REPORT ON EXAMINATION

OF

ARGUS FIRE & CASUALTY INSURANCE COMPANY

NORTH MIAMI BEACH, FLORIDA

AS OF

DECEMBER 31, 2008

BY THE

OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida

November 11, 2009

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

Dear Sir:

Pursuant to your instructions, in compliance with Section 624.316, Florida Statutes, and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted an examination as of December 31, 2008, of the financial condition and corporate affairs of:

Argus Fire & Casualty 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 January 1, 2006, through December 31, 2008. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2005. This examination commenced with planning at the Office on August 3, 2009, to August 7, 2009. The fieldwork commenced on August 10, 2009, and was concluded as of November 11, 2009.

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

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

Risk-focused examinations consist of a seven-phase process that can be used to identify and assess risk, assess the adequacy and effectiveness of strategies/controls used to mitigate risk and assist in determining the extent and nature of procedures and testing to be utilized in order to complete the review of that activity. The process should generally include a determination of the quality and reliability of the corporate governance structure and risk management programs. In addition, it can be used for verification of specific portions of the financial statements or other limited-scope reviews, increased focus on, and can result in increased substantive testing of, accounts identified as being at high risk of misstatement. Conversely, the risk assessment process should result in decreased focus on, and fewer substantive tests on the accounts identified as being at low risk of misstatement. The risk-focused surveillance process can be used to assist examiners in targeting areas of high-risk.

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, 2008. Transactions subsequent to year-end 2008 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 A.M. Best Report, the Company's independent audit reports and certain work papers prepared by the Company's independent certified public accountant (CPA) and other reports as considered necessary were reviewed and utilized where applicable within the scope of this examination.

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

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:

Other invested assets
Investment income due and accrued
Uncollected premiums and agents' balances in the course of collection
Amounts recoverable from reinsurers
Receivable from parent, subsidiaries and affiliates
Borrowed money
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, 2005, along with resulting action taken by the Company.

Accounts and Records

The Company continued to remain non-compliant with filing unclaimed property reports in violation of Sections 717.117 and 717.102, Florida Statutes. **Resolution:** The Company provided documentation of the filing for all unclaimed checks and drafts with the State of Florida and the check submitted for payment.

Affiliated Company Costs

The Company did not pay its share of costs incurred by several affiliates on its behalf during 2005 as required by SSAP 25, Paragraphs 15 and 16 and Appendix A-440. **Resolution:** The Company provided documentation of payment to United Group Underwriters, Inc.

Consent Order

In Consent Order 81383-05-CO, the Company had the option to take out a certain number of policies from Citizens Property Insurance Corporation (Citizens). The Consent Order required that the Company hold Capital and Surplus of at least $9 million. The Company failed to maintain the minimum Capital and Surplus as required by the Consent Order. **Resolution:** The Company was operating under a more recent takeout Consent Order, 92333-07-CO, filed October 24, 2007, which did not include this requirement.

General Ledger

The Company had not established the general ledger control over $2,194,293, as of December 31, 2005, representing funds held in escrow to be earned at the end of the 36 months as a result of the policies assumed from Citizens. **Resolution:** The Company provided documentation that the funds held in escrow were reported on the general ledger.

Bond NAIC Designation

The Company used an incorrect NAIC designation for five bonds held as of the examination date, two of which caused the Company to value the bonds in the wrong amount. **Resolution:** The Company used correct NAIC designations on reported bonds.

Stocks

The Company did not properly report realized losses of common stocks for other than temporary impairments as required by SSAP 30, Paragraph 9. **Resolution:** The Company complied with SSAP 30, Paragraph 9 by properly reporting realized losses for other than temporary impairments.

Cash Equivalents

The Company did not comply with SSAP 2, Paragraph 3 and improperly reported a cash equivalent as a short term investment. **<u>Resolution:</u>** The Company complied with SSAP 2, and properly reported cash equivalents.

Current Federal Income Taxes

Current federal income taxes were reduced by $158,653. The item was decreased, primarily, to reflect an excess accrual of $112,070 at December 31, 2005, and a change in the provision as a result of examination adjustments as required by SSAP 10. **<u>Resolution:</u>** The Company complied with SSAP 10, and properly accrued current federal income taxes.

