

REPORT ON EXAMINATION
OF
AMERITRUST INSURANCE
CORPORATION
SARASOTA, FLORIDA

AS OF
DECEMBER 31, 2005

BY THE
OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida

March 30, 2007

Kevin M. McCarty
Commissioner
Office of Insurance Regulation
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, 2005, of the financial condition and corporate affairs of:

**AMERITRUST INSURANCE CORPORATION
6000 CATTLERIDGE DRIVE, SUITE 302
SARASOTA, FLORIDA 34232**

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, 2003 through December 31, 2005. This examination commenced, with planning at the Florida Office of Insurance Regulation (Office), on January 5, 2007 through January 12, 2007. The fieldwork commenced on January 16, 2007 and was concluded as of March 30, 2007. The examination included any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

This financial examination was 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.

In this examination, emphasis was directed to the quality, value and integrity of the statement assets and the determination of liabilities, as those balances affect the financial solvency of the Company.

The examination included a review of the corporate records and other selected records deemed pertinent to the Company's operations and practices. In addition, the NAIC IRIS ratio report, the A.M. Best Report, the Company's independent audit reports and certain work papers prepared by the Company's independent certified public accountant (CPA) were reviewed and utilized where applicable within the scope of this examination.

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

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

This report of examination is confined to financial statements and comments on matters that involve departures from laws, regulations or rules, or which are 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:

- Net Deferred Tax Asset
- Other Expenses
- Federal Income Tax Payable

Status of Adverse Findings from Prior Examination

The Company was last examined by representatives of the Office as of December 31, 2002. The following is a summary of adverse findings contained in the Office's prior examination report along with the resulting action taken by the Company.

The Company did not properly disclose the aggregate amount of direct premiums written through/produced by the Managing General Agent (MGA) as required by the NAIC's Annual

Statement Instructions. **Resolution:** The Company properly disclosed the aggregate amount of direct written premiums produced by the MGA on the 2005 Annual Statement.

The Company's reinsurance agreement did not specify that reports of premiums and losses be provided no less frequently than on a quarterly basis nor did the treaty specify that the agreement should constitute the entire contract between the parties. **Resolution:** The reinsurance agreement was replaced by a compliant inter-company reinsurance agreement as of January 1, 2005.

The Company admitted assets specifically identified in the NAIC Accounting Practices and Procedures Manual as non-admitted. **Resolution:** The Company correctly identified assets as admitted or non-admitted on its Annual Statement.

HISTORY

General

The Company was incorporated in Florida on April 18, 1996 and commenced business on June 1, 1996, as Ameritrust Insurance Corporation. The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code. The Company became a member of the Meadowbrook Insurance Group, Inc. (Meadowbrook) insurance holding company system on July 31, 1998, when Star Insurance Company (Star) purchased 100% of the outstanding stock of the Company's former parent, Southeastern Holding Corporation. Southeastern Holding Company was legally dissolved on December 12, 2002. Star was 100% owned by Meadowbrook.

The Company was authorized to transact the following insurance coverage in Florida on December 31, 2005:

| | |
|---------------------------------|---------------------------------|
| Workers' compensation | Fire |
| Allied lines | Commercial multi peril |
| Ocean marine | Inland marine |
| Medical malpractice | Other liability |
| Prepaid legal | Commercial automobile liability |
| Commercial auto physical damage | Fidelity |
| Surety | Glass |
| Burglary & Theft | Boiler & Machinery |
| Credit | Livestock |
| Accident & Health | |

The articles of incorporation and the bylaws were amended during the period covered by this examination. On November 4, 2005, the Company's Board of Directors unanimously agreed to consent to adoption of the resolution to provide the maximum of shares of capital stock that may be issued to be 30,000 shares of common stock having a par value of \$100 per share. The Company reclassified the capital of the Company to provide for the issuance of additional shares of common stock. Shares with a dollar value of \$2,999,900 of a \$3,000,000 contribution to capital received from the Company from its sole shareholder, Star, effective September 30, 2003, were reclassified as Paid In for Capital Stock. Furthermore, the Company issued 30,000 shares of common stock to its parent, Star, in exchange for the capital contribution. Star tendered its 100 shares of common stock back to the Company, in exchange for the 30,000 shares issued to Star.

