

REPORT ON EXAMINATION

OF

UNITED AUTOMOBILE INSURANCE

COMPANY

NORTH MIAMI BEACH, FLORIDA

AS OF

DECEMBER 31, 2005

BY THE

OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida

March 30, 2007

Kevin M. McCarty
Commissioner
Office of Insurance Regulation
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Chairman, NAIC
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1300 East Main Street
Richmond, Virginia 23219

Dear Sir:

Pursuant to your instructions, in compliance with Section 624.316, Florida Statutes, and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted an examination as of December 31, 2005, of the financial condition and corporate affairs of:

**UNITED AUTOMOBILE INSURANCE COMPANY
3909 NORTH EAST 163RD STREET
NORTH MIAMI BEACH, FLORIDA 33160**

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

SCOPE OF EXAMINATION

This examination covered the period of July 1, 2003 through December 31, 2005. This examination commenced, with planning at the Office, on December 4, 2006, to December 7, 2006. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of June 30, 2003. The fieldwork commenced on December 11, 2006, and was concluded as of March 30, 2007. The examination included any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

This financial examination was an association zone 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 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, audit reports and certain work papers prepared by the Company's independent certified public accountant (CPA) were reviewed and utilized where applicable within the scope of this examination.

We valued and verified the integrity of the balances of the Company's assets and liabilities as reported in its annual statement as of December 31, 2005, as those balances affect the financial solvency of the Company.

Transactions subsequent to year-end 2005 were reviewed where relevant and deemed significant to the Company's financial condition.

This report of examination was confined to financial statements and comments on matters that 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 adverse findings contained in the Office's prior examination report along with the resulting action taken by the Company.

Quota Share Agreement

As of June 30, 2003, the Company's 60% finite quota share reinsurance agreement failed to meet the transfer of risk criteria of SSAP No. 62. **Resolution:** As of July 1, 2003, the Company entered into a 40% finite quota share reinsurance agreement. An independent review of the agreement conducted under the direction of the Office determined that the agreement met the risk transfer criteria of SSAP No. 62.

Loss and Loss Expense Reserves

As of December 31, 2001, the Company's Loss and loss expense reserves were deficient. **Resolution:** In October of 2003, the Company increased its net loss reserves by \$6,729,073. On November 12, 2003, the Company increased its Surplus with a capital increase of \$25,000,000.

HISTORY

General

The Company was licensed to write insurance in the following states:

Florida	Arizona	Arkansas	Georgia
Illinois	Indiana	Louisiana	Mississippi
Nevada	Oklahoma	South Carolina	Utah

The Company was incorporated in Florida on March 2, 1989 and commenced writing business on July 1, 1990. It was a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code.

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

Capital Stock

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

Number of authorized common capital shares	2,750,000
Number of shares issued and outstanding	2,750,000
Total common capital stock	\$2,750,000
Par value per share	\$1.00

Control of the Company was maintained by its parent, United Automobile Insurance Group (UAIG), who owned 100% of the stock issued by the Company as of November 8, 2003. The Parrillo family owned the stock prior to November 8, 2003. The stock of UAIG was pledged to Amalgatrust Company, Inc. (Amalgamated Bank of Chicago) as part of a loan agreement with the parent 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 statement.

	2005	2004	2003
Premiums Earned	292,266,438	244,822,743	149,320,202
Net Underwriting Gain/(Loss)	13,664,401	32,544,933	8,836,113
Net Income	12,464,040	27,024,405	6,968,667
Total Assets	498,443,609	401,890,976	311,895,123
Total Liabilities	387,020,021	304,508,374	246,019,801
Surplus As Regards Policyholders	111,423,588	97,382,602	65,875,322

Dividends to Stockholders

The Company did not pay stockholders a dividend in 2003, 2004 or 2005.

