REPORT ON THE RESERVE EVALUATION

OF

FIRST COMMERCIAL TRANSPORTATION AND PROPERTY INSURANCE COMPANY

MIAMI, FLORIDA

AS OF

DECEMBER 31, 2007

BY THE

OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida

August 6, 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 a reserve evaluation as of December 31, 2006, of the financial condition and corporate affairs of:

FIRST COMMERCIAL TRANSPORTATION and PROPERTY INSURNCE COMPANY
2300 W. 84TH STREET
HIALEAH, FLORIDA 33016-5568

Hereinafter referred to as the "Company". The report of evaluation is herewith respectfully submitted.

SCOPE OF EXAMINATION

This evaluation covered the period of December 31, 2006 and December 31, 2007. This reserve evaluation was a limited scope 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 examination was performed by Huggins Actuarial Services, Inc. (Huggins).

As part of the reserve evaluation of the Company, the Florida Office of Insurance Regulation (Office) retained Huggins to evaluate the Company's loss and loss adjustment expense (LAE) reserves as December 31, 2006 and December 31, 2007. In this evaluation, examination, emphasis was to ascertain and document the analysis and underlying assumptions, and overall conclusions.

Maureen Ruth, Consulting Actuary, conducted the review. Maureen Ruth, ACAS, MAAA meets the qualifications to render opinions for property/casualty reserves. The report was prepared in accordance with Actuarial Standards of Practice No. 43, Property/Casualty Unpaid Claim Estimates.

Huggins used various actuarial techniques and professional judgment to reach its conclusions regarding the reasonableness of recorded reserves.

HISTORY

General

The Company, formerly Southern Group Indemnity, Inc., (SGI) is a domestic stock company that is licensed only in the state of Florida. Under the terms of a consent order dated May 12, 2006, the Company was acquired by First Commercial Insurance Company (FCIC), with the ultimate parent becoming First Commercial Holding Group. The Company was incorporated under Florida law on September 28, 1990. The Company was purchased from Statewide Holding Group, Inc., formerly known as Club Marketing and Sales, Inc. The Company name was changed to First Commercial Transportation and Property Insurance Company on May 12, 2006.

SGI was primarily a commercial auto liability writer in 2005. In October 2005, SGI filed a monthly financial statement indicating it was impaired and ceased writing business. SGI, Inc. then entered in administrative supervision which ended with its acquisition by FCIC on May 12, 2006. The Company was recapitalized during the second quarter of 2006 to meet statutory requirements for minimum surplus. The Company was currently rated “D” by A.M. Best and “NR” by Standard and Poor’s.

The Company was authorized to write Homeowners multi peril, Fire, Private passenger auto liability and Physical damage, and Commercial auto liability and Physical damage.

Effective March 31, 2001, SGI retained a loss corridor of 13% excess of 70% of the ceded written premium in personal auto. Due to unanticipated adverse development, particularly for personal injury protection (PIP) coverage, the Company’s losses pierced the corridor, resulting in a material drain of surplus for an already thinly capitalized company. SGI also suffered significant losses in homeowners from four hurricanes in 2004. From October 2005 until the sale of the Company, the Office placed SGI under supervision and issued a cease-and-desist order on new and renewal business. No business was written between October 2005 and December 31, 2006.

After the acquisition by FCIC, the Company's reserves were strengthened by $800,000 and $1 million for Personal and Commercial auto, respectively. Management also increased the surplus of the Company from $843,513 to $4.08 million. In 2007, the Company increased its reserves again by $915,000 and surplus by an additional $3.9 million.

The Company resumed writing business on January 1, 2007.

Coverage

From 1993 through 2003, the Company's writings were overwhelmingly in personal lines, with most of its volume in basic limits auto policies. Small amounts of homeowners and fire and allied business were also written. Beginning in 2003, the Company expanded its writings to include commercial auto business, with emphasis on for-hire categories such as taxis, limousines, and non-ambulatory services such as special vans. When the Company began writing business again in 2007, they continued to write Commercial auto, primarily in the For-Hire segment. The Personal auto, Homeowners, and Fire & allied books written by SGI were in run-off.