Net Deferred Tax Asset

Net deferred tax asset was increased by $152,791 due to other adjustments required by the examination. **<u>Resolution:</u>** The Company complied with SSAP 10, and properly recorded all adjustments.

Miscellaneous Asset

The Company had not properly reported a miscellaneous asset of $6,670 as required by the *NAIC Annual Statement Instructions for Property Casualty Companies*. **<u>Resolution:</u>** The Company properly reported the miscellaneous asset at December 31, 2008.

Loss Reserves

The Company had under reserved losses by $442,000. The Company did not adequately record reserves as reported by the consulting actuary. **<u>Resolution:</u>** This has not been resolved.

Loss Adjustment Expenses

The Company had under reserved loss adjustment expenses by $682,000. The Company did not adequately record its reserves as reported by the consulting actuary. **Resolution:** The Company reserve for loss reserves was materially correct at this examination.

Outstanding Loss Adjustment Expense Reserves

The Company had 294 claims that were closed but had outstanding loss adjustment expense (LAE) reserves. The Company did not understand the computer system to accurately take down the LAE reserves. **Resolution:** The Company complied and took the necessary steps to ensure their computer system was understood by all who were involved in the reporting process. LAE reserves on closed claims were removed at the proper time.

Case Reserving

The Company failed to adjust case reserves as more information became available. By not adjusting case reserves, it can also make it extremely difficult, if not impossible, for an actuary to properly establish reserves. **Resolution:** The Company complied by adjusting case reserves as information was received to properly recognize the anticipated exposure.

Claim Reporting and Establishment

The Company failed to timely establish a number of claims reported in December, 2005 until January, 2006. **Resolution:** The Company complied by establishing claims as they were reported.

Other Expenses

The Company had not properly reported other expenses as required by the *NAIC Annual Statement Instructions for Property Casualty Companies*. **Resolution:** The Company properly reported other expenses at December 31, 2008.

Taxes, Licenses and Fees

The Company had not properly reported taxes, licenses and fees as required by the *NAIC Annual Statement Instructions for Property Casualty Companies*. **Resolution:** The Company properly reported taxes, licenses and fees at December 31, 2008.

Drafts Outstanding

The Company failed to properly report a draft and, thus, overstated drafts outstanding. **Resolution:** The Company provided documentation that showed proper accounting for drafts outstanding in compliance with the *NAIC Annual Statement Instructions for Property Casualty Companies*.

Advance Premiums

The Company had not properly reported advance premiums as required by the *NAIC Annual Statement Instructions for Property Casualty Companies*. **Resolution:** The Company complied with the *NAIC Annual Statement Instructions for Property Casualty Companies* and properly reported advance premiums at December 31, 2008.

Ceded Reinsurance Premiums Payable

The Company had not properly reported ceded reinsurance premiums payable as required by the *NAIC Annual Statement Instructions for Property Casualty Companies*. **Resolution:** The

Company complied with the *NAIC Annual Statement Instructions for Property Casualty Companies* and properly reported ceded reinsurance premiums payable at December 31, 2008.

Amounts Withheld or Retained by Company for Account of Others

The Company had not properly reported amounts withheld or retained by the Company for account of others. **Resolution:** The Company complied with the *NAIC Annual Statement Instructions for Property Casualty Companies* and properly reported amounts withheld or retained by Company for account of others at December 31, 2008.

Payable to Parent, Subsidiaries and Affiliates

The Company had not properly reported payable to parent, subsidiaries and affiliates. **Resolution:** The Company complied with the *NAIC Annual Statement Instructions for Property Casualty Companies* and properly reported payable to parent, subsidiaries and affiliates at December 31, 2008.

Payment of Federal Income Tax Recoverable

The parent company had not paid the Company the federal income tax recoverable within 90 days of filing the return. **Resolution:** The Company reported no federal income tax recoverable at December 31, 2008.

