REPORT ON LIMITED SCOPE EXAMINATION

OF

UNITED PROPERTY & CASUALTY INSURANCE COMPANY

ST. PETERSBURG, FLORIDA

AS OF

DECEMBER 31, 2011

BY THE

FLORIDA OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida

August 10, 2012

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, Rule 69O-138.005, Florida Administrative Code, and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted a limited scope examination of the corporate governance, affiliated agreements, investments, underwriting, loss and loss adjustment expense (LAE) reserves, and reinsurance as of December 31, 2011, of:

UNITED PROPERTY & CASUALTY INSURANCE COMPANY
360 CENTRAL AVE., SUITE 900
ST. PETERSBURG, FLORIDA 33701

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

SCOPE OF EXAMINATION

This was a limited scope examination of United Property & Casualty Insurance Company (Company) to the extent and in the manner directed by the Florida Office of Insurance Regulation (Office). The Company was last examined by representatives of the Office as of December 31, 2009. To the extent applicable, the limited scope examination was conducted in accordance with the guidance of the National Association of Insurance Commissioners (NAIC) Financial Condition Examiner's Handbook, the NAIC Accounting Practices and Procedures Manual and the Florida Administrative Code. The limited scope examination differed in many respects from that of a full-scope examination or an audit performed in accordance with generally accepted auditing standards.

This examination covered the corporate governance, affiliated agreements, investments, underwriting, loss and loss adjustment expense (LAE) reserves, and reinsurance as of December 31, 2011.

The field work commenced on April 30, 2012 and concluded as of August 10, 2012. The limited scope examination included material events occurring subsequent to December 31, 2011, and noted during the course of the examination as they related to the foregoing areas within the limited scope of the examination.

HISTORY

General

The Company was a domestic, stock company which was incorporated in Florida on February 25, 1999, and commenced business on April 2, 1999. The Company was a member of a holding company system, the parent of which was United Insurance Holdings Corp. (UIHC), a publicly traded company. UIHC was formed by the merger of United Insurance Holding LLC (UIH) and FMG Acquisition Corp in 2008.

The Company was initially capitalized through the issuance of 1,000 shares of common stock to its parent, UIH in exchange for $6 million. In 2004, the Company issued a $4 million surplus note to UIH and additional $5 million and $3 million notes in 2005, in response to the Company's decreased surplus after paying significant losses from the 2004 and 2005 hurricane seasons. In September 2006, UIH contributed an additional $20 million in cash to the Company as matching funds in conjunction with the Company entering into an agreement with the Florida State Board of Administration (SBA). The Company issued a surplus note in the amount of $20,000,000 to the SBA. During 2007, the Company repaid the original $12 million in surplus notes to UIH. As of December 31, 2011, the balance of surplus notes was $17,058,823.

As of December 31, 2011, the Company was authorized to transact the following types of insurance coverage in Florida:

Homeowners Multi Peril	Fire
Commercial Multi Peril	Commercial Auto Physical Damage
Inland Marine	Commercial Auto Liability
Allied Lines	Other Liability
Burglary and Theft	

On July 1, 2010, the Company began writing policies in South Carolina. On November 1, 2011 and March 1, 2012, the Company began writing policies in Massachusetts and Rhode Island, respectively.

CORPORATE GOVERNANCE

Examination procedures were conducted that included inquiry and interviews of selected senior management and review of the corporate minutes. The Company had a Board of Directors (Board) that consisted of six (6) members, five (5) of which were independent of Company management. The Board and its appointed committees consisted of individuals with experience in the insurance and/or financial services industry. The Board established committees for the review and/or approval of select processes and transactions.

Directors serving as of December 31, 2011, were:

Name and Location	Principal Occupation
Gregory C. Branch Ocala, Florida	Chairman and Owner Branch Properties, Inc.
Larry G. Swets, Jr. (a) Elk Grove, IL	Managing Member FMG Investors, LLC
Kent G. Whittemore St. Petersburg, Florida	President The Whittemore Law Group, P.A.
Gordon G. Pratt (a) Farmington, CT	Managing Member FMG Investors, LLC
Alec L. Poitevint II Jacksonville, Florida	Chairman and President Southeastern Minerals, Inc.
Donald J. Cronin (b) St. Petersburg, FL	President and Chief Executive Officer United Property & Casualty Insurance Company

(a) Larry G. Swets, Jr. and Gordon G. Pratt resigned from the Board on April 5, 2012. The vacancies were filled by William H. Hood, III, sole member of Hall Capital Holdings LLC and Kern M. Davis, President of Pathology Associates Group.