Reinsurance

The Company historically purchased quota share reinsurance of roughly 60% for Personal automobile and 54% to 90% on Homeowners / Fire & allied. Beginning March 1, 2001, the

Company retained a loss corridor of 13% excess of 70% of the ceded written premium in the Personal automobile line. Due to unanticipated adverse development, primarily in Personal injury protection coverage, the Company's results pierced the corridor and sustained additional retentions, causing a material drain on an already thinly capitalized Company. From October 2005 until the sale of the Company, the Office placed the Company under supervision and issued a cease-and-desist order on any and all business. As a result, no business was written from October 2005 through year-end 2006. During 2006, the Company strengthened reserves and increased the surplus from $845K to $4.1 million. During 2007, the Company again infused more capital, raising surplus to $6.3 million. The Company began writing business again in 2007 with direct written premium of roughly $10 million written of commercial For-Hire business.

The Company also purchased Excess of loss coverage on the for-hire commercial auto business for accidents occurring between October 1, 2004, and September 30, 2005. The coverage layer was $300,000 excess $100,000 per occurrence. For accident year 2007, the Company purchased 100% Excess of loss reinsurance on losses above $500,000 up to policy limits.

Data

Loss and exposure data were provided as of December 31, 2006, and December 31, 2007. Data were segregated by the following lines and sub-lines of business:

- Commercial auto liability
- Personal auto bodily injury
- Personal auto personal injury protection

- Auto all other
- Homeowners / Fire & allied

Specifically, for the categories listed above, we were provided with the following data:

1) Direct paid and incurred annual loss plus ALAE development triangles
2) Claim count development triangles (closed, closed with pay, reported)
3) Gross earned premium by year (excluding policy fees of $25 per policy paid to the Company's affiliated MGA)
4) Earned exposures by year (though for commercial auto, the exposures for 2006 and prior were estimated due to issues associated with SGI's data systems)

All loss data reflect actual salvage and subrogation recoveries. As a result, the ultimate liabilities derived from that data, include an implicit provision for anticipated salvage and subrogation.

The following data were also provided:

- Key exhibits from the 2007 Annual Statement
- Actuarial reports and opinions as of December 31, 2006, and December 31, 2007
- Copies of the reinsurance treaties

Total net earned premiums, ceded paid losses and ALAE, and ceded case reserves were obtained from Schedule P - Part 1 - Summary of the 2007 Annual Statement.

The Office also provided a copy of the actuarial report prepared by Mary Frances Miller, FCAS, MAAA of Select Actuarial Services, as of December 31, 2006.

SUMMARY OF EXAM FINDINGS

At the December 31, 2006 review, Private passenger auto reserves were the primary area of disagreement between the opining actuary and the Office actuary. The differences between their gross and net estimates were $1,533,000 and $1,492,000, respectively. In the last year, quite a number of those claims have closed, significantly reducing the variability in the potential reserve development. Based on my analysis, the personal auto results are falling between the two estimates put forth at the end of 2006. The opining actuary increased his estimates for 2006 and prior by $804,000. This estimate is $191,000 higher than my best estimate, with most of this difference caused by the estimated outcome of a bad faith claim. With the run-off of the Private passenger auto business, the Company's commercial auto book is now the primary source of potential variability in reserves. At the December 31, 2006 review, the reserve estimates for commercial automobile differed by roughly $414,000 on a gross basis, with the Office's estimates being the higher of the two. The run-off for these years has been more in line with those of the appointed actuary. For accident year 2007, however, the lack of historical development patterns and the shift to writing only For-Hire business significantly increases the uncertainty in projecting required reserves. A key assumption in the analysis is the expected loss ratio. The appointed actuary assumed an expected loss ratio of 70%, which appears to be equal to his selected ultimate loss ratio for the 2006 year. Because of the lack of credible pricing data (see discussion below in "Notes on Data Sources") we assumed some deterioration in the commercial auto loss ratio from 2006 to 2007. This accounts for most of all of the difference in our estimated reserves for this line of business.

As the recorded gross and net loss and LAE reserves did not fall within the estimated range as of December 31, 2006, the amounts carried in the balance sheet as of December 31, 2006, made a deficiency and therefore not a reasonable provision in the aggregate for the Company's unpaid loss and LAE obligations as of that date.

As the recorded gross and net loss and LAE reserves fell within the estimated range as of December 31, 2007, the amounts carried in the balance sheet as of December 31, 2007, make a reasonable provision for all unpaid loss and LAE obligations of the Company under the terms of its policies and agreements.

CONCLUSION

The customary insurance examination practices and procedures have been followed in examining the December 31, 2006 and December 31, 2007 loss and LAE reserves of **First Commercial Transportation and Property Insurance Company.**

In addition to the undersigned, Maureen Ruth, ACAS, MAAA, Huggins Actuarial Services, Inc., participated in the examination.

Respectfully submitted,

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James D. Collins
Reinsurance/Financial Specialist
Florida Office of Insurance Regulation