Gross Paid In and Contributed Surplus

The Company had reported a capital contribution received from the parent company as an increase to unassigned funds, which was not in compliance with SSAP 72, Paragraph 7. **Resolution:** The Company properly reported the capital contribution in compliance with SSAP 72, Paragraph 7 at December 31, 2008.

HISTORY

General

The Company was originally incorporated in Florida on September 17, 1993, as a stock property and casualty insurer with the name Safeway Fire and Casualty Insurance Company. A new Certificate of Authority was issued on March 2, 1995, and the name was subsequently changed to Argus Fire and Casualty Insurance Company. The Company did not commence business until January 1, 1997. The Company is a wholly owned subsidiary of United Automobile Insurance Company (UAIC or parent).

The Company had been a party to four Consent Orders, with three of those still in effect.

- Consent Order 92333-07-CO, filed October 24, 2007, regarding the assumption of policies from Citizens.
- Consent Order 95672-08-CO, filed October 24, 2008, regarding compliance with prior year exam findings.
- Amended Consent Order 100235-08-CO, filed December 2, 2008, which amends Consent Order 92333-07-CO.

The Company was in compliance with the provisions of the Consent Orders except as required by:

- Consent Order 92333-07-CO:
- The Company did not submit all changes to reinsurance agreements, (Paragraph 15 (c) (ii).)
- The Company did not get prior approval for any additional or substitute reinsurers. (Paragraph 15 (c) (iv).)
- The Company did not use only authorized reinsurers. (Paragraph 15 (c) (v).)

- Consent Order 95672-08, Paragraph 5 j, the Company did not adequately reserve for losses.

The Company was authorized to transact the following insurance coverage in Florida on December 31, 2008:

Homeowners multi peril	Fire
Private passenger auto liability	Allied Lines
Private passenger auto physical damage	

The Company had not written any business for the past year in Private Passenger Auto Liability and Private Passenger Auto Physical Damage. Thus, the Company was not in compliance with Section 624.430 (1), Florida Statutes which required that any insurer who does not write any premiums in a kind or line of insurance within a calendar year shall have that kind or line of insurance removed from its Certificate of Authority.

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

Capital Stock

As of December 31, 2008, the Company's capitalization was as follows:

Number of authorized common capital shares	5,000,000
Number of shares issued and outstanding	5,000,000
Total common capital stock	$5,000,000
Par value per share	$1

All outstanding shares of the Company were owned by the United Automobile Insurance Company (parent). All outstanding shares of the United Automobile Insurance Company were owned by the United Automobile Insurance Group, which was owned by members of the Richard P. Parrillo, Sr. family.

Profitability of Company

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

	2008	2007	2006
Premiums Earned	11,985,400	9,760,791	10,224,364
Net Underwriting Gain/(Loss)	(1,379,672)	(855,256)	3,540,026
Net Income	(940,766)	62,287	2,358,169
Total Assets	32,205,068	24,356,608	23,209,530
Total Liabilities	24,296,921	15,058,805	14,215,155
Surplus As Regards Policyholders	7,908,145	9,297,803	8,994,375

Dividends to Stockholders

The Company declared and paid no dividends to its stockholders during the examination period.

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, 2008, were:

Directors

Name and Location	Principal Occupation
Richard Peter Parrillo, Sr. Miami Gardens, Florida	CEO, United Automobile Insurance Co.
Richard Peter Parrillo, Jr. North Miami Beach, Florida	CEO, Argus Fire and Casualty Insurance Co.
Michael Robert Parrillo Chicago, Illinois	EVP, United Automobile Insurance Co.
Beau William Parrillo Miami Gardens, Florida	EVP, United Automobile Insurance Co.
Jack Ramirez Miami Gardens, Florida	President, United Automobile Insurance Co.
Patrick Aloysius McCarthy Oakbrook, Illinois	Managing Director, Mesirow Insurance
John Spatuzza Chicago, Illinois	Attorney

The Board of Directors (Board), in accordance with the Company's bylaws, appointed the following senior officers as of December 31, 2008:

Senior Officers

Name	Title
Beau Parrillo	President
Paul V. Polachek	Treasurer
Charles Grimsley	Secretary

On June 9, 2009, the Board, by written consent in lieu of a meeting, removed the following officers:

Name	Title
Richard P. Parrillo, Sr.	Chief Executive Officer
Beau W. Parrillo	President
Charles J. Grimsley	Secretary
Paul Polachek	Treasurer

On June 9, 2009, the Board, by written consent in lieu of a meeting, elected the following officers:

Name	Title
Richard P. Parillo, Jr.	Chief Executive Officer
David S. Milton	President
Jorge E. Gonzalez	Treasurer
Aaron L. Cubbison	Secretary

The Company's Board had not named any committees in accordance with Section 607.0825, Florida Statutes. The Company maintained an audit committee as required by Section 624.424(8)(c), Florida Statutes. Each year the Board established an audit committee by specifically appointing the audit committee of the parent company.

Following was the principal internal board committee and its members as of December 31, 2008:

Audit Committee

Leonard Frumm
George McCarthy
Corneleus “Neil” Golding

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 the Audit Committee 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 except as follows.

Neither the minutes of the Board or Audit Committee reflected the appointment of the CPA firm for the years ended 2007, 2008, or 2009. Section 624.424 (8) (c), Florida Statutes states “The board of directors of an insurer shall hire the certified public accountant that prepares the audit required by this subsection…” Therefore, the Company was in violation of Section 624.424 (8) (c), 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

As of December 31, 2008, the Company did not have any surplus debentures.

AFFILIATED COMPANIES

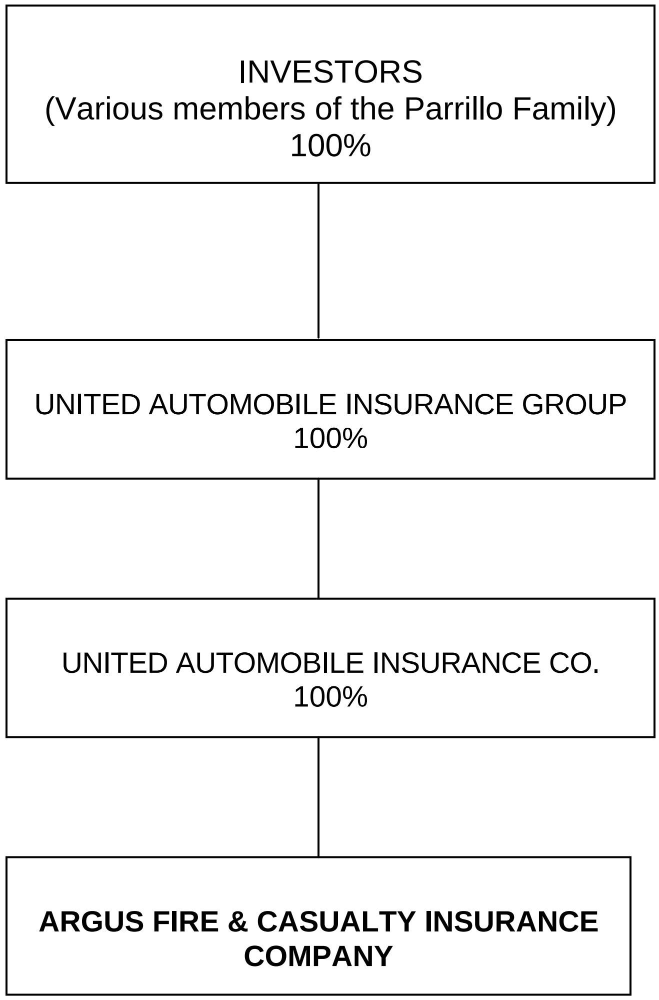
The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code. The latest holding company registration statement was filed with the State of Florida on March 2, 2009, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

The Management Agreement dated January 1, 2007, and the Income Tax Allocation Agreement dated January 1, 2003 were omitted from the holding company registration statement. The Company was in violation of Rule 69O-143.046 (2) (c) Florida Administrative Code.

A simplified organizational chart as of December 31, 2008, reflecting the holding company system, is shown below. Schedule Y of the Company's 2008 annual statement provided a list of all related companies of the holding company group.