Management

The annual shareholder meeting for the election of directors was held in accordance with Sections 607.1601 and 628.231, Florida Statutes. Directors serving as of December 31, 2005, were:

Directors

Name and Location

Richard P. Parrillo, Sr.
North Miami Beach, Florida

Richard P. Parrillo, Jr.
North Miami Beach, Florida

Principal Occupation

Chairman/CEO
United Automobile Insurance Company

Director
United Automobile Insurance Company

Michael R. Parrillo Oakbrook, Illinois	Executive Vice President United Automobile Insurance Company
Beau W. Parrillo North Miami Beach, Florida	Executive Vice President United Automobile Insurance Company
Jack Ramirez North Miami Beach, Florida	President United Automobile Insurance Company
Patrick A. McCarthy Oakbrook Terrace, Illinois	Insurance Executive Mesirow Financial
John Spatuzza Chicago, Illinois	Attorney at Law Spatuzza & Spatuzza

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

Senior Officers

Name	Title
Jack Ramirez	President
Charles J. Grimsley, Esq.	Secretary
Paul Polachek	Treasurer
Michael R. Parrillo	Executive Vice President
Beau W. Parrillo	Executive Vice President
Sandra Iglesias	Senior Vice President
George Tarsitano	Senior Vice President
Juan Ferrer	Senior Vice President
Ron Terzer	Vice President
Terry Bone	Vice President

The Company's Board resolved that pursuant to Section 624.424(8) (c), Florida Statutes, the same members of the Audit Committee of 2005 would be the Audit Committee of the Company's ultimate parent, UAIG. The Investment Committee for the Company were the Investment Committee of UAIG. This Investment Committee appointed an Internal Investment Committee. As of December 31, 2005 the Committee members were:

Audit Committee

Cornelius Golding, Chairman
George McCarthy
Leonard Frumm

Investment Committee

Mitchell Posner, Chairman
Richard Parrillo, Sr.
Jack Ramirez

Internal Investment Committee

Richard P. Parrillo, Sr.*
Jack Ramirez
Michael R. Parrillo
Paul Polachek

*The Internal Investment Committee has no chairman.

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. No exceptions were noted during this examination period.

Corporate Records

The recorded minutes of the Shareholders, Board of Directors, Investment and Audit Committees adequately documented its meetings and approval of Company transactions in accordance with Section 607.1601, Florida Statutes, including the authorization of investments as required by Section 625.304, Florida Statutes.

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

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

Surplus Notes

As of December 31, 2005, there were no outstanding Surplus Notes of the Company.

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 March 16, 2007, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

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

Tax Allocation Agreement

The Company, along with other affiliates, filed a consolidated federal income tax return. The members agreed to pay 100% of their portion of the tax liability of the affiliate group.

Corporate Expense Agreement

The Company entered into an expense sharing agreement with Argus Fire & Casualty Insurance Company, National Insurance Management Company (NIMC) National Adjustment Corporation (which became inactive on December 31, 2003), Safeway Premium Finance Corporation (currently known as United Premium Finance Corporation), the Par Family Limited Partnership and Troy D. Ferguson & Associates, P.A., which became the Office of the General Counsel in 2001 (all collectively referred to as "Affiliates") effective January 1, 2000. The agreement provided that the Company would pay all corporate expenses jointly incurred and would be reimbursed by the Affiliates for the respective pro-rata share of the expenses.

This agreement was not being adhered to as the Company had not charged Argus Fire & Casualty Insurance Company for services provided by the Company.

Master Lease Agreement

The Company entered into a master lease agreement whereby the Company leased the office building it occupied from the Par Family Limited Partnership.

Managing General Agency Agreement

All of the Company's gross written premiums, exclusive of Illinois, Georgia and Utah, were underwritten through affiliated managing general agency (MGA) agreements with NIMC Southwest Underwriters, Inc. (SWU) and NIMC Insurance Services of Texas. The Company appointed NIMC as its MGA in compliance with Section 626.112(1), Florida Statutes, to supervise and manage private passenger automobile and commercial automobile policies produced by brokering agents. The agreement was in compliance with Section 626.7451, Florida Statutes.

Computer Services Agreement

Effective January 1, 2002, the Company entered into a computer services agreement with 3lcomp, Inc., which provided the necessary computer services and support for the Company to operate its insurance business.

