

REPORT ON EXAMINATION
OF
AEQUICAP PROPERTY & CASUALTY
INSURANCE COMPANY
FORT LAUDERDALE, FLORIDA

AS OF
DECEMBER 31, 2006

BY THE
OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida

January 11, 2008

Kevin M. McCarty
Commissioner
Office of Insurance Regulation
State of Florida
Tallahassee, Florida 32399-0326

Dear Sir:

Pursuant to your instructions, in compliance with Section 624.316, Florida Statutes, and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted an examination as of December 31, 2006, of the financial condition and corporate affairs of:

**AEQUICAP PROPERTY & CASUALTY INSURANCE COMPANY
3000 WEST CYPRESS CREEK ROAD
FORT LAUDERDALE, FLORIDA 33062**

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

SCOPE OF EXAMINATION

This examination covered the period of April 1, 2006 through December 31, 2006. This Company was formerly known as Underwriters Guarantee Insurance Company and was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 1998 before it was ordered into rehabilitation by the State of Florida. This examination commenced, with planning at the Office, on October 29, 2007, to November 5, 2007. The fieldwork commenced on November 8, 2007, and was concluded as of January 11, 2008.

This financial examination was a statutory financial examination conducted in accordance with the Financial Condition Examiners Handbook, Accounting Practices and Procedures Manual and annual statement instructions promulgated by the NAIC as adopted by Rules 69O-137.001(4) and 69O-138.001, Florida Administrative Code, with due regard to the statutory requirements of the insurance laws and rules of the State of Florida.

In this examination, emphasis was directed to the quality, value and integrity of the statement of assets and the determination of liabilities, as those balances affect the financial solvency of the Company as of December 31, 2006. Transactions subsequent to year-end 2006 were reviewed where relevant and deemed significant to the Company's financial condition.

The examination included a review of the corporate records and other selected records deemed pertinent to the Company's operations and practices. In addition, the NAIC IRIS ratio reports, the Company's independent audit reports and certain work papers prepared by the Company's independent certified public accountant (CPA) and other reports as considered necessary were reviewed and utilized where applicable within the scope of this examination.

This report of examination is confined to financial statements and comments on matters that involve departures from laws, regulations or rules, or which are deemed to require special explanation or description.

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:

- Aggregate write-ins for other than invested assets
- Losses
- Receivables from parent, subsidiaries and affiliates
- Other expenses
- Surplus as regards to policyholders

HISTORY

General

Aequicap Property and Casualty Insurance Company (Company), formerly known as Underwriters Guarantee Insurance Company (Underwriters) was incorporated February 21, 1985 under the law of the State of Florida as a stock property and casualty insurer and commenced business on April 1, 1986. Underwriters signed a consent order placing the Company in rehabilitation on October 29, 2001. On March 6, 2006, the Circuit Court of Second Judicial Circuit in Leon County, Florida, issued an order approving the sale of Underwriters Guarantee Insurance Company to Aequicap Property and Casualty Financial Holdings, Inc. (Aequicap) following approval by the Office on February 24, 2006. The consent order also provided for the termination and final discharge of receivership.

The Company entered into a consent agreement with the Office to reinstate Underwriters certificate of authority on February 24, 2006. The Company was in compliance with Consent Order No. 84756-06.

Effective July 7, 2006, Underwriters certificate of authority was reinstated along with activation of the following lines of business: Workers' compensation and Commercial auto liability. Underwriters requested the withdrawal of the remaining lines from the certificate of authority.

The name of the Company was changed to Aequicap Property and Casualty Insurance Company, effective August 15, 2006.

On December 21, 2006, Aequicap Property and Casualty Financial Holdings, Inc. was merged with its affiliate Aequicap, Inc. where Aequicap, Inc. gave control over to Aequicap Property and Casualty Insurance Company to Aequicap Insurance Company. The Company 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 commercial auto liability insurance coverage and workers compensation coverage in Florida at December 31, 2006.

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

Capital Stock

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

Number of authorized common capital shares	1,500,000
Number of shares issued and outstanding	1,200,264
Total common capital stock	\$1,200,264
Par value per share	\$1.00

Aequicap Insurance Company owned 100% of the stock issued by the Company, which in turn was owned 100% by Aequicap Financial Group, Inc., a Florida domiciled company.

Profitability of Company

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

	2006	2005
Premiums Earned	0	0
Net Underwriting Gain/(Loss)	(256,224)	(109,096)
Net Income	(148,894)	(33,660)
Total Assets	4,089,565	860,998
Total Liabilities	88,032	210,570
Surplus As Regards Policyholders	4,001,535	650,428

Dividends to Stockholders

The Company did not declare or pay dividends to its stockholders in 2006.

