REPORT ON EXAMINATION

OF

UNITED AUTOMOBILE INSURANCE COMPANY

MIAMI GARDENS, FLORIDA

AS OF

DECEMBER 31, 2010

BY THE

FLORIDA OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida

January 6, 2012

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Dear Sirs and Madam:

Pursuant to your instructions, in compliance with Section 624.316, Florida Statutes, Rule 69O-138.0058, Florida Administrative Code, 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, 2010, of the financial condition and corporate affairs of:

UNITED AUTOMOBILE INSURANCE COMPANY
1313 NORTH WEST 167th STREET
MIAMI GARDENS, FLORIDA 33169

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, 2010. 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 July 26, 2011, to July 29, 2011. The fieldwork commenced on August 1, 2011, and concluded as of January 6, 2012.

This financial examination was a multi-state 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.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

This report of examination is confined to significant adverse findings, a material change in the financial statements or other information of regulatory significance or requiring regulatory action. The report comments on matters that involved departures from laws, regulations or rules, or which were deemed to require special explanation or description.

SUMMARY OF SIGNIFICANT FINDINGS

Current Exam Findings

The following is a summary of material adverse findings, significant non-compliance findings, or material changes in the financial statements noted during this examination.

Custodial Agreement

The Company had custodial agreements with AmalgaTrust Company, Inc. and Associated Trust Company (Custodians). The agreements provided for the Custodians to hold the Company's invested assets in a custodial capacity and outlined the responsibilities of each party. There were two clauses missing from both of the agreements as required by Rule 69O-143.042 (j) (o), Florida Administrative Code.

Losses and Loss Adjustment Expenses

The reserve for losses was deficient by $24.845 million and the reserve for loss adjustment expenses was redundant by $6.378 million. This resulted in a net deficiency of $18.467 million. This is a repeat of the 2005 exam report finding.

Prior Exam Findings

The following is a summary of the significant adverse findings contained in the Office's prior examination report as of December 31, 2005, along with resulting action taken by the Company in connection therewith.

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.

Resolution: The Company was in compliance with Sections 717.102 and 717.117, Florida Statutes.

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.

Resolution: Effective with the Company's 2008 Annual Report, Agents' Balances were properly reported.

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.

Resolution: Effective with the Company's 2008 Annual Report, the increases to Loss and Loss Adjustment Expense reserves ensured that Federal Income Taxes were properly calculated.

Net Deferred Taxes

An adjustment of $517,902 was required for Net deferred taxes to decrease the asset.

Resolution: Effective with the Company's 2008 Annual Report, the increases to Loss and Loss Adjustment Expense reserves ensured that Net Deferred Taxes were handled correctly.

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.

Resolution: Effective with the Company's 2008 Annual Report, the increases to Loss and Loss Adjustment Expense reserves ensured that Taxes, Licenses and Fees were treated properly.

Remittances and Items Not Allocated

The Company improperly netted $200,145 against amounts due from Georgia agents.

Resolution: Effective with the Company's 2008 Annual Report, Remittances and Items not Allocated were handled properly.

Aggregate Write-ins for Liabilities

An operating lease was improperly recorded as a capital lease on a statutory basis.

Resolution: Effective with the Company's 2008 Annual Report, Aggregate Write-Ins for Liabilities (Operating Leases) were properly reported.

Receivables from Parent, Subsidiaries and Affiliates

The Company did not charge Argus Fire & Casualty Insurance Company, its wholly owned subsidiary, for services rendered.

Resolution: Review of the Expense Allocation Agreements effective, January 1, 2009, between the Company and other affiliated companies revealed that the Company provided management services to the affiliates and allocated that expense to those affiliates on a SAP and GAAP basis. Quarterly, the Company submitted statements to the affiliated companies for amounts owed the Company. Such amounts were to be paid to the Company within 30 days.