Guaranty Agreement

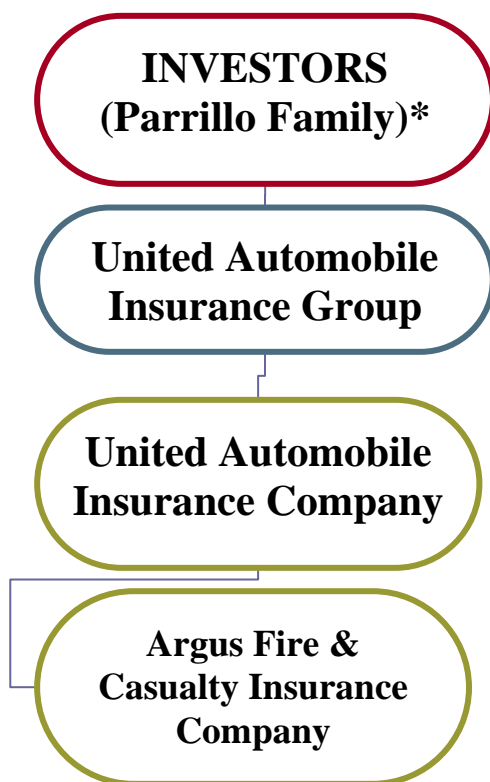
Effective June 1, 2001, the Company entered into a guaranty agreement with Old American County Mutual Fire Insurance Company (OACM), an insurance company domiciled in Texas. The purpose of the agreement was to appoint NIMC Insurance Services, Inc. a Texas MGA, to act as the Company's MGA. The Company facilitated such appointment by individually

guaranteeing the indebtedness of the MGA to the Company. This agreement used a fronting arrangement.

A simplified organizational chart as of December 31, 2005, reflecting the holding company system, is shown below. Schedule Y of the Company's 2005 annual statement provided a list of all related companies of the holding company group.

**UNITED AUTOMOBILE INSURANCE COMPANY
ORGANIZATIONAL CHART**

DECEMBER 31, 2005



*Note: Ultimate controlling investors are: Richard Parrillo, Sr. – 20%; Richard Parrillo, Jr. – 16%; Beau Parrillo – 16%; Michael Parrillo – 16%; Barbara McCarthy – 16%; Samantha Parrillo – 16%

FIDELITY BOND AND OTHER INSURANCE

UAIG and its subsidiaries maintained fidelity bond coverage up to \$1,500,000 with a \$50,000 deductible. The coverage was adequate based on the suggested minimum amount of coverage as recommended by the NAIC, however any use of the coverage by other subsidiaries would reduce the coverage available for the Company. The Company also had Workers' compensation, Commercial package, Commercial automobile, Directors & Officers liability, and Commercial excess and Umbrella insurance.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company participated in a qualified 401(k) retirement plan and profit sharing plan sponsored by its parent, which covered substantially all employees of the Company.

STATUTORY DEPOSITS

The securities designated as State FL were deposited with the State of Florida as required by Section 624.411, Florida Statutes. The other securities shown were deposited as required by the designated State.

State	Description	Par Value	Market Value
FL	USTB, 5.5% 5/15/2009	\$ 250,000	\$ 258,623
FL	USTB, 3.25% 8/15/2007	740,000	726,613
FL	USTB, 2.75% 8/15/2007	500,000	487,070
FL	Municipal bond 5% 9/1/2008	250,000	255,302
FL	Municipal bond, 4.95%	<u>160,000</u>	<u>161,600</u>
TOTAL FLORIDA DEPOSITS		\$ 1,900,000	\$ 1,889,208
GA	Evergreen Inst Trea MM	\$ 35,000	\$ 35,000
IL	FNMA	2,000,000	2,120,000
IL	USTB, 0%, 11/15/08	3,407,000	3,009,335

IL	USTB, 2/15/06	11,147,000	11,129,945
IL	USTB, 11/15/09	2,000,000	1,690,300
LA	Certificate of Deposit	25,000	25,000
OK	Superior Wisconsin 4/1/2011	300,000	300,000
SC	Florence City, SC 5.5% 11/1/08	<u>125,000</u>	<u>132,128</u>
TOTAL OTHER DEPOSITS		\$19,039,000	\$18,441,708
Total Special Deposits		<u>\$20,939,000</u>	<u>\$20,330,916</u>

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory

The Company was authorized to transact insurance in the following states:

Arizona	Arkansas	Florida	Georgia*
Illinois*	Louisiana*	Mississippi*	Nevada
Oklahoma*	South Carolina	Utah*	Indiana

*In addition to Florida written premium, the Company also had written premium in these states for 2005.

