

REPORT ON EXAMINATION
OF
KINGSWAY AMIGO INSURANCE
COMPANY
Formerly known as
U.S. SECURITY INSURANCE COMPANY
MIAMI, FLORIDA
AS OF
DECEMBER 31, 2009

BY THE
OFFICE OF INSURANCE REGULATION

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TALLAHASSEE, FLORIDA

November 3, 2010

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 an examination as of December 31, 2009, of the financial condition and corporate affairs of:

KINGSWAY AMIGO INSURANCE COMPANY
Formerly known as
US SECURITY INSURANCE COMPANY
3155 NW 77 AVENUE
MIAMI, FLORIDA 33122

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, 2005, through December 31, 2009. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2004. This examination commenced with planning at the Office on June 28, 2010, to July 2, 2010. The fieldwork commenced on July 12, 2010, and concluded as of November 3, 2010.

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

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

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

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

SUMMARY OF SIGNIFICANT FINDINGS

Current Exam Findings

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

Admissibility of Deferred Tax Assets

The Company estimated a deferred tax asset of \$2,842,226 for the one year period ending December 31, 2009; however, the Company did not realize the benefit of the deferred tax asset in 2010 because the Company experienced negative pre-tax earnings.

Prior Exam Findings

The following is a summary of significant adverse findings contained in the Office's prior examination report as of December 31, 2004, along with resulting action taken by the Company.

General

The articles of incorporation were not amended and filed with the Florida Secretary of State pursuant to the amendment ratified by the Company's Board which increased the authorized shares of the Company's capital stock by 1.5 million shares. Resolution: The Company

amended the articles of incorporation authorizing the additional 1.5 million shares and filed that amendment with the Florida Secretary of State on February 26, 2010.

SUBSEQUENT EVENTS

The Company made significant changes to the financial position and structure of the Company subsequent to the examination date. The Company reported an unrealized valuation in its investment in affiliate, KFS Capital, LLC, of \$685,912 and reported total cumulative investment in KFS Capital, LLC of \$2,987,401 as of March 31, 2010.

HISTORY

General

The Company was incorporated in Florida on August 20, 1985, and commenced business on December 1, 1985, as U.S. Security Insurance Company. Effective February 25, 2010, the Company modified their name and continued doing business as Kingsway Amigo Insurance Company.

The Company was authorized to transact the following insurance coverage in Florida on December 31, 2009:

Private Passenger Auto Liability	Commercial Automobile Liability
Private Passenger Auto Physical Damage	Commercial Auto Physical Damage
Inland Marine	Commercial Multi Peril
Other Liability	

The Office approved the Company's request to amend its Certificate of Authority on June 29, 2010, to discontinue the Inland Marine, Other Liability, and Commercial Multi Peril lines of business.

The Articles of Incorporation and the Bylaws were amended during the period covered by this examination to change the Company's name and increase the number of authorized shares of

common stock by 1,500,000. This amendment was filed with the Florida Secretary of State on February 26, 2010.

Dividends to Stockholders

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

Capital Stock and Capital Contributions

As of December 31, 2009, the Company's capitalization was as follows:

Number of authorized common capital shares	2,000,000
Number of shares issued and outstanding	2,000,000
Total common capital stock	\$2,000,000
Par value per share	\$1.00

Control of the Company was maintained by its parent, Hamilton Risk Management Company (HRMC), which owned 100% of the stock issued by the Company, which in turn was 100% owned by Kingsway America Inc. The ultimate parent was Kingsway Financial Services, Inc., a Canadian corporation listed on the New York Stock Exchange.

Surplus Debentures

The Company issued a subordinated surplus debenture on September 30, 2009 to HRMC in exchange for a \$2,600,000 cash infusion to policyholder surplus. The surplus debenture, a 7.5% interest-bearing note, was approved by the Office on September 11, 2009.

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

The Company did not have any acquisitions, mergers, disposals, dissolutions and purchase or sales through reinsurance for the five year period ending December 31, 2009.

CORPORATE RECORDS

The recorded minutes of the shareholder, Board, 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 and events in accordance with Section 607.1601, Florida Statutes, including the authorization of investments as required by Section 625.304, Florida Statutes.

Conflict of Interest

The Company adopted a policy statement requiring annual disclosure of conflicts of interest in accordance with the NAIC Financial Condition Examiners Handbook adopted by Rule 69O-138.001, Florida Administrative Code.

