

EXAMINATION REPORT

OF

KINGSWAY AMIGO INSURANCE COMPANY

MIAMI, FLORIDA

AS OF

DECEMBER 31, 2014

BY THE

FLORIDA OFFICE OF INSURANCE REGULATION

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April 29, 2016

David Altmaier
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, 2014, of the financial condition and corporate affairs of

Kingsway Amigo Insurance Company
3155 NW 77th 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, 2010 through December 31, 2014. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office), which covered the period of January 1, 2005 through December 31, 2009, as well as a limited scope exam covering the period of January 1, 2011 through December 31, 2011. This examination commenced with planning at the Office on February 22, 2016 to February 26, 2016. The fieldwork commenced on February 29, 2016 and concluded as of April 29, 2016.

The examination was a single state examination conducted in accordance with the NAIC Financial Condition Examiners Handbook. The Handbook requires that the examination is planned and performed to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the company and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles.

This examination report includes significant findings of fact, as mentioned in Section 624.319, Florida Statutes and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Company.

SUMMARY OF SIGNIFICANT FINDINGS

Current Examination Findings

There were no material findings or exceptions noted during the examination as of December 31, 2014.

Prior Examination Findings

The following is a summary of material adverse findings, significant non-compliance findings, or material changes in the financial statements in the Office's prior examination report as of December 31, 2009, along with the resulting action taken by the Company in connection therewith:

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. **Resolution:** The Company no longer reports a deferred tax asset.

COMPANY HISTORY

General

The Company was incorporated in Florida on August 20, 1985, and commenced business on December 17, 1985 as U.S. Security Insurance Company. Effective February 25, 2010, the Company modified its name and continued doing business as Kingsway Amigo Insurance Company.

On November 19, 2012, the Office approved the Company's plan to withdraw from the business of offering commercial lines insurance in Florida. On January 30, 2013, the Office approved the Company's plan to withdraw from the business of offering personal lines insurance in Florida.

Runoff Plan

In April 2013, the Company filed a comprehensive run-off plan with the Office. In conjunction with the plan of withdrawal, the Company requested and received approval from the Office to withdraw from all its authorized lines of business. Additionally, as a condition of the runoff plan, the Company and the Office agreed that in lieu of maintaining statutory minimum surplus of \$4,000,000, that its RBC level would be maintained above 200%. As of December 31, 2014, the Company was in compliance with the approved runoff plan.

Dividends

The Company did not declare or pay any dividends during the period of this examination.

Capital Stock and Capital Contributions

As of December 31, 2014, 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, who owned 100% of the stock issued by the Company, who in turn was indirectly 100% owned by Kingsway Financial Services, a Canadian corporation.

Capital contributions were received during the period of examination totaling \$14,533,395 in conjunction with maintaining RBC above 200% per runoff plan.

Surplus Notes

The Company issued a subordinated surplus debenture on September 30, 2009 to Kingsway America, Inc., exchange for a \$2,600,000 cash infusion to policyholder surplus. The surplus debenture, a 7.25% interest-bearing note, matures on September 30, 2039. It was approved by the Office on September 11, 2009.

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

The Company had no acquisitions, mergers, disposals, dissolutions and purchase or sales through reinsurance during the period of this examination.

CORPORATE RECORDS

The recorded minutes of the Shareholders, Board of Directors (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 compliance with the NAIC Financial Condition Examiners Handbook adopted by Rule 69O-138.001, Florida Administrative Code, including the authorization of investments as required by Section 625.304, Florida Statutes.

Conflict of Interest

The Company adopted a policy statement requiring periodic 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 Section 628.231, Florida Statutes. Directors serving as of December 31, 2014 are shown below.

Directors

Name and Location	Principal Occupation
William August Hickey, Jr. Winnetka, Illinois	President Kingsway Amigo Insurance Company
Sandra Marie Pappas Prospect Heights, Illinois	Treasurer & Secretary Kingsway Amigo Insurance Company
Richard Arnold Slater, Jr. Buffalo Grove, Illinois	Vice President Kingsway Amigo Insurance Company
Leeann Hazel Repta Woodridge, Illinois	Vice President, Operations Kingsway Financial Services, Inc.
Robert Thomas Rotondo Glendale Heights, Illinois	Vice President Kingsway Amigo Insurance Company

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

Senior Officers

Name	Title
William August Hickey, Jr.	President
Richard Arnold Slater, Jr.	Vice President
Dorothy Ann Brooks (a)	Secretary
Sandra Marie Pappas	Treasurer
Robert Thomas Rotondo	Vice President

(a) Replaced by Sandra Marie Pappas on September 2, 2015.

Following were the principal internal board committees and their members as appointed by the Board as of December 31, 2014:

Audit Committee

Gregory P. Hannon, Chairman
Terence M. Kavanagh
Joseph D. Stilwell
Dorothy Ann Brooks, Secretary

Investment Committee

William A. Hickey, Jr.
Hassan R. Baqar

The Company maintained an audit committee, as required by Section 624.424(8) (c), Florida Statutes.

