REPORT ON EXAMINATION

OF

ARGUS FIRE & CASUALTY INSURANCE COMPANY

NORTH MIAMI BEACH, FLORIDA

AS OF

DECEMBER 31, 2005

BY THE

OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida

March 30, 2007

Kevin M. McCarty
Commissioner
Office of Insurance Regulation
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:

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, 2003 through December 31, 2005. This examination commenced, with planning at the Florida Office of Insurance Regulation (Office), on December 4, 2006 to December 7, 2006. The Company was last examined by representatives of the Office as of December 31, 2002. The fieldwork commenced on December 11, 2006, and was concluded as of March 20, 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.

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

In this examination, emphasis was directed to the quality, value and integrity of the balances of the Company's statement of asset and the determination of liabilities, as those balances affect the financial solvency of the Company, as of December 31, 2005.

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

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

Status of Adverse Findings from Prior Examination

The following is a summary of adverse findings contained in the Office's prior examination report along with the resulting action taken by the Company.

Line of Business

The Company had not written any mobile home business for the past three years and had failed to request removal of those lines of business from its certificate of authority, in violation of Section 624.430, Florida Statutes. **Resolution:** The Company requested the removal of the mobile home lines of business from the Florida Certificate of Authority. The request was approved November 16, 2004.

Affiliated Companies

The Company omitted a member of the holding company group from Schedule Y of the 2002 Annual Statement. **Resolution:** The affiliated company was subsequently included on Schedule Y of the 2003 Annual Statement.

The Company failed to maintain complete records of its inter-company agreements in violation of Section 628.271, Florida Statutes. **Resolution:** A complete copy of the claims service agreement was subsequently provided to the Office.

Accounts and Records

The Company erroneously included premiums of policies with effective dates of 2003 as written premium for 2002 in violation of SSAP No. 53, paragraph 5. **Resolution:** The Company agreed to and has excluded from written premium those policies with effective dates subsequent to year-end in all future filings with the Office.

The Company's voided, unclaimed checks/drafts were not reported, paid or delivered to the Department of Financial Services for all funds unclaimed for more than 5 years in accordance with Sections 717.102 and 717.117, Florida Statutes. **Exception:** The Company did not comply with the Florida Statutes. Unclaimed checks/drafts had not been submitted to the Department of Financial Services

Bonds

The Company was over-invested in bonds with ratings of 5 & 6 by the NAIC Securities Valuation Office (SVO) in violation of Section 625.305(4)(c), Florida Statutes and also exceeded the limitation for investment in any one insurer in violation of Section 625.305(4)(f), Florida Statutes. **Resolution:** The Company no longer had any bonds rated as a 5 & 6 by the NAIC SVO and was in compliance with the investment limitation.

The Company erroneously recorded the acquisition and sale of its securities on the settlement date rather than the trade date as provided in SSAP No. 26 paragraph (4) and SSAP No. 30 paragraph (5). **Resolution:** The Company recorded securities on the trade date rather than the settlement date.

Loss Adjustment Expense

The Company failed to properly classify Loss adjustment expenses as Defense cost containment (DCC) or Adjusting & Other (AO) as required by SSAP No. 55 paragraph (5). **Resolution:** The Company agreed to and has complied with SSAP No. 55 in all future filings with the Office.

Other Expenses

The Company failed to properly accrue for unpaid expenses incurred in 2002 as required by SSAP No. 5 paragraph (2) and paragraph (3). **Resolution:** The Company agreed to and has complied with SSAP No. 5 and recorded on the financial statement as a liability all incurred but unpaid expenses in all future filings with the Office.

Remittances and Items not allocated

The Company reported advance premium as remittances and items not allocated contrary to the NAIC Annual Statement Instructions. **Resolution:** The Company agreed to and has prepared all future statutory financial statements in accordance with the NAIC Annual Statement Instructions.

Payable to Parent, Subsidiaries and Affiliates

The Company recorded advances to an affiliate as a contra liability in violation of Section 625.013 (7), Florida Statutes, and SSAP No. 29 paragraph (2). **Resolution:** The Company agreed to and has non-admited such in all future filings with the Office.

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 & Casualty Insurance Company, which commenced business on January 1, 1997. The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code.

The Company wrote fire and homeowners multiple peril business solely in the State of Florida and commenced operations in January 1997 with the assumption of business from the Florida Residential Property and Casualty Joint Underwriting Association (FRPCJUA). During much of 2004 and 2005, the Company was not active in the insurance business.