Treatment of Policyholders

The Company established procedures for handling written complaints in accordance with Section 626.9541(1) (j), Florida Statutes.

REINSURANCE

The reinsurance agreements reviewed complied with NAIC standards with respect to the standard insolvency clause, arbitration clause, transfer of risk, reporting and settlement information deadlines.

Assumed

The Company entered into a perpetual agreement with OACM, a Texas-based insurance provider. This agreement, effective November 1, 2001, provided that all Private passenger automobile business written by OACM through NIMC Insurance Services, Inc. in the state of Texas were 100% assumed by the Company.

Ceded

Effective July 1, 2003 to December 31, 2003, the Company had a 40% quota share reinsurance agreement which was commuted January 1, 2005. As a result of the commutation, the Company was reimbursed \$12,587,365 of Loss and Loss adjustment expense reserves, and contingent commission of \$6,373,247 was recovered.

Effective January 1, 2004 to December 31, 2004, the Company had another 40% quota share reinsurance agreement which was in run-off. It has since been commuted as of January 1, 2006.

Effective January 1, 2005 to December 31, 2005, the Company entered into a 25% quota share reinsurance agreement for the State of Florida Private passenger automobile business only on a funds-held basis.

ACCOUNTS AND RECORDS

Deloitte & Touche, an independent CPA, audited the Company's statutory basis financial statements annually for the years 2003, 2004 and 2005, 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 primarily on a computerized system with use of certain manual entries and records. The Company's balance sheet accounts were verified with the line items of the annual statement submitted to the Office, with the exception of adjustments to line items as noted within the report.

The Company was not in compliance regarding remitting escheat payments to the Department of Financial Services as required by Sections 717.102 and 717.117, Florida Statutes. In addition, the Company has never filed escheat reports appropriately in any state.

The Company maintained its principal operational offices in North Miami Beach, Florida, where this examination was conducted.

Custodial Agreements

The Company had custodial agreements with Amalgamated Trust and Associated Trust Company. The Amalgamated Trust agreement was in compliance with Rule 69O-143.042(2), Florida Administrative Code. However, the Associated Trust Company agreement was not completely in compliance with Rule 69O-143.042(2) (a)through(I), Florida Administrative Code, at the end of 2005.

Independent Auditor Agreement

The Company engaged Deloitte & Touche, to perform an audit of its generally accepted accounting principles and statutory financial statements for the years 2003, 2004 and 2005 in accordance with Section 624.424(8) (c), Florida Statutes.

Risk-Based Capital

The Company reported its risk-based capital at a mandatory control level.

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2005, and the results of its operations for the year then ended as determined by this examination. Adjustments made as a result of the examination are noted in the section of this report captioned, "Comparative Analysis of Changes in Surplus."

UNITED AUTOMOBILE INSURANCE COMPANY
Assets

DECEMBER 31, 2005

	Per Company	Examination Adjustments	Per Examination
Bonds	\$ 349,839,827	\$ (7,250,787)	\$ 342,589,040
Stocks	37,059,040	446,823	37,505,863
Mortgage loans on real estate	122,389		122,389
Real estate	4,934,872		4,934,872
Cash and short-term investments	65,840,211	4,655,066	70,495,277
Other invested assets	2,508,370		2,508,370
Receivables for securities	-	742,034	742,034
Invested income due and accrued	4,162,165	202,671	4,364,836
Agents' Balances:			
Uncollected premium	19,112,216	3,151,505	22,263,721
Deferred premium	1,668,328		1,668,328
Amounts recoverable from reinsurers	5,203		5,203
Federal income tax recoverable	778,531	31,327,639	32,106,170
Net deferred tax asset	10,676,547	(517,902)	10,158,645
Receivable from parents, subsidiaries and affiliates	1,114,891		1,114,891
Aggregate write-ins	621,018		621,018
Totals	<u>\$ 498,443,608</u>	<u>\$ 32,757,049</u>	<u>\$ 531,200,657</u>