ARGUS FIRE & CASUALTY INSURANCE COMPANY
ORGANIZATIONAL CHART

DECEMBER 31, 2008



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

Tax Allocation Agreement

The Company had a tax allocation agreement dated January 1, 2003, with United Automobile Insurance Group, (UAIG) and United Automobile Insurance Company (UAIC). Under the provisions of this agreement, the companies filed consolidated federal income tax returns. The federal income tax liability was allocated to the individual companies in the manner provided by Treasury Regulations Sections 1.1502-33 (d) (3) and 1.1552-33 (a) (2). The agreement called for amounts due to be calculated within 30 days following the end of each quarter and payment due within 30 days thereafter.

Management Agreement

The Company had a management agreement dated January 1, 2007, with UAIG and other members of the holding company group. Under the provisions of this agreement, UAIG provided management, services, and support on an as needed basis. Services provided included accounting, tax, auditing, underwriting, claims, investments, and other functional services. Expenses were allocated on the basis of relative gross revenues of the member companies. The agreement called for reports to be rendered within 30 days following the end of each quarter and payment due within 30 days thereafter.

Managing General Agent Agreement

The Company had a managing general agent (MGA) agreement dated July 1, 2007, with United Group Underwriters, Inc. (UGU). Under the provisions of this agreement, UGU supervised and managed homeowners, dwelling fire, and private passenger automobile policies produced by brokering agents. The MGA received a fee of 18% of gross premiums written, not to exceed $25 per policy. Additionally, the MGA negotiated, but did not bind, reinsurance. The agreement called for monthly reporting and settlement of amounts due.

FIDELITY BOND AND OTHER INSURANCE

The Company maintained fidelity bond coverage up to $1,500,000 with a deductible of $50,000, which was considered adequate by the NAIC. The Company also had Workers' Compensation, Employer's Liability, Commercial Auto, Commercial Excess and Umbrella Insurance Coverage.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company provided a variety of benefits for employees including health insurance, a disability package, 401-K retirement plan, and life insurance. Additionally, there were bonus and profit sharing plans.

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	USTNTS, 5.5%, 05/15/09	$ 220,000	$ 224,334
FL	USTNTS, 4.625%, 10/31/11	100,000	110,410
FL	USTNTS, 5.5%, 05/15/09	680,000	693,396
FL	USTNTS, 4.625%, 10/31/11	800,000	883,280
TOTAL FLORIDA DEPOSITS		$1,800,000	$1,911,420
TOTAL SPECIAL DEPOSITS		$1,800,000	$1,911,420

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory

The Company was authorized to transact insurance in the State of Florida, in accordance with Section 624.401, Florida Statutes. It was also authorized to transact business in the State of Illinois. However, the Company did not write any insurance business in the State of Illinois during the period of the examination.

Treatment of Policyholders

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

The Company maintained a claims procedure manual that included detailed procedures for handling each type of claim in accordance with Section 626.9541(1) (i) 3a, 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 assumed risks from Citizens under the take out program. Under Consent Order 92333-07, the Company was approved to remove a total of 18,000 policies with no more than 2,500 policies removed in December 2007. Under Consent Order 100235-08, the Company was approved to remove an additional 37,000 policies with no more than 9,000 policies removed in January 2009.

Ceded

The Company ceded risk to both the Florida Hurricane Catastrophe Fund (FHCF) and to reinsurers in the private market.

Reinsurance from the reinsurers in the private market covered $10.5 million in excess of the Company's $2.75 million per occurrence retention.

The FHCF Mandatory Layer and the FHCF Temporary Increased Coverage Limit provided coverage of $54.6 million in excess of the $13.25 million covered by the Company's retention and the private market coverage.

Additionally, private market reinsurance provided coverage for the 10% catastrophe loss not covered by the FHCF and an additional $11.1 million in excess of the FHCF coverage.

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

ACCOUNTS AND RECORDS

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

An independent CPA audited the Company's statutory basis financial statements annually for the years 2006, 2007 and 2008, 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 agreements:

Custodial Agreement

The Company had a custodial agreement with Amalgatrust Company, Inc. The safekeeping agreement contained the appropriate safeguards and controls indemnifying the Company as required by Rule 69O-143.042, Florida Administrative Code.

