurance. The Company assumed a 20% part of the 75% amount ceded. Hudson earned a 26.5% flat ceding commission and participated in 30% of program profits.

General Security Insurance Company

Effective January 1, 1999, the Company assumed commercial automobile liability risks from General Security Insurance Company ("General Security") originally underwritten and produced by PIU.

General Security issued policies for commercial automobile liability coverage and reinsured 10% of the policy limit, limited to $1 million, via quota share reinsurance. The Company assumed 10% of this program in order to maintain some degree of equity in the underwriting results developed by PIU's underwriting. General Security earned a ceding commission equaling the sum of premium taxes, premium assessments, loss assessments, excise taxes, contingencies, residual market subsidy charges and other expenses directly attributable to this program and was paid a provisional amount equal to 32% of premium ceded under this treaty.

Based upon inquiry of the appropriate levels of management and corroborative observation, the Company:

i. Combined reinsurance premiums receivable and amounts receivable on direct business at the end of the accounting period and reported the entire amount as agents' balances or uncollected premiums. When applicable, the Company recorded funds withheld pursuant to the terms of a reinsurance agreement as funds held by or deposited with reinsured companies.

ii. Only assumed premium produced and underwritten by an affiliated managing general agent. As such, a lag never developed between the time of the entry of the underlying policy transaction on the books of the ceding entity and the transmittal of information and entry on the books of the assuming entity. In fact, the Company was always aware of its assumed balances before the cedent.

iii. Only assumed premium on a first dollar pro rata basis and allocated these premiums to the appropriate annual statement lines of business in the Underwriting and Investment exhibits.

iv. Was not involved in any assumed retroactive reinsurance premiums during the period under examination.

v. Recorded amounts payable on losses as liabilities for unpaid losses. However, reported this amount separately from its direct obligations under a separate financial statement caption.

Ceded

Commercial Automobile

During 1996, the Company ceased writing commercial auto liability. The Company re-entered the commercial auto market in 2001 writing liability policies, including trucks, limousines, black cars, para-transit and social services vehicles, in Florida and Georgia. The Company issued policies, with a maximum limit of $1 million. The Company's program was comprised of a quota share arrangement protecting 55% of the first $300,000 and excess of loss coverage for the next $700,000. The Company then reinsured the next $1 million with International Livery and Coachmen's Insurance Company ("ILCIC"), an affiliated, unauthorized reinsurer.

The Company also retroceded 22% of the net liability assumed by the Company under its contract with Swiss Reinsurance Company of America under a quota share arrangement to ILCIC.

Quota Share

Effective December 1, 2001, the Company ceded 55% of the first $300,000 of each commercial automobile liability loss occurrence. The Company earned a 30% ceding commission to offset direct production and other underwriting costs.

Treaty participants and participation percentages:

- Alea North American Division	27.25%
- AXA Reinsurance Company	45.5%
- Partner Reinsurance Company of the U.S.	27.25%

Effective October 15, 2002, Employers Reinsurance Corporation joined the reinsurance arrangement for a 10% participation at the terms and conditions established at the treaty's inception.

Effective December 1, 2002, Alea North America Division renewed the arrangement as the sole participant. The rate on line was adjusted upward to 31% and the ceding commission was reduced to 29%.

Excess of Loss

Effective December 1, 2001, the Company ceded commercial automobile loss occurrences in excess of $300,000, up to $700,000. The Company paid 22.54% of net written premium and earned a 29% ceding commission. In the event that the net written premium for policies with $1 million limits exceeded 70% of total net written premium; or policies with limits of $300,000 or less was less than 15% of the total net written premium, then the rate increased to 25.35%.

Treaty participants and participation percentage:

- Gerling Global Reinsurance Corp of America	30%
- Odyssey America Reinsurance Company	25%
- Partner Reinsurance Company of the U.S.	20%
- Trenwick America Reinsurance Corp	25%

Effective October 15, 2002, Employers Reinsurance Corporation joined the reinsurance arrangement for a 30% participation at the terms and conditions established at the treaty's inception.

Effective July 1, 2002, the Company obtained reinsurance protection for commercial automobile losses in excess of $1 million up to $1 million from ILCIC. The Company paid 7.5% of subject premium for the coverage provided by ILCIC.