UNITED AUTOMOBILE INSURANCE COMPANY
Liabilities, Surplus and Other Funds

DECEMBER 31, 2005

Liabilities	Per Company	Examination Adjustments	Per Examination
Losses	\$141,186,339	\$89,877,000	\$231,063,339
Reinsurance payable on paid losses and loss adjustment expense	79		79
Loss adjustment expenses	58,198,432	21,990,000	80,188,432
Other expenses	3,100,451	90,154	3,190,605
Taxes, licenses and fees	1,074,937	(2,552,836)	(1,477,899)
Unearned premiums	118,162,696		118,162,696
Funds held by company under reinsurance treaties	50,388,416		50,388,416
Amounts withheld or retained by company for others	251		251
Remittances and items not allocated	6,700	200,145	206,845
Drafts outstanding	12,783,167		12,783,167
Payable to parent, subsidiaries and affiliates	1,118,034	(89,916)	1,028,118
Payable for securities	0	1,095,042	1,095,042
Aggregate write-ins for liabilities	1,000,519	1,142,868	2,143,387
Total Liabilities	<u>\$387,020,021</u>	<u>\$111,752,457</u>	<u>\$498,772,478</u>
Common capital stock	\$2,750,000		\$2,750,000
Gross paid in and contributed surplus	54,000,000		54,000,000
Unassigned funds (surplus)	54,673,588	(\$78,995,409)	(24,321,821)
Surplus as regards policyholders	<u>\$111,423,588</u>	<u>(\$78,995,409)</u>	<u>\$32,428,179</u>
Total liabilities, surplus and other funds	<u><u>\$498,443,609</u></u>	<u><u>\$32,757,048</u></u>	<u><u>\$531,200,657</u></u>

UNITED AUTOMOBILE INSURANCE COMPANY
Statement of Income

DECEMBER 31, 2005

Underwriting Income	
Premiums earned	\$292,266,438
DEDUCTIONS:	
Losses incurred	137,250,452
Loss expenses incurred	40,382,230
Other underwriting expenses incurred	100,969,355
Aggregate write-ins for underwriting deductions	0
Total underwriting deductions	<u>\$278,602,037</u>
Net underwriting gain or (loss)	\$13,664,401
Investment Income	
Net investment income earned	\$10,520,507
Net realized capital gains or (losses)	<u>(1,797,178)</u>
Net investment gain or (loss)	\$8,723,329
Other Income	
Net gain or (loss) from agents' or premium balances charged off	(\$12,513)
Finance and service charges not included in premiums	<u>477,961</u>
Total other income	\$465,448
Net income before dividends to policyholders and before federal & foreign income taxes	\$22,853,178
Net Income, after dividends to policyholders, but before federal & foreign income taxes	\$22,853,178
Federal & foreign income taxes	<u>10,389,138</u>
Net Income	\$12,464,040
Capital and Surplus Account	
Surplus as regards policyholders, December 31 prior year	\$97,382,602
Gains and (Losses) in Surplus	
Net Income	\$12,464,040
Change in net unrealized capital gains or (losses) less capital gains tax of \$0	1,499,334
Change in net deferred income tax	2,961,403
Change in non-admitted assets	(883,791)
Surplus adjustment: Paid in	(2,000,000)
Examination Adjustment	<u>(78,995,409)</u>
Change in surplus as regards policyholders for the year	<u>(\$64,954,423)</u>
Surplus as regards policyholders, December 31 current year	<u><u>\$32,428,179</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Assets

Bonds \$342,589,040

The above amount was \$7,250,787 less than the \$349,839,827 reported by the Company. The Company reported Cash equivalents of \$6,970,924 as Bonds and Short-term investments of \$279,863 were reported as Bonds.

Stocks \$37,505,863

The above amount was \$446,823 more than the \$37,059,040 reported by the Company. Common stocks were reduced by \$1,032,397. The unrealized gain for Argus Fire & Casualty Insurance Company, which was wholly owned by the Company, was increased by \$87,769. The Common stock unrealized gain was increased by \$1,391,451.

Cash, Cash Equivalents, Short-term Investments \$70,495,278

The above amount was \$4,655,067 more than the \$65,840,211 reported by the Company. There were adjustments to all three cash items as noted below.

Cash \$24,220,813

The above amount was \$2,595,720 less than the \$26,816,533 reported by the Company. The adjustment was due to deposits in transit that were improperly recorded.