The State of Florida sought to depopulate the policies initially written by Citizens Property Insurance Corporation (Citizens), a state-owned and operated homeowners' carrier. In 2005, the Company signed a consent order allowing the Company to participate in the depopulation (Take Outs).

Premium in 2005 consisted of $10,524,653 of assumed policies from Citizens and $4,412,161 from direct premium renewals of the expiring Citizens Take Out business. The Company did not solicit any other business during 2005.

Consent Order

The Company was granted in Consent Order 81383-05, the option to take out a certain number of policies from 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.

In accordance with Section 624.401(1), Florida Statutes, the Company was authorized to transact the following insurance coverage in Florida on December 31, 2005:

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

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

Capital Stock

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

Number of authorized common capital shares	5,000,000
Number of shares issued and outstanding	5,000,000
Total common capital stock	$5,000,000
Par value per share	$1.00

Control of the Company was maintained by its parent, United Automobile Insurance Company (UAIC), a Florida domiciled insurer, who owned 100% of the stock issued by the Company. UAIC was owned by United Automobile Insurance Group (UAIG) which, in turn, was 100% owned by various members of the Parrillo family.

Profitability of Company

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

	2005	2004	2003
Premiums Earned	4,324,494	(937,491)	11,030,577
Net Underwriting Gain/(Loss)	(5,001,339)	(489,035)	(1,454,646)
Net Income	(4,854,754)	797,751	(153,209)
Total Assets	20,935,855	12,792,600	22,457,546
Total Liabilities	14,650,040	4,850,649	14,560,454
Surplus As Regards Policyholders	6,285,815	7,941,951	7,897,092

Dividends to Stockholders

The Company did not pay its stockholder a dividend during the three-year period covered by this examination.

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
Richard P. Parrillo, Sr. North Miami Beach, Florida	Chairman and CEO United Automobile Insurance Company
Richard P. Parrillo, Jr. North Miami Beach, Florida	Director Argus Fire & Casualty Insurance Company
Michael R. Parrillo Oakbrook, Illinois	Executive Vice President United Automobile Insurance Company
Beau W. Parrillo North Miami Beach, Florida	President Argus Fire & Casualty Insurance Company
Jack Ramirez North Miami Beach, Florida	President United Automobile Insurance Company
Patrick A. McCarthy Oakbrook Terrace, Illinois	Vice President Mesirow Financial
John Spatuzza Chicago, Illinois	Attorney at Law Spatuzza & Spatuzza

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

Senior Officers

Name	Title
Beau W. Parrillo, Jr.	President
Charles J. Grimsley, Esq.	Secretary
Paul Polachek	Treasurer
Ron Terzer	Vice President

The Company's Board resolved that, pursuant to Section 624.424(8) (c), Florida Statutes, the Audit Committee of 2005 would be the Audit Committee of the Company's ultimate parent, UAIG. The

Investment Committee for the Company was the Investment Committee of UAIG. This Committee, in turn, appointed an internal Investment Committee. Following are the Committee members:

Audit Committee	**Investment Committee**	**Internal Investment Committee**
Cornelius Golding, Chairman	Mitchell Posner, Chairman	Richard P. Parrillo, Sr.
George McCarthy	Richard Parrillo, Sr.	Jack Ramirez
Leonard Frumm	Jack Ramirez	Michael R. Parrillo
		Paul Polachek

Conflict of Interest Procedure

The Company adopted a policy statement requiring annual disclosure of conflicts of interest, in accordance with Section 607.0832, Florida Statutes.

Corporate Records

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

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

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

Surplus Notes

As of December 31, 2005, there were no outstanding Surplus notes of the Company other than as explained under Surplus notes in the section of this report titled Comments on Financial Statements.

AFFILIATED COMPANIES

The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code. The latest holding company registration statement was filed with the State of Florida on March 16, 2007, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

The holding company registrations filed on February 14, 2006 for 2005 and March 16, 2007 for 2006 included a paragraph about the Company's contract with the managing general agent (MGA), National Insurance Management Company (NIMC), an affiliate, which stated NIMC received 24% of net written premium per month plus policy fees. It also showed the latest contract was originally entered into on January 1, 2000.