(b) Donald J. Cronin retired effective May 1, 2012. The vacancy was filled by John L. Forney, newly appointed CEO of the Company on June 24, 2012

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

Name	**Title**
Donald J. Cronin (a)	President & CEO
Melvin A. Russel Jr.	Sr. Vice President & Secretary
Hassan R. Baqar (b)	Treasurer & CFO

(a) Donald J. Cronin retired effective May 1, 2012. His position as President was filled by Melvin A. Russell on May 1, 2012 and his position as CEO was filled by John L. Forney on June 24, 2012.

(b) Hassan R. Baqar resigned as Treasurer and CFO on April 2, 2012. John Rohloff, SEC Reporting Manager was subsequently appointed Treasurer and Interim CFO.

The Board appointed five (5) committees. Following were the Board committees and their members as of December 31, 2011:

Audit Committee
Alec L. Poitevint, II [1]
Kent G. Whittemore
Kern M. Davis

Investment Committee
Alec L. Poitevint, II [1]
Gregory C. Branch
Kern M. Davis

Compensation
Kent G. Whittemore [1]
Gregory C. Branch
Alec L. Poitevint, II
William H. Hood, III

Reinsurance
Gregory C. Branch [1]
Alec L. Poitevint, II
William H. Hood, III

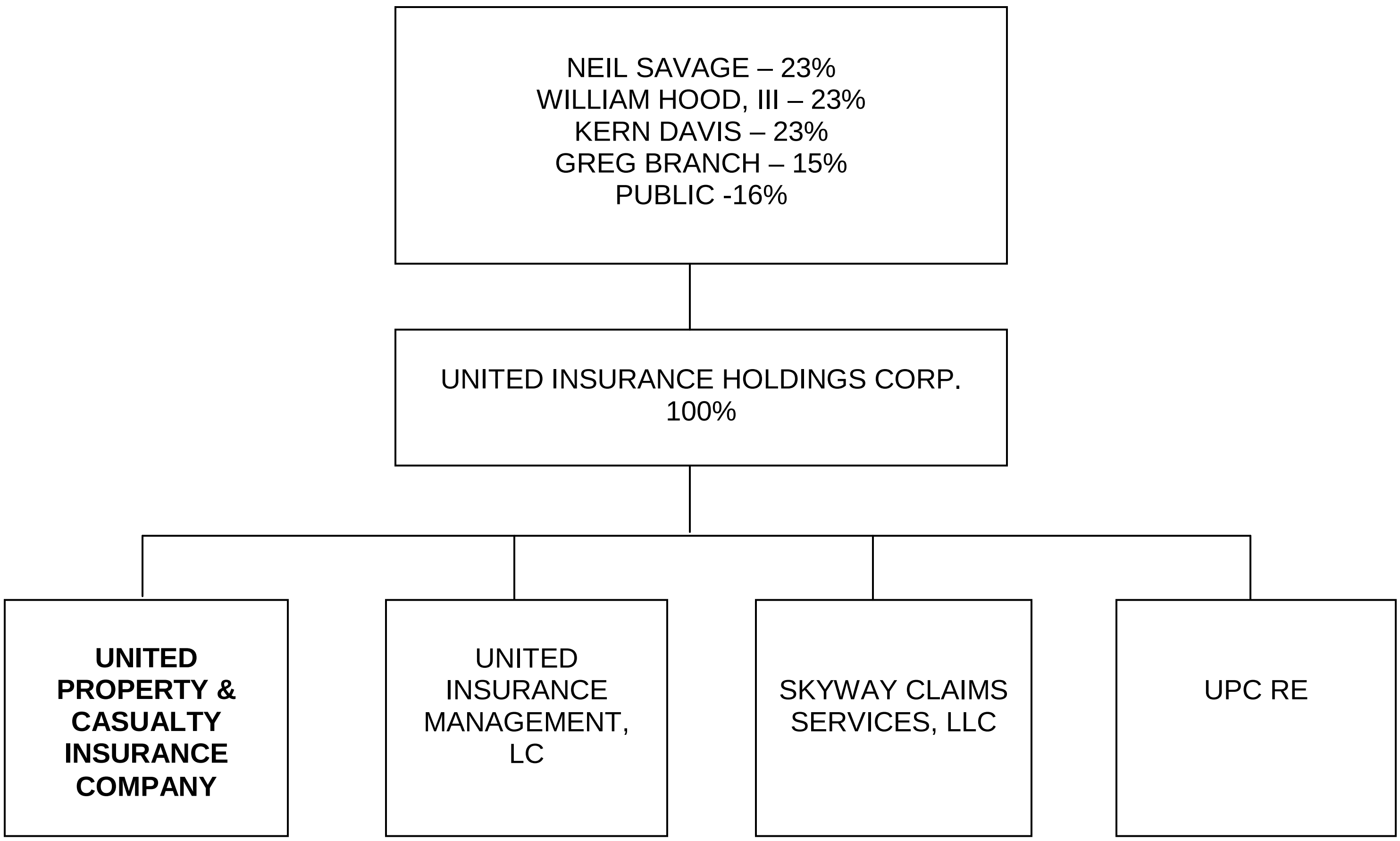
Nominating
Kent G. Whittemore [1]
Gregory C. Branch
Kern M. Davis
William H. Hood, III