MANAGEMENT AND CONTROL

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, 2009, were:

Directors

Name and Location

Roberto Espin, Jr.
Coral Gables, Florida

Colin Simpson
Toronto, Ontario

Alberto Naon
Miami, FL

Kathleen Howie
Oakville, Ontario

Scott Wollney
Glenview, Illinois

Principal Occupation

President and Director, CEO
Hamilton Risk Management Co.

President/CEO
Kingsway Financial Services, Inc.

Vice President/COO
Hamilton Risk Management Co.

VP/General Counsel
Kingsway Financial Services, Inc.

President/CEO
Kingsway America Inc

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

Senior Officers

Name

Roberto Espin, Jr.
Kevin Walton
Mike Suerth
Alberto Naon
Rachael L. Aldulaimi
Tim Lane
Marco DePompa

Title

President/CEO
Executive Vice President & CEO
Vice President/CFO/Treasurer
Vice President/COO
Secretary
Vice President of Claims
Vice President of Claims

The Company's Board appointed several internal committees in accordance with Section 607.0825, Florida Statutes. Following were the principal internal board committees and their members as of December 31, 2009:

Corporate Governance Committee

Spencer Schneider, Chair
Gregory Hannon

Audit Committee

Gregory Hannon, Chair
Joseph Stilwell
Spencer Schneider

Investment Committee

Terence Kavanagh, Chair
Colin Simpson
Joseph Stilwell

Affiliated Companies

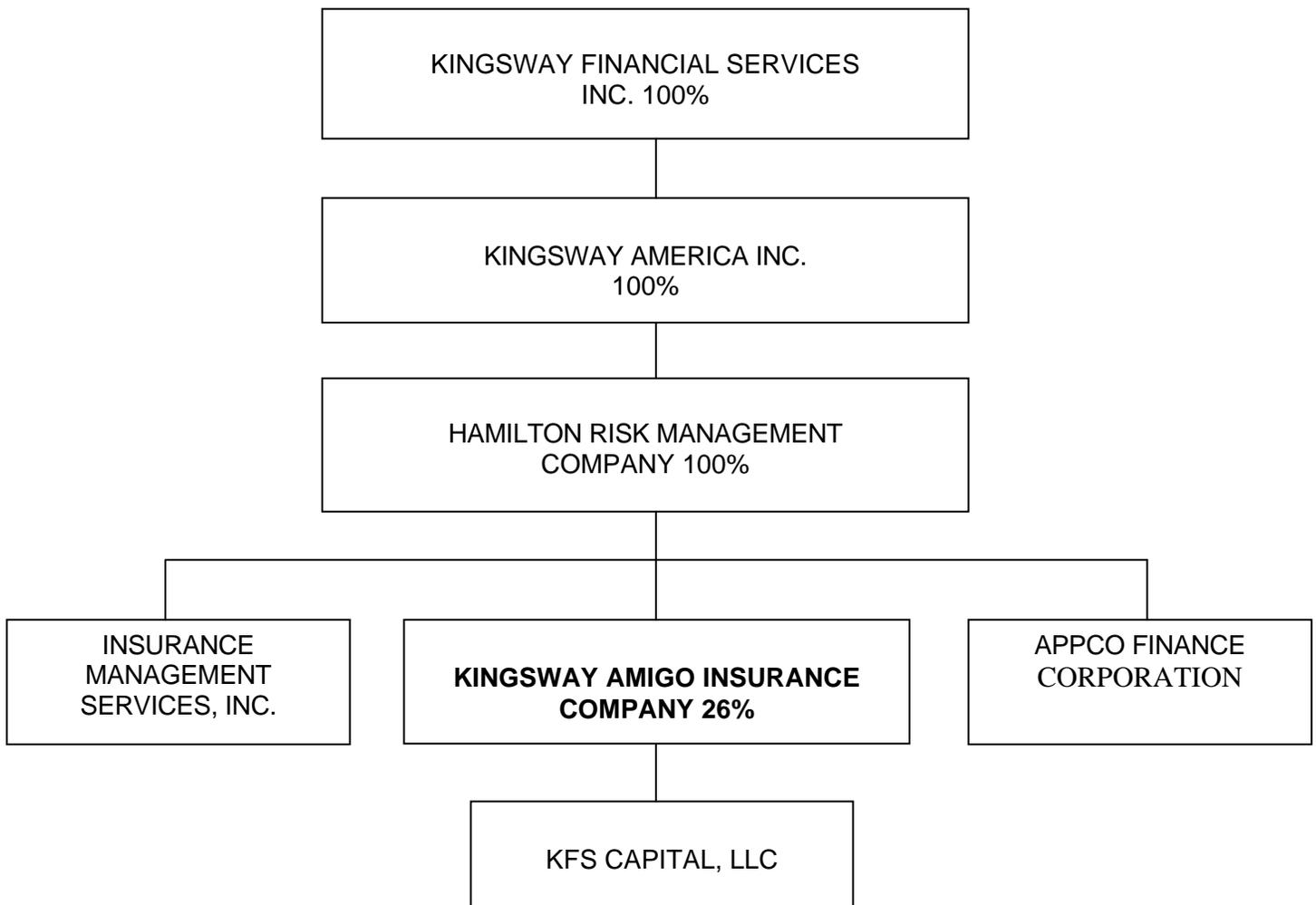
The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code. The latest holding company registration statement was filed with the State of Florida on March 12, 2010 as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