However, a new contract was entered into effective on January 1, 2005. A Commission Addendum was added to this contract effective on January 1, 2005, dated January 11, 2005, stating that NIMC would not receive any commission for the period January 1, 2005 through June 30, 2006. Another addendum was added, effective on July 1, 2006, stating the commission percent would be 18%.

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

Tax Allocation Agreement

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

MGA Agreement

The Company appointed NIMC, an affiliate, as its MGA to supervise and manage homeowners and dwelling fire policies produced by brokering agents. The agreement provided that all checks representing premium payments and policy fees shall be made payable to the Company. The Company shall pay NIMC the commission and policy fees earned in relation to business produced during the previous month. NIMC received no commissions but received $64,100 in policy fees from the Company during 2005.

The Company had an MGA agreement with NIMC effective January 1, 2000. On January 1, 2005, a new agreement was signed which provided that NIMC received a commission of 24% and any policy fees. Commission addendums were added as follows: Effective January 1, 2005, commission was amended to 0%; effective July 1, 2006, it was amended to 18%. There was also an addendum effective January 1, 2004 that amended the commission to 15%.

Corporate Expense Agreement

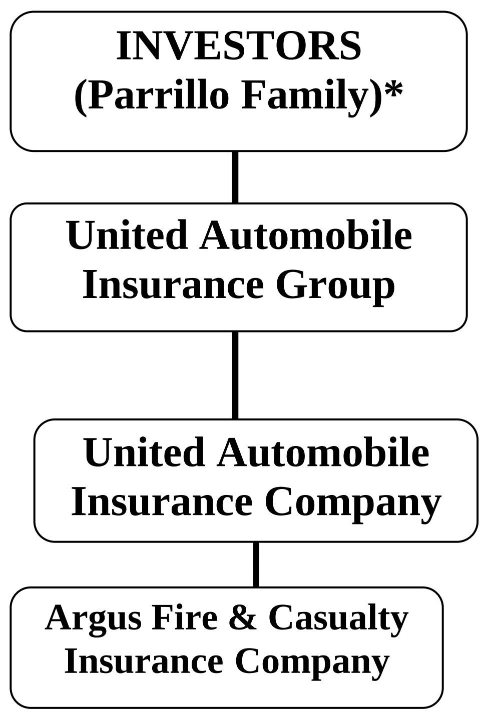
The Company entered into an expense sharing agreement with its parent, UAIC, effective January 1, 2000. The agreement provided that UAIC paid all corporate expenses jointly incurred and get reimbursed by the affiliates for the respective pro-rata share of the expenses.

The corporate expense agreement was not adhered to since the Company had not been charged by its parent UAIC for services provided.

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

ARGUS FIRE & CASUALTY INSURANCE COMPANY
ORGANIZATIONAL CHART

DECEMBER 31, 2005



*Note: Ultimate controlling investors are: Richard Parrillo, Sr. – 20%; Richard Parrillo, Jr. and Samantha Parrillo – 16%

FIDELITY BOND AND OTHER INSURANCE

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

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

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

STATUTORY DEPOSITS

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

State	Description	Par Value	Market Value
FL	USTB, 3.5%, 5/31/07	$ 680,000	$ 673,540
FL	Municipal Bond	215,000	217,150
FL	USTB, 2.75%, 8/15/07	680,000	667,488
TOTAL FLORIDA DEPOSITS		$1,575,000	$ 1,558,178

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 insurance in the State of Illinois. However, the Company did not write any insurance business in 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.

REINSURANCE

According to the terms of the agreement with the MGA, NIMC, the MGA was permitted to negotiate reinsurance on behalf of the Company.

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 made two take outs from Citizens in 2005, one in May and another in June. In total, the Company assumed $10,524,653 in premium from Citizens in 2005.

Ceded

The Company entered into a reinsurance agreement effective January 1, 2004, with First Protective Insurance Company (FPI). FPI assumed 100% of the Company's Unearned premium reserve as of January 1, 2004 and all new and renewal premiums during 2004.

The Company had reinsurance protection relative to catastrophic losses, which protected the Company from Hurricanes Katrina and Wilma in 2005. The reinsurance program consisted of the Florida Hurricane Catastrophe Fund (FHCF) and two excess layers above the Company's $2 million per occurrence retention. The FHCF covered 90% of losses in excess of approximately $6.9 million, but up to a maximum excess of $23.3 million. The first excess layer covered 100% of losses in excess of the Company's $2 million retention, up to the FHCF attachment point. The second excess layer provided an additional $17.2 million of protection and sat along side and above the FHCF. The excess layers of reinsurance were written by Renaissance Reinsurance, Ltd and DaVinci Reinsurance, Ltd, both of Bermuda.