Management

The annual shareholder meeting for the election of directors was held in accordance with Sections 607.1601 and 628.231, Florida Statutes. Directors serving as of December 31, 2006, were:

Directors

Name and Location	Principal Occupation
Phillip Morgaman Boca Raton, Florida	Chairman Aequicap Property & Casualty Ins. Co.
Mark Stephenson Fort Lauderdale, Florida	Chief Operating Officer Aequicap Property & Casualty Ins. Co.
Deborah Gardner Pompano Beach, Florida	Chief Financial Officer Aequicap Property & Casualty Ins. Co.
Neal Nichols Aldie, Virginia	Director Aequicap Property & Casualty Ins. Co.
William Spruce Coral Springs, Florida	Director Aequicap Property & Casualty Ins. Co.

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

Senior Officers

Name	Title
Phillip Morgaman	Chairman/Chief Executive Officer
James Roberts	President
Mark Stephenson	Chief Operating Officer
Deborah Gardner	Chief Financial Officer
Mathew Jones	Secretary/Vice President
Joseph Matteis	Senior Vice President
Nicole Boodram	Vice President
Marilyn Peterson	Vice President

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

Audit Committee	Investment Committee	Executive Committee
William Spruce ¹ Neal Nichols	Phillip Morgaman ¹ Mark Stephenson Deborah Gardner	Phillip Morgaman ¹ Mark Stephenson

¹ Chairman

The audit committee consisted of 2 members rather than a minimum of 3 members. Section 624.424(8) (c), Florida Statutes, requires a minimum number of 3 members in the audit committee.

Subsequent Event: Deborah Gardner was subsequently added as a member of the audit committee.

Conflict of Interest Procedure

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

Corporate Records

The recorded minutes of the shareholder, Board of Directors, and certain internal committees were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions and events in

accordance with Section 607.1601, Florida Statutes, including the authorization of investments as required by Section 625.304, Florida Statutes.

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

There were no acquisitions, mergers, disposals, dissolutions, and purchase or sales through reinsurance during the period under examination.

Surplus Debentures

The Company had no surplus debentures at December 31, 2006.