Losses and loss adjustment expenses

Limited scope examinations of the Company were conducted as of June 30, 2007 and December 31, 2008 to review loss and loss adjustment expense reserves. Due to a variety of changing factors which directly impact loss and loss adjustment reserves, the reasonability of the reserves were difficult to ascertain. Based on these relevant issues, the limited scope examination as of December 31, 2008 recommended that the Company provide quarterly financial statements that reflect an ongoing management of reserves as well as data on loss and defense cost containment payments, open claims, claims closed, net and gross of reopened claims. The opining actuary thought it essential that Office monitor the reserve run off of both the PIP and non PIP reserves on a quarterly basis so as to be able to take appropriate and timely action, should the reserve situation become more adverse. **The loss reserves issue remained unresolved as of December 31, 2010. ***

SUBSEQUENT EVENTS

In a Consent Order, dated May 31, 2011, the Office approved the Company providing reinsurance to its wholly-owned subsidiary, Argus. Under the same Consent Order, the Allied Lines, Fire and Homeowners Multi Peril lines of business were added to the Company's Certificate of Authority solely for the limited purpose and time frame of the above referenced reinsurance agreement.

HISTORY

General

The Company was incorporated in Florida on March 2, 1989, and commenced business on July 1, 1990. The Company was a stock insurer with 100% of its outstanding stock owned by United Automobile Insurance Group (UAIG). The Company wrote primarily private passenger non-standard auto liability.

The Company was authorized to transact the following insurance coverage in Florida on December 31, 2010:

Private passenger auto liability
Private passenger auto physical damage
Commercial automobile liability
Commercial auto physical damage

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

Dividends to Stockholders

The Company did not declare or pay any dividends to its stockholder during the period under examination.

Capital Stock and Capital Contributions

As of December 31, 2010, 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, UAIG, which owned 100% of the stock issued by the Company. UAIG was owned by six individuals, five of whom were in the Parrillo family.

The parent contributed $36.5 million in cash to the Company during the period under examination.

Surplus Debentures

The Company did not have any surplus debentures during the period of this examination.

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

The Company had no acquisitions, mergers, disposals or purchase or sales through reinsurance during the period under examination.

CORPORATE RECORDS

The recorded minutes of the shareholder and Board of Directors (Board) were reviewed for the period under examination. The Board did not appoint any Committees. It did authorize the Audit Committee and the Investment Committee of its parent, UAIG, to perform those functions for the Company. The Board authorized the investments made by the Investment Committee of UAIG on behalf of the Company

Conflict of Interest

There were signed conflict of interest statements from certain members of management.

MANAGEMENT AND CONTROL

Management

The annual shareholder meeting for the election of directors was held in accordance with Section 628.231, Florida Statutes. Directors serving as of December 31, 2010, with subsequent changes, were:

Directors

Name and Location	Principal Occupation
Michael Robert Parrillo (resigned May 2011) Oak Brook, Illinois	President of the Company (resigned May 2011)
Richard Peter Parrillo Sr. Golden Beach, Florida	Chairman of the Board of the Company (President of Company, effective June 2011)
Beau William Parrillo Hallandale, Florida	Executive Vice President of the Company

Jack Ramirez Loch Lloyd, Missouri	Retired/Former President of PCI
Patrick Aloysius McCarthy Oak Brook, Illinois	Insurance Broker
John Spatuzza Chicago, Illinois	Attorney-at-Law
Barbara McCarthy Jacksonville, Florida	Employee of the Company

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

Senior Officers

Name	**Title**
Michael Robert Parrillo (a)	President
Paul Polachek	Treasurer
Paul Susz	Secretary
Beau William Parrillo	Executive Vice President
Juan Ferrer	Senior Vice President
George Tarsitano	Senior Vice President
Sandra Covolo	Senior Vice President
Terry Bone	Vice President
Carl Bickell	Vice President

(a) Effective May 31, 2011, Michael R. Parrillo resigned as President of the Company and resigned from the Board and from the Board of Directors of the Company's parent. He was replaced as President of the Company by his father and the Chairman of the Board, Richard Parrillo, Sr. on June 1, 2011.