The Company had no reinsurance on any 2003 and prior claims.

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

ACCOUNTS AND RECORDS

Deloitte & Touche, the Company's independent CPA, audited the Company's statutory basis financial statements annually for the years 2003, 2004 and 2005, in accordance with Section

624.424(8), Florida Statutes. Supporting work papers were prepared by the CPA as required by Rule 69O-137.002, Florida Administrative Code.

The Company's accounting records were maintained primarily on a computerized system with use of certain manual entries and records. The Company's balance sheet accounts were verified with the line items of the annual statement submitted to the Office, with the exception of adjustments to line items as noted within this report.

The Company has 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 36 months as a result of the Take Outs from Citizens.

The Company used the incorrect NAIC designation for 5 bonds held as of the examination date, 2 of which caused the Company to value the bonds in the wrong amount.

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

Custodial Agreement

The Company utilized the services of Amalgatrust Company, Inc. The safekeeping agreement between the Company and Amalgatrust Company, Inc. contained the appropriate safeguards and controls indemnifying the Company as provided by Rule 69O-143.042(2), Florida Administrative Code.

Risk-Based Capital

The Company reported its risk-based capital at an adequate level. As a result of the examination, adjustments were made, primarily, to increase Reserves and decrease Receivables from Parent, subsidiaries and affiliates for Federal Income Tax (FIT) Recoverable. The risk-based capital remained 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."

ARGUS FIRE & CASUALTY INSURANCE COMPANY
Assets

DECEMBER 31, 2005

		Per Company		Examination Adjustments		Per Examination
Bonds	$	8,319,281			$	8,319,281
Stocks		796,604				796,604
Cash and short-term investments		10,503,753				10,503,753
Other invested assets		5,719				5,719
Investment income due and accrued		116,279				116,279
Amounts due from reinsurers		281,830				281,830
Current federal income taxes		369,993	$	(158,635)		211,358
Net deferred tax asset		547,209		152,791		700,000
Receivables from parent & affiliates		495				495
Aggregate write-ins		(5,308)		6,670		1,362
Totals	$	20,935,855	$	826	$	20,936,681

ARGUS FIRE & CASUALTY INSURANCE COMPANY
Liabilities, Surplus and Other Funds

DECEMBER 31, 2005

	Per Company	Examination Adjustments	Per Examination
Losses	$1,893,445	$442,000	$2,335,445
Loss adjustment expenses	531,050	682,000	1,213,050
Other expenses	38,212	34,829	73,041
Taxes, licenses and fees	(11,083)	11,083	0
Unearned premiums	6,150,077		6,150,077
Advanced premiums	801,662	(155,959)	645,703
Ceded reinsurance premiums payable	1,998,653	468,261	2,466,914
Amounts withheld or retained by company for others	468,261	(305,631)	162,630
Drafts outstanding	2,701,132	(12,452)	2,688,680
Payable to parent, subsidiaries and affiliates	78,631	(15,004)	63,627
Total Liabilities	$14,650,040	$1,149,127	$15,799,167
Common capital stock	$5,000,000		$5,000,000
Gross paid in and contributed surplus		$2,000,000	2,000,000
Surplus notes		2,000,000	2,000,000
Unassigned funds (surplus)	1,285,815	(5,148,301)	(3,862,486)
Surplus as regards policyholders	$6,285,815	($1,148,301)	$5,137,514
Total liabilities, surplus and other funds	$20,935,855	$826	$20,936,681