Subsequent event: The Company filed an updated holding company registration statement on July 19, 2010.

A simplified organizational chart as of December 31, 2009, reflecting the holding company system, is shown below. Schedule Y of the Company's 2009 annual statement provided a list of all related companies of the holding company group.

**KINGSWAY AMIGO INSURANCE COMPANY
ORGANIZATIONAL CHART**

DECEMBER 31, 2009



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

Tax Allocation Agreement

The Company, along with its parent and affiliates, filed a consolidated federal income tax return. On December 31, 2009, the method of allocation between the Company and its parent was based on the percentage of income taxes owed. Allocations were settled within 30 days of filing the consolidated return.

Management Agreement

The Company had a management agreement with HRMC, the parent, at December 31, 2009. The agreement called for the Company to pay a monthly fee equal to the cost of the services provided, excluding any amount for profit or overhead and not exceeding the fair value of the services provided.

Managing General Agent (MGA) Agreement

The Company entered into a MGA agreement with Insurance Management Services, Inc. (IMS), an affiliate, on December 2, 1992. According to the terms of the agreement, IMS monitored and supervised all agents, and provided underwriting and claims handling services. The agreement was amended on July 1, 2003, and again on January 1, 2004, to reduce the commission paid by the Company to 18.5% and 17.5%, respectively. On November 30, 2007 the agreement was amended to increase the commission paid by the Company to 18.8%. In addition to the commission rate of 18.8% at December 31, 2009, the Company paid a \$25 fee per policy to the MGA.

FIDELITY BOND

The Company maintained fidelity bond coverage up to \$800,000 with a deductible of \$250,000, which reached the suggested minimum as recommended by the NAIC.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company participated with other affiliates in the HRMC sponsored benefit plans which included a 401(K) retirement plan and a profit sharing plan. HRMC also provided group life insurance and health coverage.

TERRITORY AND PLAN OF OPERATIONS

The Company was authorized to transact insurance in the States of Florida, Alabama and South Carolina. As of the examination date, the Company had policies in-force only in the State of Florida.

Treatment of Policyholders

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

The Company did not maintain a claims procedure manual that included detailed procedures for handling each type of claim in accordance with Section 626.9541(1) (i) 3a, Florida Statutes.

Subsequent event: The Company provided a copy of its claims guidelines to the Office on May 18, 2011, in accordance with Section 626.9541(1)(i) 3a, Florida Statutes.

COMPANY GROWTH

The Company experienced increasing losses of \$4,471,192 and \$2,012,034 in 2009 and 2008, respectively. In addition, for the six month period ending June 30, 2010, the Company recorded a net loss of \$5,957,216. As a result, the Company for the six month period ending June 30, 2010, experienced losses of approximately \$1,000,000 per month.

The Company did not have any significant rate increases during the period under examination. On September 1, 2010, the Company had an overall rate increase of approximately 16.5%. The increase in rates was initiated in response to the increase in Personal Injury Protection claims.

In response to the losses, the Company implemented expense reduction measures and changes in the underwriting guidelines. A recovery program to reverse losses was required.

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.