[1] Chairman

A simplified organizational chart as of December 31, 2011, reflecting the holding company system, is shown on the following page. Schedule Y of the Company's 2011 annual statement provided a list of all related companies of the holding company group.

UNITED PROPERTY & CASUALTY INSURANCE COMPANY
ORGANIZATIONAL CHART

December 31, 2011



AFFILIATED AGREEMENTS

Procedures were performed to identify and ensure that all related parties, as defined by SSAP No. 25, paragraphs 2 through 5, were properly disclosed and reported. Based on those procedures, the following related parties and associated agreements were found to be in place at December 31, 2011:

Managing General Agent Agreement

The Company had a Managing General Agent Agreement with affiliate, United Insurance Management, LLC (UIM), dated March 12, 1999, as amended on December 30, 2002 and on September 11, 2006. Under the agreement, UIM administered 100% of the policies written by the Company and provided services for managing and administering the affairs of the Company, including claims and reinsurance. Services included, but were not limited to marketing, general ledger accounting, information services, product and underwriting development and management. Payment for services amounted to 31.5% of earned premiums and a $25 per policy fee.

Tax Allocation Agreement

Effective October 1, 2008, a tax allocation agreement was executed between the Company's parent, United Insurance Holdings Corporation (UIHC) and its affiliated companies. Pursuant to the agreement, the income taxes were allocated to each subsidiary in proportion to the amount of taxable income that each subsidiary contributed to the consolidated taxable income.

Claims Services Agreement

Effective June 1, 2011, a claims services agreement was executed between the Company and affiliate, Skyway Claims Services, LLC (Skyway). Pursuant to the agreement, Skyway performed certain claims adjustment services for the Company. This agreement replaced an agreement that had been in place since 2004. Payments under this agreement totaled $593,000 during 2011.

Excess of Loss Reinsurance Agreement
Reinstatement Premium Protection Reinsurance Agreement

The Company entered into an excess of loss reinsurance agreement with affiliate UPC Re effective June 1, 2011. Pursuant to the agreement, UPC Re was liable for each and every loss occurrence over and above an initial ultimate net loss of $10 million, subject to a limit of liability to UPC Re of $5 million for each and every loss occurrence. The Company also entered into a reinstatement premium protection reinsurance agreement with UPC Re effective June 1, 2011. Pursuant to the agreement, UPC Re agreed to indemnify the Company for 30% of any net reinstatement premium which the Company pays or becomes liable to pay. UPC Re was formed as a captive reinsurer by UIHC in 2011.

The aforementioned agreements were properly submitted to the Office for approval per Rule 69O-143.047, Florida Administrative Code.

There were no exceptions or findings as of December 31, 2011, related to affiliated agreements.