ARGUS FIRE & CASUALTY INSURANCE COMPANY
Statement of Income

DECEMBER 31, 2005

Underwriting Income	
Premiums earned	$4,324,494
DEDUCTIONS:	
Losses incurred	6,064,365
Loss expenses incurred	1,045,717
Other underwriting expenses incurred	2,215,751
Aggregate write-ins for underwriting deductions	0
Total underwriting deductions	$9,325,833
Net underwriting gain or (loss)	($5,001,339)
Investment Income	
Net investment income earned	$434,343
Net realized capital gains or (losses)	(743,083)
Net investment gain or (loss)	($308,740)
Other Income	
Net gain or (loss) from agents' or premium balances charged off	$291
Finance and service charges not included in premiums	569
Total other income	$860
Net income before dividends to policyholders and before federal & foreign income taxes	($5,309,219)
Dividends to policyholders	0
Net Income, after dividends to policyholders, but before federal & foreign income taxes	($5,309,219)
Federal & foreign income taxes	(454,465)
Net Income	($4,854,754)
Capital and Surplus Account	
Surplus as regards policyholders, December 31 prior year	$7,941,951
Gains and (Losses) in Surplus	
Net Income	($4,854,754)
Change in unrealized capital gains or (losses) less capital gains tax of $0	633,400
Change in net deferred income taxes	386,794
Change in nonadmitted assets	178,424
Surplus adjustments: Paid in	2,000,000
Examination Adjustments	(1,148,301)
Change in surplus as regards policyholders for the year	($2,804,437)
Surplus as regards policyholders, December 31 current year	$5,137,514

COMMENTS ON FINANCIAL STATEMENTS

Assets

Stocks $769,604

The above amount was the same as reported by the Company. However, the Company included $305,461 in unrealized losses that should have been reported as realized losses since the stocks should have been written down for other than temporary impairment as required by SSAP No. 30, paragraph 9.

Cash, Cash equivalent, Short-term investments $10,503,753

The above amount was the same as reported by the Company. Cash in the amount of $2,278,467, was reported correctly. However, adjustments were made to Cash equivalents and Short-term investments as outlined below as required by SSAP No. 2, paragraph (3).

Cash equivalent $8,225,286

The above amount was $7,365,082 greater than the $860,204 amount reported by the Company. The Company incorrectly reported one Cash equivalent as a Short-term investment. SSAP No. 2, paragraph (3) requires reporting assets with maturity dates of 3 months or less as Cash equivalents.

Short-term investments $0

The above amount was $7,365,082 less than reported by the Company. The Company reported a Short-term investment that should have been reported as a Cash equivalent. The entire balance was reclassified to Cash equivalents as required by SSAP No. 2, paragraph (3).

Current federal income taxes $211,853

The above number was $158,653 less than the $370,488 amount reported by the Company. The item was decreased, primarily, to correct the accrual of $112,070 at December 31, 2005 and a change in the provision as a result of examination adjustments required by SSAP 10.

Net deferred tax asset $700,000

The above number was $152,791 more than the $547,209 amount reported by the Company. This change was needed due to other adjustments made as a result of this examination required by SSAP 10.

Aggregate write-ins $1,362

The above amount was $6,670 greater than the $5,308 credit amount reported by the Company. The change was to reclass a miscellaneous asset as required by the NAIC annual statement instructions.

Liabilities

Losses $2,335,445

The above number was $442,000 greater than the $1,893,445 amount reported by the Company. The Company did not adequately determine its reserves as reported by the outside consultant Actuary.

The Company failed to adjust Case reserves as 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.

The Company failed to timely establish a number of claims reported in December, 2005 until January, 2006.

Loss adjustment expenses $1,213,050

The above number was $682,000 greater than the $531,050 amount reported by the Company. The Company did not adequately determine its reserves as reported by the outside consultant Actuary. 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.

Other expenses $73,041

The above amount was $34,829 greater than the $38,212 amount reported by the Company due to a reclassification as required by the NAIC annual statement instructions.

Taxes, licenses and fees $-0-

The Company reported a credit amount of $11,083. However, this liability was adjusted to zero due to a reclassification of an asset as required by the NAIC annual statement instructions.

Drafts outstanding $2,688,680

The above number was $12,452 less than the $2,701,132 amount reported by the Company. An outstanding check was improperly reported.

Advance premiums $645,703

The above number was $155,959 less than the $801,662 reported amount by the Company due to a reclassification as required by the NAIC annual statement instructions.

Ceded reinsurance premiums payable $2,466,914

The above number was $468,261 greater than the $1,998,653 amount reported by the Company due to a reclassification as required by the NAIC annual statement instructions.

Amounts withheld or retained by company for others $162,630

The above number was $305,631 less than the $468,261 amount reported by the Company due to a reclassification as required by the NAIC annual statement instructions.

Payable to Parent, subsidiaries and affiliates $63,627

The number above was $15,004 less than the $78,631 amount reported by the Company due to a reclassification as required by the NAIC annual statement instructions.