Capital Stock

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

| | |
|--|-------------|
| Number of authorized common capital shares | 30,000 |
| Number of shares issued and outstanding | 30,000 |
| Total common capital stock | \$3,000,000 |
| Par value per share | \$100.00 |

Control of the Company was maintained by its parent, Star, who owned 100% of the stock issued by the Company, who in turn was 100% owned by Meadowbrook, a Michigan domiciled company.

Profitability of Company

The following table shows the profitability trend (in dollars) of the Company for the period of examination, as reported in the filed Annual Statements.

| | 2005 | 2004 | 2003 |
|----------------------------------|-------------|-------------|-------------|
| Premiums Earned | 26,995,712 | 15,064,542 | 19,507,323 |
| Net Underwriting Gain/(Loss) | 456,865 | (1,975) | (2,131,601) |
| Net Income | 538,876 | 4,474 | (862,691) |
| Total Assets | 61,629,515 | 43,809,853 | 40,176,632 |
| Total Liabilities | 47,231,361 | 30,809,343 | 27,123,483 |
| Surplus As Regards Policyholders | 14,398,154 | 13,000,510 | 13,053,149 |

Dividends to Stockholders

The Company did not declare or pay dividends to its stockholder in 2003, 2004 or 2005.

Management

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

Directors

Name and Location

Principal Occupation

Kenn R. Allen
Northville, MI

Director
Senior Vice President
Director, Star Insurance Company, Savers
Property and Casualty Insurance and
Williamsburg National Ins. Co.

Archie S. McIntyre
Shelby Township, MI

Director
Senior VP Business Development
Director, Star Insurance Company,
Savers Property and Casualty Insurance and
Williamsburg National Ins. Co.

Angelo L. Williams
Southfield, MI

Director
VP of Compliance
Director, Star Insurance Company, Savers
Property & Casualty Insurance and
Williamsburg National Ins. Co.

Robert S. Cubbin
Bloomfield Hills, MI

Chairman
President, CEO & COO
Director, Star Insurance Company, Savers
Property and Casualty Insurance &
Williamsburg National Ins. Co.

Merton J. Segal
Bloomfield Hills, MI

Director
President & Chairman of Meadowbrook
Insurance Group, Inc.
Director, Star Insurance Company, Savers
Property and Casualty Insurance and
Williamsburg National Ins. Co.

Steven C. Divine
Lee's Summit, MI

Director
VP and Controller
Director, Star Insurance Company,
Savers Property and Casualty Insurance and
Williamsburg National Ins. Co.

Karen M. Spaun
Farmington Hills, MI

Director
Senior VP & CFO
Senior VP & Chief Administrative Officer
Director of Investor Relations
Director, Star Insurance Company, Savers
Property and Casualty Insurance &
Williamsburg National Ins. Co.

Randolph W. Fort
Northville, MI

Director
Senior Vice President
VP & Director, Star Insurance Company,
Savers Property and Casualty
Insurance and
Williamsburg National Insurance Co.

Gregory L. Wilde
Troy, MI

Director
Executive VP & President Star Insurance
Company, Savers Property and Casualty
Insurance and Williamsburg National Ins. Co.

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

Senior Officers

| Name | Title |
|---------------------|--------------|
| Gregory L. Wilde | President |
| Karen M. Spaun | Treasurer |
| Michael G. Costello | Secretary |

The Company's holding company committees served on behalf of the Company's committees, including the audit committee, as required by Section 624.424(8), Florida Statutes.

Conflict of Interest Procedure

The Company adopted a policy statement requiring annual disclosure of conflicts of interest, in accordance with the Financial Condition Examiners Handbook. No exceptions were noted during this examination period.

Corporate Records

The recorded minutes of the shareholder, Board of Directors and certain internal committees were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions in accordance with

Section 607.1601, Florida Statutes, including the authorization of investments as required by Section 625.304, Florida Statutes.