INVESTMENTS

Bonds and Common Stocks

At December 31, 2011, all bonds held by the Company had NAIC designations of 1 or 2. Bonds were carried at their amortized cost using the interest method. Amortization of the discount or premium on the bonds was tested to determine the appropriateness of the amortization method utilized. Redeemable preferred stock with NAIC rating designations of 1 or 2 were recorded at amortized cost and perpetual preferred stock with NAIC rating designations of 1 or 2 were recorded at fair value. All other redeemable and perpetual preferred stocks were recorded at the lower of amortized cost or fair value. Common stocks were held at fair value. An independent evaluation of the fair value of preferred and common stock was utilized to determine the reasonableness of the reported values.

Direct confirmation of all securities as of the examination date was obtained from custodians as well as applicable state insurance departments' security deposit divisions. Confirmed securities listings (e.g., description, par value, number of shares, cost) were compared with applicable Schedule D parts. In addition to the securities listing provided, the custodians verified how securities were registered (e.g., company name, company's nominee name or custodian's nominee name) and whether securities deposited were subject to any liens, claims or held as collateral for any loans made to an officer, director or employee of the Company.

Cash and Short Term Investments

Direct confirmation of all reported cash and short term investment balances as of the examination date was obtained from the applicable depository. Bank reconciliations obtained from the Company were utilized to identify reconciling items. Bank statements subsequent to the examination date were obtained and reviewed to ensure proper inclusion of withdrawals. In addition to the confirmed balance, the depository verified that the amounts held were free and clear of any hypothecation, pledges, liens or guarantees.

Other Invested Assets

On March 31, 2011, the Company purchased a 49% non-controlling limited partnership interest in Acadia Acquisition Partners, L.P, (Acadia), the parent company of Hamilton Risk Management Company (HRM). HRM was the parent company of Kingsway Amigo Insurance Company in Miami, Florida. In exchange for this interest, a promissory note (Note) in the amount of $2,250,000 was purchased by the Company. Among other benefits, the limited partnership interest provided the Company with an exclusive "right of first refusal" in the event that Acadia desires to sell HRM. This Note, which matures in March of 2014, was reported on Schedule BA of the 2011 Annual Statement.

Subsequent Event: Due to concerns raised by the Office regarding the valuation of the asset, the Company sold the Note to its affiliated managing general agent, United Insurance Management, LC as of January 1, 2012. Due to the sale of this Note subsequent to year end, the Company asked and received permission from the Office to carry the Note as an admitted asset as of December 31, 2011. In exchange for the Note, the Company received cash on February 24, 2012 in the amount of $2,017,673, the carrying value of the Note as of December 31, 2011, on February 24, 2012.

UNDERWRITING

The following table shows underwriting results (in dollars) of the Company for the past three years of operations, as reported in the filed annual statements.

	2011	2010	2009
Gross Premiums Written	206,261,120	160,631,652	158,268,556
Net Premiums Written	102,676,254	70,256,560	63,312,118
Net Underwriting Loss	(7,585,753)	(15,846,409)	(17,386,017)

The Company's 2011 gross written premium of $206,261,120, mostly direct business, consisted of $180,693,634 homeowners direct, $4,199,707 homeowners assumed, $20,828,250 dwelling/earthquake/inland, and $539,529 other liability occurrence. Although there was no 2011 premium in the commercial multiple peril line, there were reserves from a garage liability program that was sold in 2009.

The Company wrote approximately 22,250 more policies during 2011 than 2010. Though a small portion of the increase was due to an assumption of policies from Citizens Property Insurance Corporation, the remainder of the increase in policies written resulted from an increase in writings in less risk-prone areas of Florida, as well as from writing for a full year in South Carolina during 2011 versus only six months during 2010. An increase in policyholder retention to 90% from 85% also contributed to the increase.

A sample of in-force policy data was tested for accuracy and completeness by the external auditor.

The data was tested to verify and validate individual determinants, such as effective date; term and expiration date of the coverage; contract or identification number; premium amount; and negative amounts. Reliance was placed on the work performed by the external auditor.

There were no exceptions or findings as of December 31, 2011, related to underwriting.