Gross paid in and contributed surplus $2,000,000

The above amount was $2,000,000 more than reported by the Company. The Company received $2,000,000 from its parent and reported it as an increase in Unassigned surplus instead of gross paid in and Contributed surplus as required by NAIC Statutory Accounting Principles.

Surplus notes $2,000,000

The above amount was $2,000,000 more than the amount reported by the Company. The Company was not charged proper costs by affiliates during 2005 as required by SSAP No. 25 paragraph (15) and (16) and Appendix A-440, thus understating its expenses and overstating Surplus.

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

DECEMBER 31, 2005

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

Surplus as Regards Policyholders per December 31, 2005, Annual Statement				$ 6,285,815
	PER COMPANY	**PER EXAM**	**INCREASE (DECREASE) IN SURPLUS**	
ASSETS:				
Net deferred tax asset	$547,209	$700,000	$152,791	
Current Federal Income Tax	369,993	211,358	(158,635)	
Aggregate write-ins for other than invested assets	(5,308)	1,362	6,670	
LIABILITIES:				
Losses & loss adjustment expenses	$2,424,495	$3,548,495	$ (1,124,000)	
Drafts outstanding	2,701,132	2,688,680	12,452	
Advance premiums	801,662	645,703	155,959	
Ceded reinsurance premiums payable	1,998,653	2,466,914	(468,261)	
Amounts withheld or retained by Company for others	468,261	162,630	305,631	
Payable to parents, subsidiaries and affiliates	78,631	63,627	15,004	
Other expenses	38,212	73,041	(34,829)	
Taxes, licenses, fees	(11,083)		(11,083)	
Net Change in Surplus:				$ (1,148,301)
Surplus as Regards Policyholders December 31, 2005, Per Examination				$ 5,137,514

SUMMARY OF FINDINGS

Compliance with previous directives

Other than the two items listed below, the Company has taken the necessary actions to comply with the comments made in the 2002 examination report issued by the Office.

1. The Company remains in violation of Section 717.102 and 717.117, Florida Statutes regarding submission of escheat items.
2. All unclaimed checks/drafts were not submitted to the Department of Financial Services within 90 days after the 2002 report was issued.

Current examination comments and corrective action

The following is a brief summary of items of interest and corrective action to be taken by the Company regarding findings in the examination as of December 31, 2005:

Accounts and Records

The Company continues to remain not in compliance with Sections 717.117 and 717.102, Florida Statutes, as reported in the December 2002 examination report. **We recommend that the Company comply with Section 717.102 and 717.117, Florida Statutes, and remit all unclaimed checks/drafts to the Department of Financial Services.**

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 No. 25, paragraph (15) and (16) and Appendix A-440. **We recommend that the Company comply with SSAP No. 25, paragraph (15) and (16).**

Consent Order

The Company was granted in Consent Order 81383-05, the option to take out a certain number of policies from 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. **We recommend that the Company comply with Consent Order 81383-05.**

General Ledger

The Company has 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 36 months as a result of the Take Outs from Citizens. **We recommend that the Company record and track its future rights to these monies to mitigate fund misappropriation risk.**

Bond NAIC Designation

The Company used the incorrect NAIC designation for 5 bonds held as of the examination date, 2 of which caused the Company to value the bonds in the wrong amount. **We recommend that the Company comply with the NAIC SVO designation requirements and NAIC Statutory Accounting Principles.**

Stocks

The Company did not properly report realized gains and losses of common stocks for other than temporary impairments as required by SSAP No. 30, paragraph (9). **We recommend that the Company comply with SSAP No. 30, paragraph (9) and properly report realized gain/loss for other than temporary impairments.**

Cash, Cash equivalent, Short-term investments

The Company reported cash in the amount of $2,278,467, correctly. However, adjustments were made to Cash equivalents and Short-term investments as outlined below as required by SSAP No. 2, paragraph (3). **We recommend that the Company comply with SSAP No. 2 and record cash items correctly.**

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

Cash equivalents

The above amount was $7,365,082 greater than the $860,204 amount reported by the Company. The Company incorrectly reported one Cash equivalent as a Short-term investment. **We recommend that the Company comply with SSAP No. 2, paragraph (3) and properly report assets with maturity dates of 3 months or less as cash equivalents.**

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

Short-term investments

The Company reported a Short-term investment that should have been reported as a Cash equivalent. **We recommend that the Company comply with SSAP No. 2, paragraph (3) and report Cash equivalents properly.**