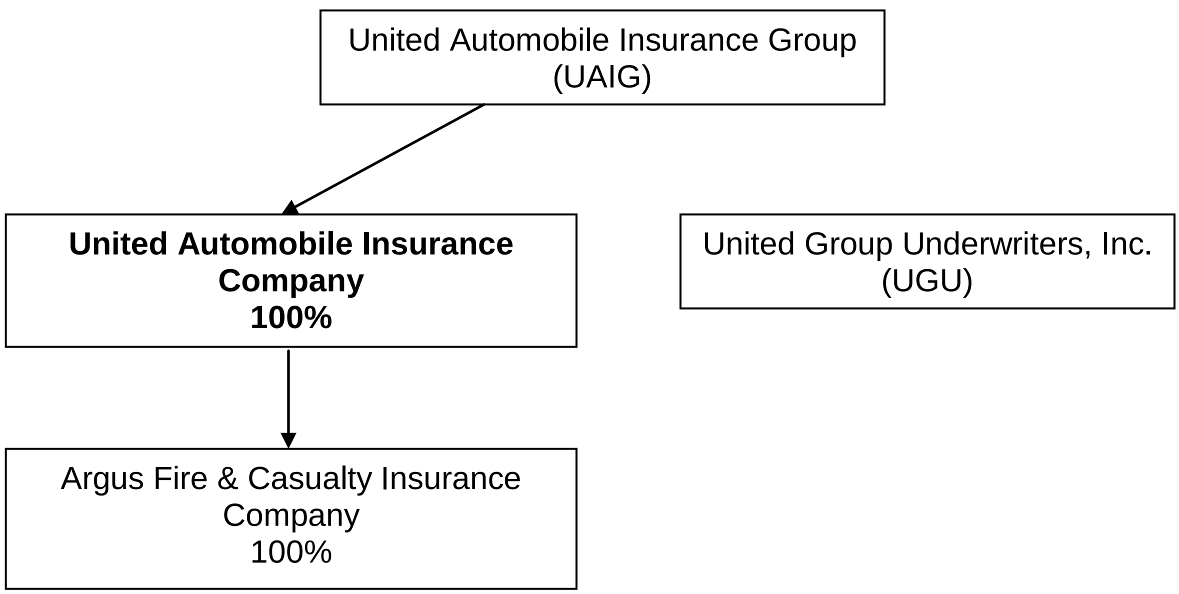
Affiliated Companies

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 25, 2011, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

A simplified organizational chart as of December 31, 2010, reflecting the holding company system, is shown below. Schedule Y of the Company's 2010 annual statement provided a list of all related companies of the holding company group.

UNITED AUTOMOBILE INSURANCE COMPANY
ORGANIZATIONAL CHART

DECEMBER 31, 2010



UAIG was owned by six individuals, five of whom were in the Parrillo family.

UGU, which is the MGA, was owned by seven individuals, four of whom were in the Parrillo family.

At December 31, 2010, the following agreements were in effect between the Company and its affiliates:

Tax Allocation Agreement

There was an Income Tax Allocation Agreement, effective January 1, 2006, between the Company and its subsidiary, Argus. The Company and Argus filed a consolidated tax return. The Company paid the amount of tax due and then determined the amount due to or from Argus. Allocation of the tax liability was to be based on U.S. Treasury Department Regulations.

Expense Allocation Agreement

Effective January 1, 2009, there was an Expense Allocation Agreement between the Company and other affiliated companies. The Company provided management services to the affiliates and allocated that expense to those affiliates on a SAP and GAAP basis. An addendum to the agreement stated that operating expenses were allocated based on the total assets of the companies involved. Quarterly, the Company submitted statements to the affiliated companies for amounts owed the Company. Such amounts were to be paid to the Company within 30 days.

Managing General Agent Agreement

At December 31, 2010, there was a Managing General Agency Agreement with United Group Underwriters, Inc. (UGU), effective October 21, 2010. UGU was appointed to supervise and manage private passenger and commercial automobile policies produced by brokering agents. UGU was to ensure that all policies were in compliance with the Company's underwriting guidelines. Funds collected by UGU for the account of the Company were held in a bank in a fiduciary capacity. At least monthly, reports from UGU made to the Company detailed all transactions. Commissions paid monthly to UGU were 20% to 24%, depending on the state and 3% for IT services. UGU retained any policy fees, not to exceed $25 per policy, as additional compensation. UGU negotiated reinsurance on behalf of the Company.