Workers' Compensation

The Company wrote workers' compensation in Florida at statutory limits. The Company's reinsurance program was comprised of a quota share arrangement protecting 50% of the Company's $300,000 retention and multiple layers of excess of loss coverage up to $20 million.

Quota Share

Effective July 1, 1999, the Company ceded 50% of the first $300,000 of each workers compensation and/or employers liability loss occurrence. The Company earned a 35% ceding commission to offset direct production and other underwriting costs. The Company also had a 30% participation in program profits.

Effective July 1, 2000, the ceding commission was adjusted to 33% and certain participants dropped out of the program and others changed their participation in conjunction with the introduction of Motors Insurance Corporation.

Effective July 1, 2001, the ceding commission was adjusted to 32% and there were no changes to the composition of the program's participants.

Effective July 1, 2002, the Company ceded 65% of the first $300,000 of each workers' compensation and/or employers liability loss occurrence. The ceding commission ranged from a low of 20% to a high of 32.5%; adjustable based upon program loss experience. Motors Insurance Corporation became the sole program participant.

Excess of Loss

Effective July 1, 1999, the Company retained the first $300,000 of each workers compensation and/or employers liability loss occurrence. The Company protected its primary retention by the quota share arrangement described above. The Company's first workers compensation excess of loss treaty distributed the reinsurers' exposure over three layers; $200,000 excess of $300,000, $500,000 excess of $500,000 and $2 million excess of $1 million. The second workers compensation excess of loss treaty protected the Company up to $20 million in two layers; $7 million excess of $3 million and $10 million excess of $10 million.

Effective July 1, 2002, the Company restructured the excess layers to $9 million excess of $1 million and placed the entire layer of excess protection with Midwest Employers Casualty Company. The Company then placed the $10 million excess of $10 million layer with ILCIC. Prior to this arrangement, Transatlantic provided the $10 million excess of $10 million coverage for 0.6% of net written premium. The same coverage provided by ILCIC currently costs the

Company 6%. After review of the ILCIC arrangement, the Company was asked to provide the following documentation related to ILCIC reinsurance agreement:

1. The audited ILCIC financial statements, or internal financial statements filed with the Isle of Nieves.
2. A narrative discussion of the funds flow, for example, premium was ceded to ILCIC, which paid a dividend to its shareholders, who also owned the Company, who in turn invested their dividends in the Company.
3. Determine if ILCIC had any direct or assumed business with other reinsurers.
4. Determine if there was any collateral put up by the reinsurer, ILCIC.

The Company responded that ILCIC did not assume business from any other Company, and did not have any collateral up for amounts due the Company, which holds amounts due to ILCIC at least equal to the amounts due from ILCIC and offsets when appropriate. No documents were provided regarding a financial report or the narrative discussion of the funds flow. The Company is directed to provide items numbered 1 and 2 on the prior page so that the Office can better evaluate this reinsurance agreement.

The aforementioned 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 audited the Company's statutory basis financial statements annually for the years 2000, 2001 and 2002, in accordance with Section 624.424(8), FS. Supporting work papers were prepared by the CPA as required by Rule 69O-137.002, FAC.

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 Fort Lauderdale, Florida, where this examination was conducted.

The Company and non-affiliates had the following agreements:

Custodial Agreement

The Company had custodial agreements with SunTrust Bank. The custodial agreements were not in compliance as of December 31, 2002 with the all of the requirements outlined in Rule 69O-143.042, Florida Administrative Code.

Independent Auditor Agreement

The Company maintained an agreement with Spear, Safer, Harmon & Company to perform the audit of the financial statements in accordance with Section 624.424 (8)(a), Florida Statutes.

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, 2002, 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."