LOSS AND LAE RESERVES

The Board appointed and the Company contracted with Daniel David Schlemmer, ACAS, MAAA, of 1347 Advisors, LLC, a direct subsidiary of Kingsway Financial Services, Inc., who rendered an opinion that the loss and loss adjustment expense reserves carried in the balance sheet as of December 31, 2011, made a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements. Included in the report were appropriate comments concerning the existence of significant risks and uncertainties that may expose the Company's ultimate payments to material adverse deviation relative to carried reserves at December 31, 2011. The major risks identified were sinkhole claims, Chinese drywall, and Hurricane Wilma. Sinkhole claims received a separate actuarial analysis because of different development patterns, as compared with other claims. Chinese drywall was a general industry problem, to which the Company did not believe it was greatly exposed under the types of policies it wrote. The Company's Hurricane Wilma ceded reinsurance liability was required to be commuted in 2011 with the Florida Hurricane Catastrophe Fund, which could lead to future net exposure for the Company.

The Office engaged an independent actuarial firm, INS Consultants, Inc. (INS), to review the loss and loss adjustment expense reserves carried in the Company's balance sheet as of December 31, 2011. INS reviewed the opining actuary's work papers that reconciled the data triangles used in INS' analysis to Schedule P, and INS found the reconciliations to be satisfactory. INS found that the data used in the opining actuary's report and the data used by INS in its analysis were complete, with no material changes to the data between financial systems and reserving systems. INS also found that the recording of the liabilities on the financial statements were reasonably complete with no material misstatements. INS had no material concerns with the opining actuary's reserving assumptions, methodology, or calculations. INS also found that the opining actuary's actuarial reports generally contained sufficient documentation for another actuary practicing in the field to evaluate the work.

There were no exceptions or findings as of December 31, 2011, related to loss and LAE reserves.

REINSURANCE

The Company, as cedant, was party to several reinsurance contracts with both affiliated and unaffiliated reinsurers. The Company had per-risk excess of loss reinsurance ceded protection for property and casualty exposures, with the retention and limit dependent on the accident year. The Company had property per-occurrence catastrophe excess of loss reinsurance ceded protection, with the retention and limit dependent on the accident year. The Company had quota share reinsurance ceded protection for its garage program, now in run-off. The Company also had an arrangement with the Federal Emergency Management Agency (FEMA) that enabled the Company to write flood policies that were 100% ceded back to FEMA.

The Company entered into a policy assumption agreement with Citizens Property Insurance Corporation (Citizens). In conjunction with the agreement, the Company agreed to a Consent

Order 114521-11 from the Office to assume as many as 10,000 policies from Citizens. The Company assumed approximately 5,900 policies on March 8, 2011.

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. The work performed by the external auditor was relied upon to assess the contracts for proper risk transfer in accordance with SSAP No. 62, paragraphs 9-16.

Financial information was obtained and reviewed for reinsurers to whom significant business was ceded, including affiliated reinsurer, UPC Re. Sources of information included financial reports and insurance industry reporting and rating services.

Procedures were performed to address the completeness and accuracy of the ceded reinsurance premium payable balance of $18,748,452 reported by the Company as of December 31, 2011. Work performed by the external auditors was obtained and reviewed to ensure premiums remitted and losses and LAE payments billed as part of the reinsurance agreements were accurately recorded and reported.

There were no exceptions or findings as of December 31, 2011, related to reinsurance.

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2011, 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 PROPERTY & CASUALTY INSURANCE COMPANY
Assets

December 31, 2011

	Per Company	Examination Adjustments	Per Examination
Bonds	$92,043,341		$92,043,341
Preferred stocks	1,000,249		1,000,249
Common stocks	3,122,615		3,122,615
Cash and short term investments	47,497,362		47,497,362
Other invested assets	2,225,474		2,225,474
Subtotals, cash and invested assets	$145,889,041	$0	$145,889,041
Investment income due and accrued	$985,766		$985,766
Uncollected premiums and agents' balances	1,011,055		1,011,055
Deferred premiums, agents' balances and installments	10,187,033		10,187,033
Amounts recoverable from reinsurers	1,140,374		1,140,374
Net tax deferred asset	4,518,037		4,518,037
Receivables from parent, subs, and affiliates	1,136,431		1,136,431
Total Assets	$164,867,737	$0	$164,867,737