FIDELITY BOND

The Company maintained fidelity bond coverage up to $1,500,000 with a deductible of $50,000, which reached the suggested minimum as recommended by the NAIC.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company administered a 401(k) retirement plan for its employees, who were eligible to participate in the plan if they were older than 21 and completed one year of service. The Company provided a non-qualified supplemental executive retirement plan for certain selected "key employees." This plan was comprised of a discretionary Company distribution and a voluntary employee deferral of compensation.

TERRITORY AND PLAN OF OPERATIONS

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

Arizona	Kansas	Nevada
Arkansas	Kentucky	Oklahoma
Florida	Louisiana	Pennsylvania
Georgia	Mississippi	South Carolina
Illinois	Nebraska	Utah
Indiana		

Business originated with independent agents, most of which flowed through the Company's affiliated managing general agent, UGU.

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.

COMPANY GROWTH

The Company experienced underwriting losses in all five years under examination. Until recently, the Company pursued a vigorous defense of what it believed to be fraudulent claims by denying the claims and taking on many lawsuits resulting in large legal expenses. Going forward, the Company is managing claims so as to avoid lawsuits and thereby reduce its exposure to fee awards and also to minimize its use of outside counsel.

During the five year period under examination, net premiums written peaked in 2008 at $338.5 million. They decreased in 2009 to $211.5 million but rose in 2010 to $239.0 million. Reported net income during this period fluctuated between a loss of $35.4 million in 2008 and a gain of $26.7 million in 2009. The ratio of net premiums written to policyholders' surplus for the years 2006 to 2010 were 3.85 to 1, 3.74 to 1, 7.62 to 1, 3.0 to 1 and 3.28 to 1, respectively using the multiplier per Section 624.4095, Florida Statutes. The ratios for 2006 and 2008 were considered "unusual" by standards set by the NAIC.

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.

	2010	2009	2008	2007	2006
Premiums Earned	224,519,550	253,313,843	325,185,621	315,716,116	328,337,362
Net Underwriting Gain/(Loss)	(17,384,873)	(4,394,521)	(55,261,108)	(52,833,799)	(40,119,034)
Net Income	6,071,599	26,738,473	(35,438,670)	(13,108,197)	(25,371,967)
Total Assets	411,110,744	435,158,448	503,787,241	537,823,382	570,095,802
Total Liabilities	320,119,849	346,995,049	448,239,879	437,620,229	467,016,034
Surplus As Regards Policyholders	90,990,896	88,163,400	55,547,362	100,203,153	103,079,768

LOSS EXPERIENCE

The Company's June 30, 2011 quarterly statement indicated a six months loss and loss adjustment expense reserve deficiency of the December 31, 2010 reserves of $13.3 million. The September 30, 2011 quarterly statement indicated that reserve deficiency to be $19.5 million or 21.4% of the December 31, 2010 policyholders' surplus. As noted under the Comments on Financial Statements section of this Report, the Office consulting actuaries found the Company's December 31, 2010 reserves to be deficient. The Company does not agree that there is a reserve deficiency.

The ratios of losses and loss adjustment expenses incurred to premiums earned for 2010 and 2009, as reported by the Company, were 67.8 and 71.4, respectively.

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

Effective April 1, 2010, the Company entered into an assumed agreement with Old American County Mutual Fire Insurance Company (reinsured). Under the agreement, the reinsured ceded and the Company accepted 100% of all business written by the reinsured through the Company's affiliated managing general agent, UGU. The business written was private passenger auto and included BI, PD, Uninsured, PIP and Medical payments. All business written was in Texas. The reinsured was fronting for the Company's Texas auto business.

The assumed premiums in 2010 were $120.1 million. At December 31, 2010, the amounts payable by the Company for assumed unpaid losses and loss adjustment expenses were $38.7 million.

Ceded

Effective April 1, 2010, the Company entered into a 50% ceded quota share contract with various reinsurers. The subject business was Florida and Texas non-standard automobile policies, including the assumed business described above. If subject premium exceeded a specified cap, the 50% quota share may be reduced accordingly. Auto Physical Damage losses have a 50% of $500,000 coverage cap for any one catastrophe occurrence. There were are loss ratio caps of 125% for Personal Injury Protection loss-only coverage and 8% for all loss adjustment expenses.