	2009	2008	2007	2006	2005
Premiums Earned	61,287,237	41,381,024	46,111,503	47,950,829	51,215,125
Net Underwriting Gain/(Loss)	(5,578,634)	(1,801,514)	1,825,495	(235,952)	761,239
Net Income	(4,471,192)	(2,012,034)	3,427,944	2,341,975	2,316,807
Total Assets	107,367,207	81,277,038	86,763,054	87,685,289	83,557,756
Total Liabilities	76,012,953	49,731,329	52,927,584	57,090,272	59,181,942
Surplus As Regards Policyholders	31,354,252	31,545,709	33,835,471	30,595,022	24,375,813

LOSS EXPERIENCE

The Company for the years 2005 to 2008 experienced consistent loss and loss adjustment expenses activity. In 2009, the loss and loss adjustment expenses increased approximately 65%. The increase in 2009 was attributable to economic conditions and a significant increase in the frequency and severity of claims related to the Company's private auto line of business.

REINSURANCE

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

Reinsurance Ceded

As of June 30, 2009, the Company commuted its Quota Share agreement with its affiliate Kingsway Re. The commutation agreement and documentation reviewed complied with applicable NAIC standards.

ACCOUNTS AND RECORDS

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

An independent CPA audited the Company's statutory basis financial statements annually for the years 2005, 2006, 2007, 2008 and 2009, in accordance with Section 624.424(8), Florida Statutes. Supporting work papers were prepared by the CPA as required by Rule 69O-137.002, Florida Administrative Code.

The Company's accounting records were maintained on a computerized system. The Company's balance sheet accounts were verified with the line items of the annual statement submitted to the Office.

The Company and non-affiliates had the following agreements:

Custodial Agreement

The Company had a custodial agreement with LaSalle Bank National Association, dated April 25, 2003. The agreement was in accordance with Rule 69O-143.042, Florida Administrative Code.

Asset Management Agreement

On December 31, 2009, the Company, along with other affiliated companies, had an asset management agreement with Conning Asset Management Company (CAMC). CAMC managed the purchases and sales of investment positions in accordance with the Company's investment guidelines. CAMC also provided investment advisory, investment accounting and reporting services to the Company.

Independent Auditor Agreement

The Company had an agreement with KPMG to perform an audit of its statutory financial statements for the five year period under review.

INFORMATION TECHNOLOGY REPORT

InsFocus, LLC representatives Carlos Ruesta, CISA, and Nicholas Adimoolah, CISA, performed an evaluation of the information technology and computer systems of the Company. Results of the evaluation were noted in the Information Technology Report and issued to the Company.

STATUTORY DEPOSITS

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

STATE	Description	Par Value	Market Value
FL	USTBDS, 4.0%, 02/15/2014	\$1,000,000	\$1,069,300
FL	USTBDS, 4.75%, 03/31/2011	\$250,000	\$262,265
FL	CD, 0.65%, 3/26/2011	\$250,000	\$250,000
TOTAL FLORIDA DEPOSITS		<u>\$1,500,000</u>	<u>\$1,581,565</u>
AL	USTBLL, 0.75%, 08/15/2013	\$600,668	\$601,428
TOTAL OTHER DEPOSITS		<u>\$600,668</u>	<u>\$601,428</u>
TOTAL SPECIAL DEPOSITS		<u><u>\$2,100,668</u></u>	<u><u>\$2,182,993</u></u>

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2009, 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."

KINGSWAY AMIGO INSURANCE COMPANY
Assets

DECEMBER 31, 2009

	Per Company	Examination Adjustments	Per Examination
Bonds	\$75,601,697		\$75,601,697
Real Estate			
Properties			
Occupied by Company	9,268,356		9,268,356
Cash	624,693		624,693
Other Invested Assets	2,301,489		2,301,489
Investment Income			
Due and accrued	743,494		743,494
Premiums and Considerations			
Uncollected Premiums and Agent Balances	5,922,085		5,922,085
Deferred Premiums and Agent Balances	9,914,170		9,914,170
Current Federal and Foreign Income Tax Recoverable	79,151		79,151
Net Deferred Tax Asset	2,842,226	(2,842,226)	-
Electronic Data Processing Equipment and Software	69,846		69,846
	<hr/>		
Totals	\$107,367,207	(\$2,842,226)	\$104,524,981
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KINGSWAY AMIGO INSURANCE COMPANY
Liabilities, Surplus and Other Funds