TRANSPORTATION CASUALTY INSURANCE COMPANY

Assets

DECEMBER 31, 2002

Classification	Per Company	Examination Adjustments	Per Examination
Bonds	$2,993,918		$2,993,918
Stocks:			
Common	572,102		572,102
Mortgage Loans on Real Estate:			
First liens	357,054		357,054
Real Estate:			
Properties occupied by Company	2,063,302		2,063,302
Cash and Short-term Investments	30,921,422		30,921,422
Other Invested Assets	545,814		545,814
Agents' Balances or Uncollected Premiums:			
Premiums and agents' balances in course of collection	3,679,166		3,679,166
Premiums, agents balances and installments booked but deferred and not yet due	24,216,218		24,216,218
Reinsurance Recoverables on Loss and Loss Adjustment Expense Payments	1,185,108	1,113,952	71,156
Federal and Foreign Income Tax Recoverable and Interest Thereon	1,073,918		1,073,918
Electronic Data Processing Equipment and Software	7,252		7,252
Interest, Dividends and Real Estate Income Due and Accrued	440,445		440,445
Receivable from Parent, Subsidiaries and Affiliates	1,422,154		1,422,154
Equities and Deposits in Pools and Associations	531,633		531,633
Totals Assets	$70,009,506	$1,113,952	$68,895,554

TRANSPORTATION CASUALTY INSURANCE COMPANY

Liabilities, Surplus and Other Funds

DECEMBER 31, 2002

Liabilities	Per Company	Examination Adjustments	Per Examination
Losses	$18,022,347		$18,022,347
Reinsurance Payable on Paid Loss and Loss Adjustment Expense	1,871,508		1,871,508
Loss Adjustment Expenses	1,569,405		1,569,405
Other Expenses	46,970		46,970
Taxes, Licenses and Fees	754,894		754,894
Federal and Foreign Income Taxes	911,621		911,621
Unearned Premiums	3,744,388		3,744,388
Ceded Reinsurance Premiums Payable	23,631,260	(1,113,952)	22,517,308
Amounts Withheld or Retained by Company for Account by Others	7,636,760		7,636,760
Total Liabilities	$58,189,153	($1,113,952)	$57,075,201
Common Capital Stock	2,350,000		2,350,000
Gross Paid In and Contributed Surplus	5,911,000		5,911,000
Unassigned Funds (Surplus)	3,559,353		3,559,353
Surplus as Regards Policyholders	11,820,353		11,820,353
Total Liabilities, Capital and Surplus	$70,009,506	($1,113,952)	$68,895,554

TRANSPORTATION CASUALTY INSURANCE COMPANY

Statement of Income

For the year ended December 31, 2002

Underwriting Income

Premiums Earned	$33,314,084
DEDUCTIONS:	
Losses incurred	20,534,040
Loss expenses incurred	4,024,387
Other underwriting expenses incurred	7,817,046
Total underwriting deductions	$32,375,473
Net underwriting gain or (loss)	$938,611

Investment Income

Net investment income earned	$1,395,222
Net realized capital gains or (losses)	4,573
Net investment gain or (loss)	$1,399,795

Other Income

Aggregate write-ins for miscellaneous income	84
Total other income	$84
Net income before dividends to policyholders and before federal & foreign income taxes	2,338,491
Dividends to policyholders	146,270
Net income, after dividends to policyholders, but before federal & foreign income taxes	$2,192,221
Federal & foreign income taxes	850,767
Net Income	$1,341,454

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year	$5,097,800

Gains and (Losses) in Surplus

Net Income	$1,341,454
Net unrealized capital gains or losses	(43,350)
Change in net deferred income tax	612,550
Change in non-admitted assets	(18,100)
Surplus adjustments: Paid in	4,830,000
Change in surplus as regards policyholders for the year	$6,722,553
Surplus as regards policyholders, December 31 current year	$11,820,353

COMMENTS ON FINANCIAL STATEMENTS

Assets

Reinsurance Recoverable $71,156

The reinsurance recoverable account had not been properly reconciled and offset against an applicable reinsurance payable in accordance with the Statement of Statutory Accounting Principles number 62, paragraph 56, as of December 31, 2002. The overstated reinsurance recoverables of $1,185,108 were reduced by the overstatement of $1,113,952 to the correct balance of $71,156.

Liabilities

Losses and Loss Adjustment Expenses $19,591,752

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, 2002, make a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements. The consulting actuary utilized on this examination reviewed work papers provided by the Company and was in concurrence with this opinion.

Ceded Reinsurance Premiums Payable $22,517,308

The ceded reinsurance premiums payable of $23,631,260 was reduced by the reinsurance recoverable reconciliation amount of $1,113,952, leaving a balance of $22,517,308.