The Company retained losses in the 8-point loss ratio corridor between 57% and 64% and above 100%, which roughly caps the ceded loss-only ratio at 92% (equals the 100% limit minus the 8% corridor).

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 Miami Gardens, Florida.

An independent CPA audited the Company's statutory basis financial statements annually for the years 2006, 2007, 2008, 2009 and 2010, 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.

The Company and non-affiliates had the following agreements:

Custodial Agreement

The Company had custodial agreements, with AmalgaTrust Company, Inc. and Associated Trust Company. The agreements provided for those two custodians to hold the Company's invested assets in a custodial capacity and outlined the responsibilities of each party.

There were two clauses missing from the agreements as required by Rule 69O-143.042, Florida Administrative Code:

(j) A national bank, state bank or trust company shall secure and maintain insurance protection in an adequate amount covering the bank's or trust company's duties and activities as custodian for the insurer's assets, and shall state in the custody agreement that protection is in compliance with the requirements of the custodian's banking regulator. A broker/dealer shall secure and maintain insurance protection for each insurance company's custodied securities in excess of that provided by the Securities Investor Protection Corporation in an amount equal to or greater than the market value of each respective insurance company's custodied securities.

(o) The custodian shall provide written notification to the Office if the custodial agreement with the insurer has been terminated or if 100% of the account assets in any one custody account have been withdrawn. This notification shall be remitted to the Office within three (3) business days of the receipt by the custodian of the insurer's written notice of termination or within three (3) business days of the withdrawal of 100% of the account assets.

Independent Auditor Agreement

The Company contracted with an external independent CPA firm to perform the annual audit of its financial statements as required by Rule 69O-137.002 (7) (c), Florida Administrative Code.

Independent Actuary Agreement

The Company contracted with an external actuarial firm to perform various actuarial services that included a statement of actuarial opinion, an actuarial opinion summary and a final report.

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.

STATUTORY DEPOSITS

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

STATE	Description	Par Value	Market Value
FL	US Treasury Note, 2%, 5/31/2014	$1,025,000	$1,059,132
FL	US Treasury Note, 2%, 5/31/2014	1,000,000	1,033,300
TOTAL FLORIDA DEPOSITS		$2,025,000	$2,092,432
GA	MM Account	$35,000	$35,000
LA	Certificate of Deposit	25,000	25,000
OK	Pre-refunded UTGO, 4%, 4/1/2011	300,000	302,685
SC	US Treasury Note, 3.125%, 9/30/13	125,000	132,607
TOTAL OTHER DEPOSITS		$485,000	$495,292
TOTAL SPECIAL DEPOSITS		$2,510,000	$2,587,725

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2010, 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, 2010

	Per Company	Examination Adjustments	Per Examination
Bonds	$128,240,092		$128,240,092
Stocks:			
Preferred	650,325		650,325
Common	5,862,127	(1,815,976)	4,046,151
Mortgage loans on real estate	112,797		112,797
Real estate:			
Properties occupied by Company	31,407,201		31,407,201
Properties held for sale	4,473,396		4,473,396
Cash	105,457,629		105,457,629
Other invested assets	646,236		646,236
Investment income due and accrued	1,098,868		1,098,868
Premiums and considerations:			
Uncollected premium	40,338,920		40,338,920
Deferred premium	81,322,040		81,322,040
Current federal and foreign income tax recoverable	708,195		708,195
Net deferred tax asset	7,962,617		7,962,617
Receivables from parent, subsidiaries and affiliates	818,230		818,230
Aggregate write-ins for other than invested assets	2,012,072		2,012,072
Totals	$411,110,745	($1,815,976)	$409,294,769