Cash Equivalents \$31,067,503

The above amount was \$21,608,091 greater than the \$9,459,412 reported by the Company. Assets of \$14,637,167 were reported as Short-term investments but should have been reported

as Cash Equivalents and assets of \$6,970,924 were reported as Bonds but should have been reported as Cash equivalents.

Short-term Investments \$15,206,962

The amount above was \$14,357,304 less than the \$29,564,266 reported by the Company. Assets of \$14,637,167 were reported as Short-term investments but should have been Cash equivalents. Assets totaling \$279,863 were reported as Bonds but should have been Short-term Investments.

Receivables for Securities \$742,034

The Company did not report any Receivables for securities. Additionally, in 2005, disposed Stocks were recorded on their settlement date in 2006 instead of on their trade date in 2005.

Investment Income Due and Accrued \$4,364,836

The amount above was \$202,671 greater than the \$4,162,165 reported by the Company. The increase was to record investment income due on Short-term investments as of December 31, 2005, that were not recorded in the general ledger.

Agents' Balances \$22,263,722

The above amount was \$3,151,506 greater than the \$19,112,216 reported by the Company. There were four adjustments as follows: \$2,680,617 and \$63,992 were recorded to reclassify Deposits in transit, \$206,752 was recorded to reclassify FIGA Fee assessments to liabilities that were payable at December 31, 2005, and \$200,145 were recorded to reclassify amounts incorrectly netted against Amounts due from Georgia agents.

Federal Income Tax (FIT) Recoverable \$32,106,170

The Company reported \$778,531 as FIT Recoverables. However, primarily due to a large increase in Loss and Loss Adjustment Expense reserves, it was increased to \$32,106,170.

Net Deferred Tax Asset \$10,158,645

The amount above was \$517,902 less than the \$10,676,547 reported by the Company. The item was adjusted primarily as a result of other adjustments recommended during the examination.

Liabilities

Losses \$231,063,339

The amount above was \$89,877,000 greater than the \$141,186,339 reported by the Company. The Company understated the reserves as of December 31, 2005.

Loss Adjustment Expenses \$80,188,432

The amount above was \$21,990,000 greater than the \$58,198,432 reported by the Company. The Company understated reserves as of December 31, 2005.

Other Expenses \$3,190,605

The amount above was \$90,154 greater than the \$3,100,451 reported by the Company. The increase was due to various types of reclassifications.

Taxes, Licenses and Fees (\$1,477,898)

The above amount was \$2,552,835 less than the \$1,074,937 reported by the Company. The adjustment was primarily due to a large increase in Loss and Loss adjustment expense reserves.

Remittances and Items Not Allocated

\$206,845

The amount above was \$200,145 greater than the \$6,700 reported by the Company. The increase was to reclassify amounts incorrectly netted against amounts due from Georgia agents.

Payable to Parent, Subsidiaries and Affiliates

\$1,028,118

The above amount was \$89,916 less than the \$1,118,034 reported by the Company. The adjustment was for income tax credits payable to Argus Fire & Casualty Insurance Company, its wholly owned subsidiary.

Payable for Securities

\$1,095,042

The Company did not report any amount as Payable for securities. This adjustment was made to record purchases of Common Stock which were recorded on their settlement date in 2006 instead of their trade date in 2005.

Aggregate Write-ins for Liabilities

\$2,143,387

The amount above was \$1,142,868 greater than the \$1,000,519 reported by the Company. There were two adjustments. One adjustment was an increase, for \$1,224,776 to correct a prior year audit adjustment that was not reversed. The other adjustment was for a decrease, for \$81,908 to reverse the effects of capital leases on a statutory basis to be treated as operating leases.

**UNITED AUTOMOBILE INSURANCE COMPANY
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS**

DECEMBER 31, 2005

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

Surplus as Regards Policyholders
per December 31, 2005, Annual Statement \$ 111,423,588