DECEMBER 31, 2009

	Per Company	Examination Adjustments	Per Examination
Losses	\$32,997,712		\$32,997,712
Loss Adjustment Expenses	14,876,625		14,876,625
Other Expenses	244,432		244,432
Taxes, Licenses and Fees	323,338		323,338
Unearned Premiums	25,504,776		25,504,776
Payable to Parent, Subsidiary and Affiliates	2,066,070		2,066,070
Total Liabilities	\$76,012,953		\$76,012,953
Common Capital Stock	2,000,000		2,000,000
Surplus Notes	2,600,000		2,600,000
Gross Paid In and Contributed Surplus	31,320,000		31,320,000
Unassigned Funds (Surplus)	(4,565,748)	(2,842,226)	(7,407,974)
Surplus as Regards to Policyholders	\$31,354,252		\$28,512,026
Total Liabilities, Surplus and Other Funds	\$107,367,205		\$104,524,979

KINGSWAY AMIGO INSURANCE COMPANY
Statement of Income

DECEMBER 31, 2009

Underwriting Income

Premiums earned	\$61,287,237
Deductions	
Losses incurred	\$35,686,147
Loss adjustment expenses incurred	15,021,876
Other underwriting expenses incurred	16,157,848
Total underwriting deductions	\$66,865,871
Net underwriting gain (loss)	(\$5,598,634)

Investment Income

Net investment income earned	\$1,609,169
Net realized capital gains (losses)	(983,016)
Net investment gain (loss)	\$626,153

Other Income

Net gain (loss) from agents' or premium balances charged off	(\$380,430)
Finance and service charges not included in premiums	782,059
Total other income	\$401,629
Net income after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	(\$4,550,852)
Federal and foreign income taxes incurred	(79,660)
Net income	(\$4,471,192)

Capital and Surplus Account

Surplus as regards to policyholders, December 31 prior year	\$31,545,704
Net income	(\$4,471,192)
Change in net unrealized capital gains (losses)	221,008
Change in net deferred income tax	1,454,433
Change in nonadmitted assets	4,303
Change in surplus notes	2,600,000
Examination Adjustments	2,842,226
Change in surplus as regards policyholders for the year	(\$3,033,674)
Surplus as regards policyholders, December 31 current year	\$28,512,030

KINGSWAY AMIGO INSURANCE COMPANY
Comparative Analysis of Changes In Surplus

DECEMBER 31, 2009

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

Surplus as Regards Policyholders December 31, 2009, per Annual Statement	\$31,354,256
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	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:			
Net Deferred Tax Asset	\$2,842,226	\$0	(\$2,842,226)
LIABILITIES:			
No Adjustment			
Net Change in Surplus:			<u>(2,842,226)</u>
Surplus as Regards Policyholders December 31, 2009, Per Examination			<u><u>\$28,512,030</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Assets

Deferred Tax Asset \$-0-

The Deferred Tax Asset was improperly reported as \$2,842,226. It was reduced by \$2,842,226. The Company was not in compliance with SSAP No. 10 as the Deferred Tax Asset was not expected to be realized within the coming year due to the net losses for the period ending December 31, 2010.

Liabilities

Losses and Loss Adjustment Expenses \$47,874,337

An outside actuarial firm appointed by the Board rendered an opinion that the amounts carried in the balance sheet as of December 31, 2009, made a reasonable provision for all unpaid loss and loss adjustment expense obligations of the Company under the terms of its policies and agreements.

The Office engaged an independent actuarial firm, InsFocus, to review the reserves carried in the Company's balance sheet as of December 31, 2009. The consulting actuaries were in concurrence with this opinion.

Capital and Surplus

The amount reported by the Company of \$31,354,252 was adjusted to \$28,512,030 by the examination, which exceeded the minimum of \$7,601,295 required by Section 624.408, Florida Statutes.

SUMMARY OF RECOMMENDATIONS**Deferred Tax Asset**

We recommend that the Company take a more conservative approach with regard to calculating the admissibility of any deferred tax asset in accordance with SSAP 10.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Kingsway Amigo Insurance Company** as of December 31, 2009, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was \$28,512,030, which exceeded the minimum of \$7,601,295 required by Section 624.408, Florida Statutes.

In addition to the undersigned, Sara Baylock, Reinsurance Financial Specialist, represented the Office, Anthony DeLuca, CPA, Examiner-In-Charge, Neil Miner, CFE, and Marcus Ladd, CPA, represented InsFocus, LLC during the examination. We also recognize Clinton Sornberger, FCAS and Anthony Pipia, MAAA, who represented InsFocus, LLC during the examination as Consulting Actuaries.

Respectfully submitted,

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