UNITED AUTOMOBILE INSURANCE COMPANY
Liabilities, Surplus and Other Funds

DECEMBER 31, 2010

	Per Company	Examination Adjustments	Per Examination
Losses	$107,783,104	$24,845,000	$132,628,104
Loss adjustment expenses	45,102,218	(6,378,000)	38,724,218
Commissions payable	(331,540)		(331,540)
Other expenses	4,775,301		4,775,301
Taxes, licenses and fees	1,408,563		1,408,563
Unearned premiums	77,334,900		77,334,900
Advance premium	654,747		654,747
Funds held by Company under reinsurance treaties	65,207,827		65,207,827
Amounts withheld or retained by Company for account of others	2,046,935		2,046,935
Drafts outstanding	15,004,084		15,004,084
Payable to parent, subsidiaries and affiliates	1,133,711		1,133,711
Total Liabilities	$320,119,849	$18,467,000	$338,586,849
Common capital stock	$2,750,000		$2,750,000
Gross paid in and contributed surplus	90,500,000		90,500,000
Unassigned funds (surplus)	(2,259,104)	($20,282,976)	(22,542,080)
Surplus as regards policyholders	$90,990,896	($20,282,976)	$70,707,920
Total liabilities, surplus and other funds	$411,110,745	($1,815,976)	$409,294,769

UNITED AUTOMOBILE INSURANCE COMPANY
Statement of Income

DECEMBER 31, 2010

Underwriting Income	
Premiums earned	$224,519,550
Deductions:	
Losses incurred	$98,452,575
Loss expenses incurred	53,667,947
Other underwriting expenses incurred	89,783,902
Aggregate write-ins for underwriting deductions	0
Total underwriting deductions	$241,904,424
Net underwriting gain or (loss)	($17,384,873)
Investment Income	
Net investment income earned	$7,525,260
Net realized capital gains or (losses)	1,588,802
Net investment gain or (loss)	$9,114,062
Other Income	
Net gain or (loss) from agents' or premium balances charged off	($2,309,463)
Finance and service charges not included in premiums	17,938,169
Aggregate write-ins for miscellaneous income	52,594
Total other income	$15,681,301
Net income before dividends to policyholders and before federal & foreign income taxes	$7,410,489
Dividends to policyholders	0
Net Income, after dividends to policyholders, but before federal & foreign income taxes	$7,410,489
Federal & foreign income taxes	1,338,890
Net Income	$6,071,599
Capital and Surplus Account	
Surplus as regards policyholders, December 31 prior year	$88,163,400
Net Income	$6,071,599
Change in net unrealized capital gains or losses	(4,217,586)
Change in net deferred income tax	1,543,203
Change in non-admitted assets	(569,720)
Examination Adjustment	(20,282,976)
Change in surplus as regards policyholders for the year	($17,455,480)
Surplus as regards policyholders, December 31 current year	$70,707,920

A comparative analysis of changes in surplus is shown below.

UNITED AUTOMOBILE INSURANCE COMPANY
Comparative Analysis of Changes in Surplus

DECEMBER 31, 2010

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, 2010, per Annual Statement				$90,990,896
	PER COMPANY	PER EXAM	INCREASE (DECREASE) IN SURPLUS	
ASSETS:				
Common stocks	$5,862,127	$4,046,151	($1,815,976)	
LIABILITIES:				
Losses	107,783,104	132,628,104	(24,845,000)	
Loss adjust exp	45,102,218	38,724,218	6,378,000	
Net Change in Surplus:				(20,282,976)
Surplus as Regards Policyholders December 31, 2010, Per Examination				$70,707,920

COMMENTS ON FINANCIAL STATEMENTS

Assets

Common Stocks $4,046,151

Audit adjustments in the value of Argus were made by the external auditors during their audit of Argus. However, the Company did not make those adjustments in its asset valuation of that subsidiary in the Company's 2010 annual statement. Those adjustments totaled $1,815,976 and have been shown as a reduction in the value of Argus in the financial statements of this report. **Subsequent Event**: In early 2011, the Company made adjustments in the value of Argus that the external auditors made in their audit report of Argus.

Liabilities

Losses and Loss Adjustment Expenses $171,352,322

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, 2010, made a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

The Office consulting actuaries, David J. Macesic, ACAS, MAAA, Chief Property/Casualty Actuary, Robert W. Gardner, FCAS, MAAA, and Eugene G. Thompson, ACAS, MAAA, of INS Consultants, Inc., reviewed the loss and loss adjustment expense work papers provided by the Company. The Office consulting actuaries presented an opinion that the reserves, as shown in the 2010 annual statement, were deficient by $18.467 million. Based on the opinion of the Office consulting actuaries, reserves for losses were deficient by $24.845 million and the reserves for loss adjustment expenses were redundant by $6.378 million. These resulted in a net deficiency of $18.467 million and corresponding accounts were adjusted accordingly.