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

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

Surplus Debentures

The Company had no surplus debentures.

The latest holding company registration statement was filed with the State of Florida on March 2, 2006, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

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

Tax Allocation Agreement

The Company, along with Meadowbrook and other subsidiaries, filed a consolidated federal income tax return. On December 31, 2005, the method of allocation between the Company and its parent was to reimburse the parent for what would have been the individual company's tax liability, to compensate any party for the use of its losses or tax credits and to provide for the allocation and payment of any refund arising from a carry-back of losses or tax credits from subsequent taxable years.

Management Services Agreement

The Company, along with Meadowbrook, had a management services agreement with Meadowbrook, Inc., an affiliate, at December 31 2005. The agreement required Meadowbrook, Inc. to provide all underwriting, claims, loss control investment services and accounting services necessary for the operation of the business.

Managing General Agent Agreement

The Company entered into a managing general agent (MGA) agreement with Florida Preferred RISC, Inc., an affiliate, on May 1, 1996. The agreement was amended on July 1, 2001 to reflect the name change from Florida Preferred RISC, Inc. to Florida Preferred Administrators, Inc. The agreement was amended on July 1, 1998, to reflect a change in the service fee paid to 13% of gross premium earned.

The MGA agreement did not contain a clause required by Section 626.7451(8), Florida Statutes which states "No person acting in the capacity of a managing general agent shall place business with an insurer unless there is in force a written contract between the parties which sets forth the responsibility for a particular function, specifies the division of responsibilities, and contains the following minimum provisions: (8) If electronic claims files exist, the contract must address the timely transmission of the data. **Subsequent event:** The Company established an addendum to the MGA agreement during the course of this examination. The addendum included the required clause of Section 626.7451(8), Florida Statutes.

Agency Agreement

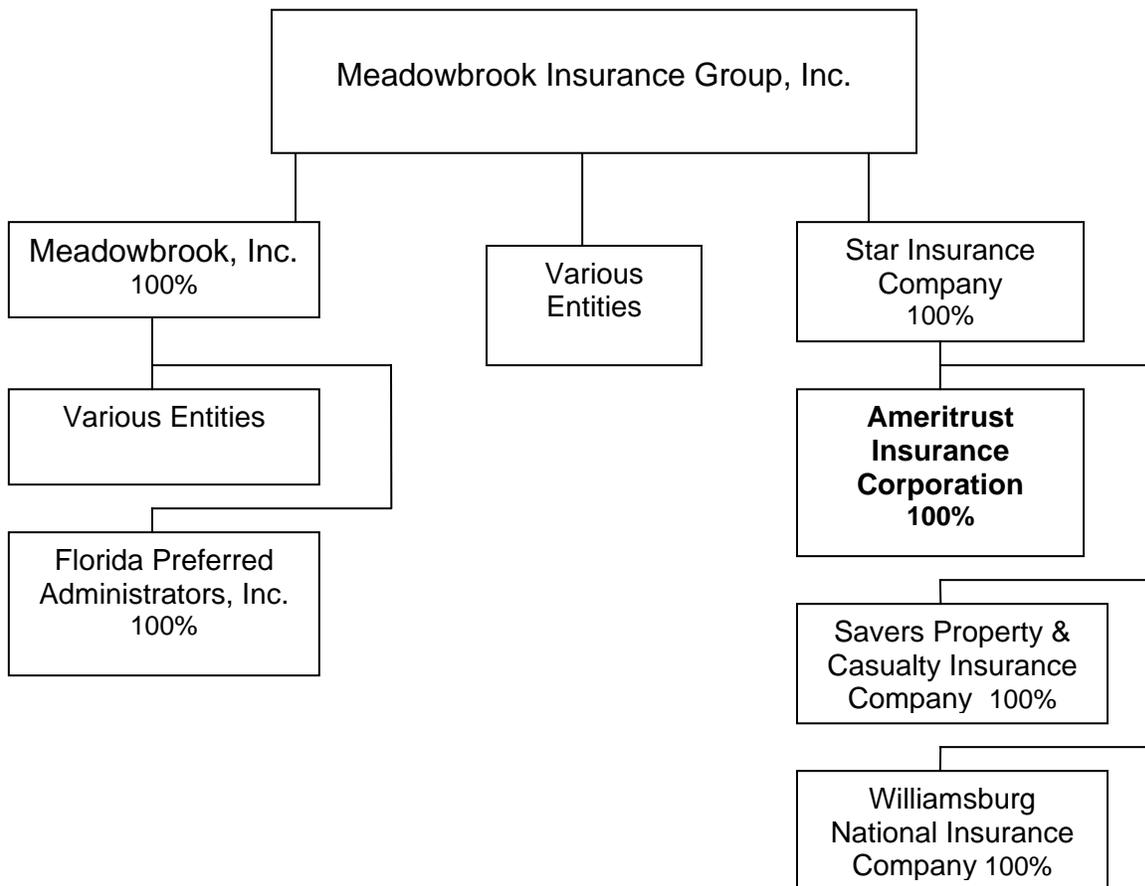
The Company entered into an agency agreement with various agencies, Star, Savers Property and Casualty Insurance, and Williamsburg National Insurance Company on January 1, 2003. The agreement appointed agents as listed under the agreement to transact business for the Company.