TRANSPORTATION CASUALTY INSURANCE COMPANY
Comparative Analysis of Changes in Surplus

DECEMBER 31, 2002

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, 2002, Annual Statement				$11,820,353
	PER COMPANY	INCREASE (DECREASE) IN SURPLUS	PER EXAM	
Reinsurance recoverable	1,185,108	1,113,952	71,156	
Ceded reins. premiums payable	23,631,260	(1,113,952)	22,517,308	
Net change in Surplus				0
Surplus as Regards Policyholders December 31, 2002, Per Examination				$11,820,353

SUMMARY OF FINDINGS

Compliance with previous directives

The Company has taken the necessary actions to comply with the comments made in the 1999 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, 2002.

Financial

It was noted that many of the admitted reinsurance recoverable balances were over 90 days old. After inquiry to the Company, it was noted that the Company used “rights of offset” to reconcile reinsurance balance sheet accounts, rather than incurring many cash exchanges with reinsurers. The reinsurance recoverable account had not been properly reconciled and offset against an applicable reinsurance payable as of December 31, 2002. The Company prepared an adjusting journal entry during the examination, reducing the reinsurance recoverable from $1,185,108 to $71,156, and reducing the related reinsurance payable liability from $23,631,260 to $22,517,308. **The Company is directed to properly reconcile and offset reinsurance recoverables at year-end to insure correct reporting in accordance with SSAP No.62, Paragraph 56, in all future annual and quarterly filings with the Office.**

General

The Company had not written insurance coverage in the Homeowners line of business for the calendar year. **The Company is directed to comply with Section 624.430, FS, and request**

that this line of insurance be removed from its certificate of authority. The Company is to provide documentation of compliance to the Office within 90 days after the report is issued.

The Custodial Agreement between the Company and SunTrust Bank did not include many of the provisions required by Rule 69O-143.042, Florida Administrative Code. **The Company is directed to amend the custodial agreement to follow the provisions of Rule 69O-143.042 of the Florida Administrative Code; and to provide a copy of the agreement to the Office within 90 days after the report is issued.**

Conflict of Interest Statements for officers and directors were not current as of the year ended December 31, 2002, which is in violation of Florida Administrative Code 69O-138.001(1)**. The Company is directed to comply with Rule 69O-138.001(1) of the Florida Administrative code, by updating Conflict of Interest Statements every calendar year. The Company has complied with this directive as of January 9, 2004.**

Reinsurance

Certain requested documents were not provided by the Company as regards a reinsurance agreement with ILCIC. The Company is directed to provide items numbered 1 and 2 on page 19 of this report and to do so within 90 days of the issuance of this report.

SUBSEQUENT EVENTS

The Company reported the following changes or significant happenings that occurred subsequent to the examination date of December 31, 2002. They are as follows:

1. The Company added South Carolina to its licensed states in 2003, and management predicted finalization of an Oklahoma license will occur in the year 2004.

2. The Company commuted the SCOR assumed treaty in the summer of 2003. Per discussion with management, the amount was approximately $5.5 million.

3. There is litigation involving Reliance Insurance Company and its related bankruptcy. No loss contingency has been set aside as the Company does not believe it will incur a loss. Reliance is seeking to retrieve approximately $1.2 million.

4. There were capital contributions through September 30, 2003 that amounted to $2.962 million.

5. There was an Irrevocable Letter of Credit established by the Company on February 28, 2003 in the amount of $1,250,000; however, the Letter of Credit was retroactive to December 31, 2002. Inscorp of New York was the beneficiary. As of December 31, 2002, the Company had not recorded a liability due to the fact that there were no funds drawn on the letter of credit, and that the Company did not have access to the funds on December 31, 2002.

CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Transportation Casualty Insurance Company** as of December 31, 2002, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's surplus as regards policyholders was $11,820,353, which was in compliance with Section 624.408, FS.

In addition to the undersigned, Kimberly Koonts, Joe Peiso, Taylor Hemphill, Zach Kerns, Tom Brunk, Charles Thurman, and Svetlana Yarmak, Participating Examiners, and Ray Neff, Actuary, participated in the examination.

Respectfully submitted,

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