INS Consultants, Inc. performed an independent analysis of the Company's book of business by category of business on a gross basis separately for loss, defense and cost containment (DCC) expenses. For adjusting and other (A&O) expense, an independent review was undertaken on an all lines basis. For the net basis, INS Consultants, Inc. applied the appropriate quota share percentages to our gross results by accident year, and then added back the amount attributable to the loss ratio corridor where applicable. INS Consultants, Inc. received the Company's 2010 Annual Statement and the 2010 Statement of Actuarial Opinion with the accompanying December 31, 2010 actuarial report from the independent actuary, along with the independent actuary's June 30, 2011 actuarial report and June 30, 2011 addendum.

Subsequent Event: According to the Office actuary, the Dee Dee Mays/Perr & Knight report on the June 30, 2011 loss and loss adjustment expense reserves of the Company, indicated a $15.3 million dollar deficiency (11% of the reserve carried by the Company) in the net loss and loss adjustment expense shown in the Company's June 30, 2011 quarterly financial statement. Dee Dee Mays/Perr & Knight performed an analysis of the impacts of various issues raised by the Company's management in support of the lower reserve on the Company's books which essentially suggested that the direct reserves (and then by implication, the net reserves) were adequate as long as the Company's assumptions about future changes in the claims environment and their processing capabilities are valid. On most of those issues, the Office did not have reason to disagree with the calculations at that time. However, during the review of those calculations by

Dee Dee Mays/Perr & Knight, it was identified that the variant of the “Wendy Johnson” methodology used by Dee Dee Mays/Perr & Knight, to estimate adjusting and other (AOE) reserves assumed an acceleration of AOE costs towards the beginning period of a claim’s lifetime. That assumption was not substantially supported, and reduced the Dee Dee Mays/Perr & Knight net loss and loss adjustment expense reserve indication by $9.5 million. Calculations performed by the Office implementing the standard Wendy Johnson method, with all of the other assumptions posted by the Company and Dee Dee Mays/Perr & Knight, indicated that the June 30, 2011 net loss and loss adjustment expense reserves were deficient by $11.7 million.

Capital and Surplus

The amount of Capital and Surplus reported by the Company of $90,990,896 was adjusted in this examination to the amount of $70,707,920, which exceeded the minimum of $29,608,280 required by Section 624.408, Florida Statutes.

SUMMARY OF RECOMMENDATIONS

Custodial Agreement

We recommend that the Company comply with the requirements of Rule 69O-143.042, Florida Administrative Code regarding its custodial agreements.

Losses and Loss Adjustment Expenses

We recommend that the Company adequately reserve for losses and loss adjustment expense reserves as required by Section 625.041(1) and Section 625.101, Florida Statutes. If a range is provided by the independent actuary, we recommend that the Company book its loss and loss adjustment expense reserves to at least the midpoint of that range.

CONCLUSION

The 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, 2010, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's surplus as regards policyholders was $70,707,920, which exceeded the minimum of $29,608,280 required by Section 624.408, Florida Statutes.

In addition to the undersigned, Patricia Casey Davis, CFE, CPA, CMA, CIA, Manager, and James Russo, CFE, CPCU, FLMI, CIE, CFSA, CFE (Fraud), Examiner In-Charge, of INS Regulatory Insurance Services, Inc., participated in the examination. David J. Macesic, ACAS, MAAA, Chief Property/Casualty Actuary, Robert W. Gardner, FCAS, MAAA, and Eugene G. Thompson, ACAS, MAAA, consulting actuaries of INS Consultants, Inc; together with Paul L. Berkebile, CISA, CFSA, CRISC, Senior Manager, Claude B. Granese, CPA, Director of Finance and Quality Control, and David Gordon, CISA, CFE (Fraud), CICA, CBA, MBA, Senior IT Examiner, of INS Services, Inc. also participated in the examination. Kethessa Carpenter, Financial examiner/Analyst Supervisor, and Sara Baylock, Financial Specialist, of the Office also participated in the examination.

Respectfully submitted,

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Mary M. James, CFE, CPM
Chief Examiner
Florida Office of Insurance Regulation