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

Current Federal income taxes

The above number was $158,653 less than the $370,488 amount reported by the Company. The item was decreased, primarily, to reflect 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. **We recommend that the Company comply with SSAP 10 and properly accrue the Federal income tax.**

Net deferred tax asset

The Company recorded an amount of the Net deferred tax asset short by $152,791 due to other adjustments required by this examination. **We recommend that the Company properly record all adjustments in order to comply with SSAP 19.**

Aggregate write-ins

The Company did not properly report a miscellaneous asset of $6,670 as required by the NAIC annual statement instructions. **We recommend that the Company properly record the miscellaneous assets by complying with the NAIC annual statement instructions.**

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

Loss reserves

The Company under reserved the loss balance by $442,000. The Company did not adequately determine its reserves as reported by the outside consultant Actuary. **We recommend that the Company adequately reserve its loss reserves as required**

Loss adjustment expenses

The Company under reserved its Loss adjustment expense by $682,000. The Company did not adequately determine its reserves as reported by the outside consultant Actuary. **We recommend that the Company adequately reserve its loss reserves.**

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. **We recommend that the Company take down LAE reserves on closed claims at the proper time. We also recommend the Company take the necessary steps to ensure the computer system processing and reporting is fully understood.**

Case Reserving

The Company failed to adjust Case reserves as 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. **We recommend that the Company adjust case reserves as information is received to properly document the anticipated exposure.**

Claim Reporting and Establishment

The Company failed to timely establish a number of claims reported in December, 2005 until January, 2006. **We recommend that the Company establish claims when reported.**

Other expenses

The Company misclassified an amount of $34,829 that should have been Other expenses. **We recommend that the Company comply with the NAIC annual statement instructions to properly report the accounts.**

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

Taxes, licenses and fees

The Company misclassified Taxes, licenses and fees. **We recommend that the Company properly report the account balances as required by the NAIC annual statement instructions.**

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

Drafts outstanding

The Company failed to properly report a draft outstanding that understated the drafts outstanding. **We recommend that the Company properly state the amount of drafts outstanding to comply with the NAIC annual statement instructions.**

Advance premiums

The Company misclassified Advance premiums. **We recommend that the Company comply with the NAIC annual statement instructions.**

Ceded reinsurance premiums payable

The Company misclassified Ceded reinsurance premiums payable by $468,261. **We recommend that the Company record Ceded reinsurance premiums payable by complying with the NAIC annual statement instructions.**

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

Amounts withheld or retained by company for others

The Company misclassified Amounts withheld or retained by the Company for others by overstating by $305,631. **We recommend that the Company record the amounts correctly by complying with the NAIC annual statement instructions.**

Payable to Parent, subsidiaries and affiliates

1. The number above was $15,004 less than the $78,631 amount reported by the Company due to a reclassification as required by the NAIC annual statement instructions. **We recommend that the Company properly report amounts owed by complying with the NAIC annual statement instructions.**

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

2. The Company's parent failed to pay the recoverable for Federal income taxes due to the Company within 90 days from the filing of the return. **We recommend that the Company establish a procedure to timely collect any future recoverable Federal income tax amounts.**

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

Gross Paid in and Contributed Surplus

The Company received $2,000,000 from its parent and reported it as an increase in Unassigned surplus instead of Gross paid in and Contributed surplus as required by NAIC Statutory Accounting Principles. **We recommend that the Company comply with NAIC Statutory Accounting Principles and properly report gross paid in and contributed surplus.**

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

Surplus notes

The Company was not charged proper costs by affiliates during 2005 as required by SSAP No. 25 paragraph (15) and (16) and Appendix A-440, thus understating its expenses and overstating Surplus in the amount of $2,000,000. **We recommend that the Company realize and recognize their share of costs from affiliates as required by SSAP No. 25.**

SUBSEQUENT EVENTS

The same Board of Directors and Senior Officers that served in 2005 were elected/appointed for 2006.

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

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

CONCLUSION

The customary 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, 2005, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was $5,137,514, which was in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned, Robert Moore, Examiner in Charge, Craig Deneau, Janie Judd, Sterling Beale and Daniel Callahan, Participating Examiners, from Reinsurance Solutions International, LLC, and Mercer Oliver Wyman, Actuarial Consulting, participated in the examination.

Respectfully submitted,

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