AFFILIATED COMPANIES

An organizational chart as of December 31, 2005, reflecting the holding company system, is shown below. Schedule Y Part 1, of the Company's 2005 annual statement, provided a list of related companies of the holding company group.

AMERITRUST INSURANCE CORPORATION ORGANIZATIONAL CHART

DECEMBER 31, 2005



FIDELITY BOND AND OTHER INSURANCE

The Company maintained fidelity bond coverage up to \$1,500,000 with a deductible of \$25,000, which met the suggested minimum amount of coverage of \$1,500,000 for the Company and its affiliates, as recommended by the NAIC.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company did not have employees and therefore had no pension, stock ownership or insurance plans.

STATUTORY DEPOSITS

The following securities were deposited with the State of Florida as required by Section 624.411, Florida Statutes and the State of Michigan:

| | STATE | DESCRIPTION | RATE | MATURITY DATE | PAR VALUE | MARKET VALUE |
|------------------------|-------|-------------|------|---------------|-------------------|-------------------|
| FL | | USTBNB | 6.0% | 08/15/09 | \$ 25,000 | \$ 25,765 |
| FL | | USTBNB | 4.4% | 08/15/12 | 300,000 | 295,890 |
| TOTAL FL DEPOSITS | | | | | <u>\$ 325,000</u> | <u>\$ 321,655</u> |
| MI | | USTBDS | 6.0% | 08/15/09 | \$ 350,000 | \$ 369,180 |
| TOTAL MI DEPOSITS | | | | | <u>\$ 350,000</u> | <u>\$ 369,180</u> |
| TOTAL SPECIAL DEPOSITS | | | | | <u>\$ 675,000</u> | <u>\$ 690,835</u> |

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory

The Company was issued a certificate of authority to write workers' compensation and to reinsure the various lines of business assumed from affiliates under the inter-company reinsurance (ICR) agreement.

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 626.954(1)(i)3,a, Florida Statutes.

REINSURANCE

The ICR agreement was reviewed by the Company's appointed actuary and utilized in determining the ultimate loss opinion.

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

The ICR agreement was entered into on January 1, 2005, by and between Star, the Company, Savers Property and Casualty Insurance and Williamsburg National Insurance Company, affiliated

companies. The parties were engaged in the transaction of various forms of property, casualty, medical malpractice, commercial auto and workers' compensation insurance business and was members of the insurance company holding system of Meadowbrook.

Assumed

Under the ICR agreement Star agreed to cede and the affiliated companies agreed to reinsure Star a respective percentage of the liabilities and expenses of Star. The affiliate's respective percentages were as follows:

| | |
|---|-------|
| Star Insurance Company | 52.1% |
| Ameritrust Insurance Corporation | 10.8% |
| Savers Property and Casualty Insurance | 24.3% |
| Williamsburg National Insurance Company | 12.8% |

Ceded

Under the ICR agreement, the affiliated companies agreed to cede to Star and Star agreed to reinsure 100% of the liabilities and expenses of the affiliated companies existing as of January 1, 2005.