	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:			
Bonds	\$ 349,839,827	\$ 342,589,040	\$ (7,250,787)
Stocks	37,059,040	37,505,863	446,823
Cash, Short-term Investments, Cash equivalents	65,840,211	70,495,277	4,655,066
Receivable for securities	-	742,034	742,034
Investment income due	4,162,165	4,364,836	202,671
Uncollected premium	19,112,216	22,263,721	3,151,505
Federal Income Tax recoverable	778,531	32,106,170	31,327,639
Net deferred tax asset	10,676,547	10,158,645	(517,902)
LIABILITIES:			
Losses	\$ 141,186,339	\$ 231,063,339	\$ (89,877,000)
Loss Adjustment expenses	58,198,432	80,188,432	(21,990,000)
Other expenses	3,100,451	3,190,605	(90,154)
Taxes, licenses, fees	1,074,937	(1,477,898)	2,552,835
Remittances and items not allocated	6,700	206,845	(200,145)
Payable to parents, subsidiaries and affiliates	1,118,034	1,028,118	89,916
Payable for securities	-	1,095,042	(1,095,042)
Aggregate write-ins for liabilities	1,000,519	2,143,387	(1,142,868)
Net Change in Surplus:			<u>\$ (78,995,409)</u>
Surplus as Regards Policyholders December 31, 2005, Per Examination			<u><u>\$ 32,428,179</u></u>

SUMMARY OF FINDINGS

Compliance with previous directives

The Company has taken the necessary actions to comply with the comments made in the 2003 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, 2005:

Accounts and Records

The Company was not in compliance regarding remitting escheat payments to the Department of Financial Services as required by Sections 717.102 and 717.117, Florida Statutes. In addition, the Company has never filed escheat reports appropriately in any state. **We recommend that the Company reconcile all applicable escheat payments and remit them to the proper state.**

Bonds

The Company reported Cash equivalents as Bonds and Short-term Investments were reported as Bonds. **We recommend that the Company follow NAIC annual statement instructions to properly record security transactions.**

Subsequent event: The Company corrected this reporting error in its 2006 annual statement.

Stocks

1. The Company did not properly record the temporary impairment of Common Stocks as required by SSAP No. 30, paragraph 9. In addition to an adjustment to Common Stock, an adjustment was required to record the impairment to Common Stock as an unrealized gain.

We recommend that the Company comply with SSAP No. 30, paragraph 9.

Subsequent event: The Company corrected this reporting error in its 2006 annual statement.

2. The Company failed to report either a receivable for securities sold or a payable for securities purchased as of December 31, 2005. The securities were recorded utilizing the settlement date rather than the trade date. **We recommend that the Company follow the NAIC annual statement instructions to properly record transactions.**

Subsequent event: The Company corrected this reporting error in its 2006 annual statement.

3. The unrealized gain for Argus Fire & Casualty Insurance Company was understated. **We recommend that the Company follow the NAIC annual statement instructions to properly record transactions.**

Subsequent event: The Company corrected this reporting error in its 2006 annual statement.

Cash

1. The Company improperly reported some Cash equivalents as Short-term investments in the amount of \$14,637,167, Cash equivalents as Long-term bonds \$6,970,924 and Short-term investments as Long-term bonds in the amount of \$279,863. **We recommend that the Company comply with the NAIC Annual Statement Instructions.**

Subsequent event: The Company corrected this reporting error in its 2006 annual statement.

2. The Company improperly classified an Agents' balance and Premiums receivable as Cash. **We recommend that the Company properly classify all general ledger entries.**

Subsequent event: The Company corrected this reporting error in its 2006 annual statement.

Investment Income Due and Accrued

The Company failed to record Investment income due and accrued for Short-term investments. **We recommend that the Company properly record investment income.**

Subsequent event: The Company corrected this reporting error in its 2006 annual statement.

Agents' Balances

The Company improperly recorded an Agents' Balance, premium receivables, FIGA Fee assessment and an amount netted against Amounts due from Georgia agents account. **We**

recommend that the Company follow the NAIC annual statement instructions to properly record transactions.

Receivables from Parent, Subsidiaries and Affiliates

The Company did not charge Argus & Casualty Insurance Company, its wholly owned subsidiary, for services rendered. **We recommend that the Company comply with the terms of the corporate expense agreement.**