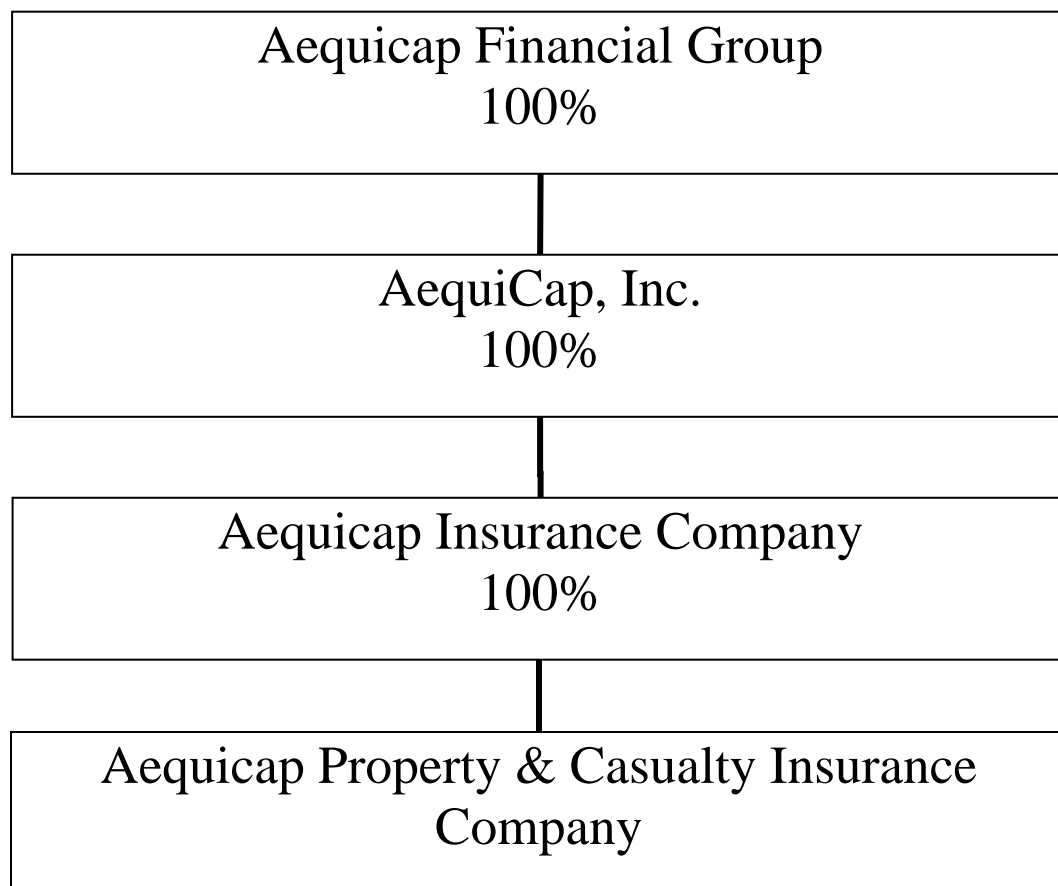
AFFILIATED COMPANIES

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 February 27, 2007, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

A simplified organizational chart as of December 31, 2006, reflecting the holding company system, is shown below. Schedule Y of the Company's 2006 annual statement provided a list of all related companies of the holding company group.

**AEQUICAP PROPERTY & CASUALTY INSURANCE COMPANY
ORGANIZATIONAL CHART**

DECEMBER 31, 2006



The following agreement(s) were in effect between the Company and its affiliates:

Tax Allocation Agreement

The Company entered into a tax allocation agreement with its affiliated parent and subsidiaries.

The contract stipulated that the parent would file consolidated federal income tax returns under the provisions of the Internal Revenue Code to include all corporations controlled by the parent.

The tax liability to the members of the group was allocated on the basis of the percentage of the total tax which the tax of such member, if computed on a separate return basis, would bear to the total amount of taxes for all members of the group so computed.

Claims Servicing Agreement

The Company had a claims servicing agreement with its affiliate, Aequicap Claims Services, Inc., to provide claims services for the Company. The agreement stipulated that the services included, but were not limited to investigate, adjust, settle, refuse, and process all submitted or reported claims, pursuant with the policies and procedures and the authority granted by the Company.

Managing General Agency Agreement

The Company had a managing general agency (MGA) agreement with its affiliate, Aequicap Program Administrators, Inc., to provide all services for managing and administering the affairs of the Company. The agreement stipulated that services included but were not limited to, marketing, underwriting, billing, collection, safety and loss prevention and accurate record keeping on behalf of the Company.

FIDELITY BOND AND OTHER INSURANCE

The Company maintained fidelity bond coverage up to \$7,000,000 with a deductible of \$50,000, which adequately covered the suggested minimum amount of coverage for the Company as recommended by the NAIC.

The Company also maintained general liability, workers compensation, directors and officers, and errors and omissions insurance coverage.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company's parent provided an optional 401K plan to its employees. The plan obligated the parent company to provide matching funds per eligible employee contribution.

STATUTORY DEPOSITS

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

STATE	Description	Par Value	Market Value
FL	CASH DEPOSIT	<u>\$ 500,000.00</u>	<u>\$ 500,000.00</u>
TOTAL FLORIDA DEPOSITS		<u>\$ 500,000.00</u>	<u>\$ 500,000.00</u>
TOTAL SPECIAL DEPOSITS		<u>\$ 500,000.00</u>	<u>\$ 500,000.00</u>

INSURANCE PRODUCTS

Territory

The Company was authorized to transact insurance 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.

The Company maintained a claims procedure manual that included detailed procedures for handling each type of claim in accordance with Section 626.954(1)(i)3,a, Florida Statutes.

REINSURANCE

The Company was purchased from the State of Florida, Division of Liquidation and Rehabilitation in March 2006. No premiums were written by the Company in 2006 and therefore the Company had no reinsurance risk as of the examination date.

Assumed

The Company did not assume any risk.

Ceded

The Company did not cede any risk.

ACCOUNTS AND RECORDS

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

An independent CPA audited the Company's statutory basis financial statements for the year 2006, in accordance with Section 624.424(8), Florida Statutes. Supporting work papers were prepared by the CPA as required by Rule 69O-137.002, Florida Administrative Code.

The Company's accounting records were maintained on a computerized system. The Company's balance sheet accounts were verified with the line items of the annual statement submitted to the Office.

The Company and non-affiliates had the following agreement:

Investment Advisory Agreement

The Company entered into an investment advisory agreement with Evergreen Investment Management Company, LLC (Evergreen). The contract granted Evergreen the power to purchase, sell, exchange, convert, or trade securities on the behalf of the Company.