ACCOUNTS AND RECORDS

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 maintained its principal operational offices in Sarasota, Florida, where this examination was conducted.

An independent CPA audited the Company's statutory basis financial statements annually for the years 2003, 2004 and 2005, in accordance with Section 624.424(8), Florida Statutes. Supporting work papers were prepared by the CPA as required by Rule 69O-137.002, Florida Administrative Code.

The Company and non-affiliates had the following agreements:

Custodial Agreement

The Company had a custodial agreement with Southtrust Bank, dated January 1, 2000 and updated September 3, 2003. A new custodial agreement was executed with JPMorgan Chase Bank, N.A. (Chase) on September 1, 2006. The new agreement was not in accordance with Rule 69O-143.042(2), (o) Florida Administrative Code. **Subsequent event:** The Company provided a new custodial agreement from Chase, dated February 28, 2007, which complied with Rule 69O-143.042(2), (o), Florida Administrative Code.

Independent Auditor Agreement

The Company had an agreement with Ernst & Young to perform an audit of its GAAP and statutory financial statements for 2005. PriceWaterhouseCoopers was engaged to perform the audit in 2003 and 2004.

Risk-Based Capital

At December 31, 2005, the Company reported its risk-based capital at an adequate level.

FINANCIAL STATEMENTS PER EXAMINATION

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

AMERITRUST INSURANCE CORPORATION
Assets

DECEMBER 31, 2005

| | Per Company | Examination Adjustments | Per Examination |
|---|--------------------|------------------------------------|------------------------|
| Bonds | \$ 45,902,206 | | \$45,902,206 |
| Cash and short-term investments | 2,162,245 | | 2,162,245 |
| Agents' Balances: | | | |
| Uncollected premium | 4,174,489 | | 4,174,489 |
| Deferred premium | 3,484,342 | | 3,484,342 |
| Accrued retrospective premiums | 137,232 | | 137,232 |
| Reinsurance recoverable | 3,315,595 | | 3,315,595 |
| Interest and dividend income due & accrued | 525,472 | | 525,472 |
| Net deferred tax asset | 1,927,934 | | 1,927,934 |
| | | | |
| Totals | \$ 61,629,515 | \$ - | \$ 61,629,515 |
| | | | |

AMERITRUST INSURANCE CORPORATION
Liabilities, Surplus and Other Funds

DECEMBER 31, 2005

| | | Adjustments | Examination |
|---|--------------|--------------------|--------------------|
| Losses | \$23,199,598 | | \$23,199,598 |
| Reinsurance payable on paid losses and loss adjustment expenses | 3,313,038 | | 3,313,038 |
| Loss adjustment expenses | 5,864,525 | | 5,864,525 |
| Commissions payable | 386,495 | | 386,495 |
| Other expenses | 58,774 | | 58,774 |
| Taxes, licenses and fees | 599,454 | | 599,454 |
| Federal income taxes | 161,676 | | 161,676 |
| Unearned premium | 12,616,195 | | 12,616,195 |
| Ceded reinsurance premiums payable | 754,740 | | 754,740 |
| Payable to parent, subsidiaries and affiliates | 58,834 | | 58,834 |
| Aggregate write-ins for liabilities | 218,034 | | 218,034 |
| Total Liabilities | \$47,231,363 | | \$47,231,363 |
| Common capital stock | \$3,000,000 | | \$3,000,000 |
| Gross paid in and contributed surplus | 8,000,000 | | 8,000,000 |
| Unassigned funds (surplus) | 3,398,152 | | 3,398,152 |
| Surplus as regards policyholders | \$14,398,152 | | \$14,398,152 |
| Total liabilities, capital and surplus | \$61,629,515 | \$0 | \$61,629,515 |