Information Technology Report

INS Services, Inc. performed an evaluation of the information technology and computer systems of the Company. Results of the evaluation were noted in the Information Technology Report provided to the Company.

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2008, 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."

ARGUS FIRE & CASUALTY INSURANCE COMPANY
Assets

DECEMBER 31, 2008

	Per Company	Examination Adjustments	Per Examination
Bonds	$15,862,316		$15,862,316
Cash and short-term investments	11,663,328		11,663,328
Other invested assets	5,864		5,864
Investment income due and accrued	152,949		152,949
Agents' Balances:			
Uncollected premium	13,385		13,385
Deferred premium	1,129,845		1,129,845
Amounts recoverable from reinsurers	32,521		32,521
Net deferred tax asset	745,754		745,754
Receivables from parent, subsidiaries, and affiliates	147,345		147,345
Aggregate write-in for other than invested assets	2,451,761		2,451,761
Totals	$32,205,068	$0	$32,205,068

ARGUS FIRE & CASUALTY INSURANCE COMPANY

Liabilities, Surplus and Other Funds

DECEMBER 31, 2008

	Per Company	Adjustments	Per Examination
Losses	$4,695,438		$4,695,438
Loss adjustment expenses	721,943		721,943
Other expenses	351,944		351,944
Taxes, licenses and fees	220,866		220,866
Borrowed money	40,870		40,870
Unearned premiums	8,312,353		8,312,353
Advance premium	687,379		687,379
Ceded reinsurance premiums payable	1,966,218		1,966,218
Amounts withheld	2,014,728		2,014,728
Provision for reinsurance	35,844		35,844
Drafts outstanding	1,192,566		1,192,566
Payable to parent, subsidiaries and affiliates	1,605,011		1,605,011
Aggregate write ins for liabilities	2,451,761		2,451,761
Total Liabilities	$24,296,921	$0	$24,296,921
Common capital stock	$5,000,000		$5,000,000
Gross paid in and contributed surplus	2,000,000		2,000,000
Unassigned funds (surplus)	908,145		908,145
Surplus as regards policyholders	$7,908,145		$7,908,145
Total liabilities, surplus and other funds	$32,205,066	$0	$32,205,066

ARGUS FIRE & CASUALTY INSURANCE COMPANY
Statement of Income

DECEMBER 31, 2008

Underwriting Income	
Premiums earned	$11,985,400
Deductions:	
Losses incurred	5,792,611
Loss expenses incurred	1,274,700
Other underwriting expenses incurred	6,297,761
Aggregate write-ins for underwriting deductions	0
Total underwriting deductions	$13,365,072
Net underwriting gain or (loss)	($1,379,672)
Investment Income	
Net investment income earned	$876,682
Net realized capital gains or (losses)	(285,645)
Net investment gain or (loss)	$591,037
Other Income	
Net gain (loss) from agents' or premium balances charged off	($24,403)
Finance and service charges not included in premiums	13,118
Total other income	($11,285)
Net Income, after dividends to policyholders, but before federal and foreign income taxes	($799,920)
Federal and foreign income taxes incurred	140,847
Net Income	($940,767)
Capital and Surplus Account	
Surplus as regards policyholders, December 31 prior year	$9,297,803
Net Income	($940,767)
Change in net deferred income tax	133,022
Change in non-admitted assets	(546,069)
Change in provision for reinsurance	(35,844)
Change in surplus as regards policyholders for the year	($1,389,658)
Surplus as regards policyholders, December 31 current year	$7,908,145

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses $5,417,381

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, 2008, made 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 reviewed work papers provided by the Company and was not in concurrence with this opinion. The consulting actuary recommended that loss reserves be increased by $273,000, an amount approximately 3% of surplus. Due to the immateriality of the amount, no adjustment was reflected in this examination report.

Capital and Surplus

The amount reported by the Company of $7,908,145, exceeded the minimum of $4,000,000 required by Section 624.408, Florida Statutes.

A comparative analysis of changes in surplus is shown below.