Custodial Agreement

The Company entered into a custodial agreement with US Bank dated September 30, 2006. The agreement was executed by the Company on December 28, 2006. The custodial agreement provided the proper safeguards and controls indemnifying the Company as provided by Rule 69O-143.042, Florida Administrative Code.

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2006, and the results of its operations for the year then ended as determined by this examination. Adjustments made as a result of the examination are noted in the section of this report captioned, "Comparative Analysis of Changes in Surplus."

AEQUICAP PROPERTY & CASUALTY INSURANCE COMPANY
Assets

DECEMBER 31, 2006

	Per Company	Examination Adjustments	Per Examination
Bonds	\$2,531,738		\$2,531,738
Cash	1,484,153		1,484,153
Investment income due and accrued	34,230		34,230
Agents' Balances:			
Amount recoverable from reinsurers	14,909		14,909
Receivable from parent, subsidiaries and affiliates	6,094		6,094
Aggregate write ins for other than invested assets	18,441		18,441
Totals	\$4,089,565	\$0	\$4,089,565

AEQUICAP PROPERTY & CASUALTY INSURANCE COMPANY
Liabilities, Surplus and Other Funds

DECEMBER 31, 2006

	Per Company	Examination Adjustments	Per Examination
Losses	\$5,000		\$5,000
Other expenses	29,958		29,958
Taxes, licenses and fees	1,508		1,508
Drafts outstanding	51,566		51,566
Total Liabilities	\$88,032	\$0	\$88,032
Common capital stock	\$1,200,264		\$1,200,264
Gross paid in and contributed surplus	10,641,907		10,641,907
Unassigned funds (surplus)	(7,840,636)		(7,840,636)
Surplus as regards policyholders	\$4,001,535		\$4,001,535
Total liabilities, surplus and other funds	\$4,089,567	\$0	\$4,089,567

AEQUICAP PROPERTY & CASUALTY INSURANCE COMPANY
Statement of Income

DECEMBER 31, 2006

Underwriting Income

Premiums earned		\$0
	Deductions:	
Losses incurred		\$14,943
Loss expenses incurred		8,282
Other underwriting expenses incurred		233,000
Aggregate write-ins for underwriting deductions		0
Total underwriting deductions		\$256,225
Net underwriting gain or (loss)		(\$256,225)

Investment Income

Net investment income earned		\$107,255
Net realized capital gains or (losses)		38
Net investment gain or (loss)		\$107,293

Other Income

Net gain or (loss) from agents' or premium balances charged off		\$0
Aggregate write-ins for miscellaneous income		37
Total other income		\$37
Net income before dividends to policyholders and before federal & foreign income taxes		(\$148,894)
Dividends to policyholders		0
Net Income, after dividends to policyholders, but before federal & foreign income taxes		(\$148,894)
Federal & foreign income taxes		0
Net Income		(\$148,894)

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year		\$650,428
Net Income		(\$148,894)
Surplus Adjustment: Paid in		3,500,000
Examination Adjustment		0
Change in surplus as regards policyholders for the year		\$3,351,106
Surplus as regards policyholders, December 31 current year		\$4,001,534

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses

\$5000

An outside actuarial firm appointed by the Board of Directors, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2006, make a reasonable provision for all unpaid loss obligations of the Company under the terms of its policies and agreements.

There was no actuarial review performed by the Office as the Company did not write or assume any premiums during the period of examination.

Capital and Surplus

The amount reported by the Company of \$4,001,534 exceeded the minimum of \$4,000,000 as required by Section 624.408, Florida Statutes.

A comparative analysis of changes in surplus is shown below.

**AEQUICAP PROPERTY & CASUALTY INSURANCE COMPANY
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS**

DECEMBER 31, 2006

The following is a reconciliation of Surplus as regards policyholders between that reported by the Company and as determined by the examination.

Surplus as Regards Policyholders December 31, 2006, per Annual Statement	\$4,001,534
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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, 2006, Per Examination			\$4,001,534

SUMMARY OF FINDINGS

Current examination comments and corrective action

There were no items of interest and/or corrective action to be taken by the Company regarding findings in the examination as of December 31, 2006.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Aequicap Property & Casualty Insurance Company** as of December 31, 2006, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was \$4,001,534, in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned, Kethessa Carpenter, CPA, Financial Examiner/Analyst Supervisor, participated in the examination.

Respectfully submitted,

Owen A. Anderson
Financial Examiner/Analyst II
Florida Office of Insurance Regulation