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

December 31, 2011

	Per Company	Examination Adjustments	Per Examination
Losses	$26,295,417		$26,295,417
Loss adjustment expenses	3,986,633		3,986,633
Other expenses	879,610		879,610
Taxes, licenses, and fees	2,460,677		2,460,677
Current federal and foreign income taxes	795,867		795,867
Unearned premium	56,460,068		56,460,068
Advance premiums	5,672,110		5,672,110
Ceded reinsurance premiums payable	18,748,452		18,748,452
Funds held by company under reinsurance treaties	524,490		524,490
Remittances and items not allocated	17,521		17,521
Provision for reinsurance	105,000		105,000
Aggregate write-ins for liabilities	733,914		733,914
Total Liabilities	$116,679,759	$0	$116,679,759
Aggregate write-ins for special surplus finds	$306,571		$306,571
Common capital stock	3,500,000		3,500,000
Surplus notes	17,058,823		17,058,823
Gross paid in and contributed surplus	33,165,000		33,165,000
Unassigned funds (surplus)	(5,842,416)		(5,842,416)
Surplus as regards policyholders	$48,187,978	$0	$48,187,978
Total liabilities, surplus and other funds	$164,867,737	$0	$164,867,737

UNITED PROPERTY & CASUALTY INSURANCE COMPANY

Statement of Income

December 31, 2011

Underwriting Income	
Premiums earned	$85,069,757
Deductions:	
Losses incurred	33,623,109
Loss adjustment expenses incurred	5,831,433
Other underwriting expenses incurred	53,200,969
Total underwriting deductions	$92,655,511
Net underwriting gain or (loss)	($7,585,754)
Investment Income	
Net investment income earned	$2,194,048
Net realized capital gains or (losses)	77,224
Net investment gain or (loss)	$2,271,272
Other Income	
Net gain or (loss) from agents' or premium balances charged off	($6,139)
Finance and service charges not included in premiums	352,430
Aggregate write-ins for miscellaneous income	57,506
Total other income	$403,797
Net income before dividends to policyholders, after capital gains tax and before all other federal & foreign income taxes	($4,910,684)
Net Income, after dividends to policyholders, after capital gains tax and before all other federal & foreign income taxes	($4,910,684)
Federal & foreign income taxes	(278,421)
Net Income	($4,632,263)
Capital and Surplus Account	
Surplus as regards policyholders, December 31 prior year	$48,494,974
Net Income	($4,632,263)
Change in net unrealized capital losses	($35,992)
Change in net deferred income tax	1,434,670
Change in nonadmitted assets	(287,939)
Change in provision for reinsurance	591,000
Change in surplus notes	(1,176,472)
Transferred from surplus (Stock Dividend)	2,000,000
Paid in	3,800,000
Transferred to capital (Stock Dividend)	(2,000,000)
Change in surplus as regards policyholders for the year	($306,996)
Surplus as regards policyholders, December 31 current year	$48,187,978

A comparative analysis of changes in surplus is shown below.

UNITED PROPERTY & CASUALTY INSURANCE COMPANY
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS

DECEMBER 31, 2011

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

	PER COMPANY	PER EXAM	INCREASE (DECREASE) IN SURPLUS	
Surplus as Regards Policyholders December 31, 2011, per Annual Statement				$48,187,978
ASSETS:				
No Adjustments				
LIABILITIES:				
No Adjustments				
Net Change in Surplus:				0
Surplus as Regards Policyholders December 31, 2011, Per Examination				$48,187,978

SUMMARY OF FINDINGS

Current Examination Comments and Corrective Action

There were no exceptions or findings in the limited scope examination as of December 31, 2011.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of the **United Property & Casualty Insurance Company** as of December 31, 2011, consistent with the insurance laws of the State of Florida.

Per the limited scope examination findings, the Company's surplus as regards policyholders was $48,187,978 which exceeded the minimum of $11,252,609 required by Section 624.408, Florida Statutes.

In addition to the undersigned, John V. Normile, CFE, Examiner-In-Charge and Patricia Casey Davis, CPA, CFE, Manager of INS Regulatory Insurance Services, Inc.; Eugene G. Thompson, ACAS, MAAA, and Robert W. Gardner, FCAS, MAAA, consulting actuaries of INS Consultants, Inc. participated in the examination.

Respectfully submitted,

____
Kethessa Carpenter, CPA
Financial Examiner/Analyst Supervisor
Florida Office of Insurance Regulation