Losses and loss adjustment expenses

Loss and loss adjustment expense reserves were found to be understated for 2005; therefore, this examination increased the loss reserves by \$89,877,000 and the loss adjustment expenses by \$21,990,000, as of December 31, 2005. During the year 2006, the Company recorded additional loss and loss adjustment expenses reserves totaling \$80,635,000 as evidenced in the one year development column of the 2006 annual statement, Schedule P, Part 2. This examination's consulting actuary reviewed the reserves as of December 31, 2006 and found the reserves to be deficient by \$45,400,000; however, any increase to the reserves would be offset in part by an increase to the federal income tax recoverable. The Company did not agree with the deficiency and asserted that significant events have occurred during and since year-end 2006 that would materially affect the loss and loss adjustment expense reserves. Therefore, the Company and the Office have agreed to have the examination's consulting actuary review the loss and loss adjustment expense reserves as of June 30, 2007 to confirm the Company's assertions. The Company has further agreed to establish the loss and loss adjustment expense reserves at the level established by the examination's consulting actuary as determined by the review of the June 30, 2007 loss and loss adjustment expense reserves. **We recommend that**

the Company institute the necessary procedures to ensure reserves are adequately established.

Federal Income Taxes

An adjustment of \$31,327,639 was required for Federal income taxes, primarily due to the large increase in Loss and Loss adjustment expense reserves. **We recommend that the Company institute the necessary procedures to ensure reserves are adequately established.**

Net Deferred Taxes

An adjustment of \$517,902 was required for Net deferred taxes to decrease the asset. **We recommend that the Company institute the necessary procedures to ensure reserves were adequately established.**

Other Expenses

The Company improperly recorded several expense items and did not accrue expenses at year-end. **We recommend that the Company properly accrue expenses.**

Subsequent event: The Company corrected this reporting error in its 2006 annual statement.

Taxes, Licenses and Fees

The liability was decreased, mainly due to the large increase in Loss and Loss adjustment expense reserves. It is now a receivable. **We recommend that the Company institute the necessary procedures to ensure reserves were adequately established.**

Remittances and Items Not Allocated

The Company improperly netted \$200,145 against amounts due from Georgia agents. **We recommend that the Company properly record transactions in future reporting.**

Payable to Parent, Subsidiaries and Affiliates

The inter-company payable due to Argus Fire & Casualty Insurance Company, an affiliate, was overstated in the amount of \$89,916. **We recommend that the Company properly record income tax credits payable to Argus Fire & Casualty Insurance Company.**

Subsequent event: The Company corrected this reporting error in its 2006 annual statement.

Aggregate Write-ins for Liabilities

1. A correcting entry based on the 2004 CPA audit was recorded on a statutory basis by the Company in 2005 and subsequently reversed out twice. **We recommend that the Company establish controls for reversing journal entries.**

Subsequent event: The Company corrected this one time reporting error in its 2006 annual statement.

2. An operating lease was improperly recorded as a capital lease on a statutory basis. **We recommend that the Company properly record lease transactions.**

Surplus as Regards Policyholders

The Surplus as regards policyholders was reduced, in total, by \$78,995,409, leaving a balance of \$32,428,179 as of December 31, 2005; which places the Company in a financially impaired

position as the minimum surplus requirement is 10% of liabilities, which is \$49,877,248. On or about May 14, 2007, the Company received a \$17,500,000 capital contribution to cure the aforementioned deficiency.

SUBSEQUENT EVENTS

The directors and officers serving as of September 13, 2006 were the same as those of 2005.

Ron Terzer, Vice President, resigned as an officer of the Company effective November 24, 2006.

The Company transferred its investment management from Daniel G. Pappano to Deutsche Investment Management effective March 24, 2006.

The Associated Trust Company custodial agreement was brought into compliance with the agreement executed in 2006.

CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **United Automobile Insurance Company** as of December 31, 2005, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was \$32,428,179, which was not in compliance with Section 624.408, Florida Statutes. The minimum surplus requirement for the Company at December 31, 2005 was 10% of liabilities, which was \$49,877,248. The Company, on or about May 14, 2007, received a \$17,500,000 capital contribution to cure the aforementioned deficiency.

In addition to the undersigned, Robert Moore, CPA, CFE, CIE, FLMI, Examiner in Charge, Craig Deneau, Janie Judd, Sterling Beale, and Daniel Callahan, CFE, Participating Examiners, all of Reinsurance Solutions International, LLC, and Mercer Oliver Wyman, Actuarial Consultant, participated in the examination.

Respectfully submitted,

Michael Hampton, CPA, CFE, DABFA, CFE, CPM
Examination Manager
Florida Office of Insurance Regulation