ARGUS FIRE & CASUALTY INSURANCE COMPANY
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS

DECEMBER 31, 2008

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, 2008, per Annual Statement				$7,908,145
	PER COMPANY	PER EXAM	INCREASE (DECREASE) IN SURPLUS	
ASSETS:				
No adjustment				
LIABILITIES:				
No adjustment				
Net Change in Surplus:				0
Surplus as Regards Policyholders December 31, 2008, Per Examination				$7,908,145

SUMMARY OF FINDINGS

Compliance with previous directives

The Company took the necessary actions to comply with the comments made in the 2005 examination report issued by the Office except as follows.

Loss Reserves

At the prior examination, the Company had under reserved losses by $442,000. The consulting actuary reviewed work papers provided by the Company and was of the opinion that the Company did not adequately record reserves. **We again recommend that the Company adequately reserve for losses as required by Section 625.105, Florida Statutes.**

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, 2008.

Loss Reserves

In the opinion of the consulting actuary, the Company's reserve for losses was under reserved by $273,000, approximately 3% of surplus. **We recommend that the Company adequately reserve for losses as required by Section 625.105, Florida Statutes.**

Authorized Lines of Insurance

The Company had not written any business for the past year in Private Passenger Auto Liability and Private Passenger Auto Physical Damage. Section 624.430 (1), Florida Statutes required that any insurer who does not write any premiums in a kind or line of insurance within a calendar year shall have that kind or line of insurance removed from its Certificate of Authority. **We recommend that the Company comply with Section 624.430, Florida Statutes, and have Private Passenger Auto Liability and Private Passenger Auto Physical Damage removed from its Certificate of Authority.**

Management

The Company's Board had not named any committees in accordance with Section 607.0825, Florida Statutes. **We recommend that the Company comply with Section 607.0825, Florida Statutes, and name committees as required.**

Corporate Records

Neither the minutes of the Board of Directors or Audit Committee reflected the appointment of the CPA firm for the years ended 2007, 2008, or 2009. Section 624.424 (8) (c), Florida Statutes states "The board of directors of an insurer shall hire the certified public accountant that prepares the audit required by this subsection…" **We recommend that the Company comply with the requirements of Section 624.424 (8) (c), Florida Statutes.**

The latest holding company registration statement was filed with the State of Florida on March 2, 2009. However, the following were omitted:

- Management Agreement dated January 1, 2007. **We recommend that the Company comply with the requirements of Rule 69O-143.046 (2) (c) Florida Administrative Code.**
- The Income Tax Allocation Agreement dated January 1, 2003. **We recommend that the Company comply with the requirements of Rule 69O-143.046 (2) (c) Florida Administrative Code.**

The Company did not comply with the provisions of the Consent Orders as follows.

- The Company did not submit all changes to reinsurance agreements to the Office for approval as required by Consent Order 92333-07, Paragraph 15 (c) (ii).
- The Company did not get prior approval for any additional or substitute reinsurers as required by Consent Order 92333-07, Paragraph 15 (c) (iv).
- The Company did not use only authorized reinsurers as required by Consent Order 92333-07, Paragraph 15 (c) (v).
- The Company did not adequately reserve for losses as required by Consent Order 95672-08, Paragraph 5 j.

We recommend that the Company comply with the provisions of Consent Orders 92333-07 and 95672-08.

SUBSEQUENT EVENTS

On June 30, 2009, the parent company made a capital contribution of $2,395,320 in the form of two bonds.

In August 2009, the Company received the take out bonus from Citizens for the May and June 2005 take outs. The amount received was cash of $2,197,819.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Argus Fire & Casualty Insurance Company** as of December 31, 2008, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was $7,908,145, in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned, Patricia Casey Davis, CPA, CFE, of INS Regulatory Insurance Services, Inc., Vetrecia Smith, Financial Specialist, Michael W. Morro, ACAS, MAAA and James Neidermyer, FCAS of INS Consultants, Inc., participated in the examination. We also recognize INS Services, Inc. participation in the examination.

Respectfully submitted,

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James Pafford, Jr.
Financial Examiner/Analyst Supervisor
Florida Office of Insurance Regulation