AMERITRUST INSURANCE CORPORATION
Statement of Income

DECEMBER 31, 2005

Underwriting Income

| | |
|---|---------------------|
| Premiums earned | \$26,995,712 |
| DEDUCTIONS: | |
| Losses incurred | 13,559,956 |
| Loss expenses incurred | 3,994,721 |
| Other underwriting expenses incurred | 8,984,169 |
| Aggregate write-ins for underwriting deductions | 0 |
| Total underwriting deductions | <u>\$26,538,846</u> |
| Net underwriting gain or (loss) | \$456,866 |

Investment Income

| | |
|--|--------------------|
| Net investment income earned | \$1,837,578 |
| Net realized capital gains or (losses) | (51,057) |
| Net investment gain or (loss) | <u>\$1,786,521</u> |

Other Income

| | |
|---|--------------------|
| Net gain or (loss) from agents' or premium balances charged off | (\$115,096) |
| Finance and service charges not included in premiums | 5,195 |
| Aggregate write-ins for miscellaneous income | (622) |
| Total other income | <u>(\$110,523)</u> |

| | |
|---|--------------------|
| Net income before dividends to policyholders and before federal & foreign income taxes | \$2,132,862 |
| Dividends to policyholders | 254,072 |
| Net Income, after dividends to policyholders, but before federal & foreign income taxes | <u>\$1,878,790</u> |
| Federal & foreign income taxes | <u>1,339,914</u> |
| Net Income | \$538,876 |

Capital and Surplus Account

| | |
|--|--------------|
| Surplus as regards policyholders, December 31 prior year | \$13,000,510 |
|--|--------------|

Gains and (Losses) in Surplus

| | |
|--|----------------------------|
| Net Income | \$538,876 |
| Change in net deferred income tax | 851,680 |
| Change in non-admitted assets | 7,088 |
| Capital change: Paid-in | 2,999,900 |
| Surplus change: Paid-in | (2,999,900) |
| Examination Adjustment | 0 |
| Change in surplus as regards policyholders for the year | <u>\$1,397,644</u> |
| Surplus as regards policyholders, December 31 current year | <u><u>\$14,398,154</u></u> |

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses \$29,064,127

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, 2005, make a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

The Office actuary reviewed work papers provided by the Company and was in concurrence with this opinion.

CAPITAL AND SURPLUS

The Company's surplus was not adjusted as a result of examination findings. A comparative analysis of changes in surplus is shown below.

**AMERITRUST INSURANCE CORPORATION
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS**

DECEMBER 31, 2005

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

| | | |
|---|----|------------|
| Surplus as Regards Policyholders per December 31, 2005, Annual Statement | \$ | 14,398,154 |
|---|----|------------|

| | <u>PER COMPANY</u> | <u>PER EXAM</u> | <u>INCREASE (DECREASE) IN SURPLUS</u> |
|--|------------------------|---------------------|---|
| ASSETS: | | | |
| No adjustment. | | | |
| LIABILITIES: | | | |
| No adjustment. | | | |
| Net Change in Surplus: | | | 0 |
| Surplus as Regards Policyholders December 31, 2005, Per Examination | | | \$ 14,398,154 |

SUMMARY OF FINDINGS

Compliance with previous directives

The Company has taken the necessary actions to comply with the comments made in the 2002 examination report issued by the Office.

Current examination comments and corrective action

There were no material items of interest or corrective action to be taken by the Company regarding findings in the examination as of December 31, 2005.

SUBSEQUENT EVENTS

The following changes have been made to the management of the Company subsequent to the examination date:

Steve Divine was elected as Treasurer and Vice President as documented in the May 5, 2006, Board of Directors minutes.

Karen Spaun resigned as Treasurer but remained a Vice President and Director.

CONCLUSION

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

Per examination findings, the Company's Surplus as regards policyholders was \$14,398,154, which was in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned, Kethessa Carpenter, CPA, Financial Examiner/Analyst Supervisor and Joe Boor, FCAS, Office Actuary, participated in the examination.

Respectfully submitted,

Miriam Bleakley
Financial Examiner/Analyst II
Florida Office of Insurance Regulation