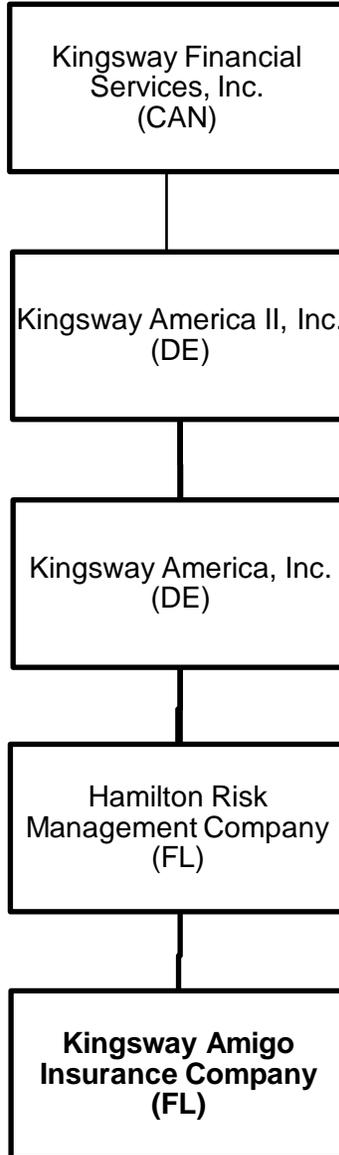
Affiliated Companies

The most recent holding company registration statement was filed with the Office on February 27, 2015, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

Kingsway Amigo Insurance Company

Organizational Chart

December 31, 2014



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

Tax Allocation Agreement

The Company is a participant in the Second Amended and Restated Kingsway Affiliated Group Tax Allocation Agreement dated December 1, 2013. The method of allocation between the Company and Kingsway America II Inc., the parent company, was on a separate-entity basis.

Managing General Agent (MGA) Agreement

The Company entered into a MGA agreement with Insurance Management Services, Inc., an affiliate, on December 2, 1992. According to the terms of the MGA agreement, the MGA monitored and supervised all agents, and provided underwriting and claims handling services. The MGA agreement continues through runoff.

Management Services Agreement

The Company and its parent company, Hamilton Risk Management Company (Hamilton Risk), are parties to a Management Services Agreement, effective January 1, 2001, under which Hamilton Risk provides executive officers and employees, accounting, tax reporting, payroll and general financial reporting services. Since the Company went into voluntary runoff, the operations have consisted of claims processing which is handled entirely by an affiliate – Mendota Insurance Company (Mendota).

Claims Services Agreement

The Company entered into a Claims Services Agreement with Mendota Insurance Company, effective June 1, 2012, where the Company will perform claim management services for certain coverage of Florida claims of Mendota. The agreement covers 125% of the cost of actual staff time plus out-of-pocket expenses, payable monthly. Fees earned under this agreement during 2014 were \$27,481.

Reinsurance Quota Share Agreements

The Company, IAT Re, and Kingsway Reinsurance Corporation, a Barbados corporation, are parties to two Quota Share Reinsurance Contracts, both dated October 1, 2011, with one covering losses through December 31, 2011, and the other covering losses through December 31, 2012, pursuant to which IAT Re and Kingsway Reinsurance Corporation funds the reinsurer obligations under the Agreement.

Asset Management Agreement

The Company is party to an agreement between Kingsway Amigo Insurance Company and Asset Allocation & Management Company, LLC (AAM), dated July 1, 2011 which replaced an agreement between Kingsway Financial Services, Inc. (and its subsidiaries and affiliates, including the Company) and Alpha Advisors, Inc. where AAM provides investment advice and portfolio management services. The Company's invested assets as of December 31, 2014 are in the form of cash and short term investments, and are on deposit in a custodial account at Bank of America.

TERRITORY AND PLAN OF OPERATIONS

The Company was authorized to transact insurance 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 maintained a claims procedure manual that included detailed procedures for handling each type of claim in accordance with Section 626.9541(1) (i) 3a, Florida Statutes.

REINSURANCE

Assumed

The Company did not assume any reinsurance during the period of this examination.

Ceded

The Company ceded reinsurance during the period of this examination, as described in the section titled Reinsurance Quota Share Agreements of this examination report.

ACCOUNTS AND RECORDS

The Company maintained its principal operational offices in Miami, Florida.

The Company and non-affiliates had the following agreements:

Custodial Services Agreement

The Company maintained a custodial services agreement with Bank of America. The agreement complied with Rule 69O-143.042, Florida Administrative Code.

Independent Auditor Agreement

An independent CPA, BDO USA, LLP, audited the Company's statutory basis financial statements annually for the years 2010 through and including 2014, 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.

INFORMATION TECHNOLOGY REPORT

Thomas H. Hayden, AES, CISA, of Risk & Regulatory Consulting performed an evaluation of the information technology and computer systems of the Company. Results of the evaluation were noted in the Information Technology Report provided to the Company.

STATUTORY DEPOSITS

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

State	Description	Par Value	Market Value
FL	Cash	\$ 1,250,000	\$1,250,000
FL	CD - Bank of America	<u>250,000</u>	<u>250,000</u>
		<u>\$ 1,500,000</u>	<u>\$1,500,000</u>

FINANCIAL STATEMENTS

The examination does not attest to the fair presentation of the financial statements included herein. If an adjustment is identified during the course of the examination, the impact of such adjustment will be documented separately following the Company's financial statements. Financial statements, as reported and filed by the Company with the Florida Office of Insurance Regulation, are reflected on the following pages:

Kingsway Amigo Insurance Company

Assets

December 31, 2014

	Per Company	Examination	Per Examination
		Adjustments	
Bonds	\$ -		\$ -
Common Stocks	32,683		32,683
Real estated occupied by Company	5,009,169		5,009,169
Cash and Short-Term Investments	10,170,906		10,170,906
Other investments	1,500,000		1,500,000
Investment income due & accrued	222,320		222,320
Amounts recoverabe from reinsurers	240,997		240,997
Federal income tax recoverable	60,239		60,239
Totals	<u>\$ 17,236,314</u>	<u>\$ -</u>	<u>\$ 17,236,314</u>

Kingsway Amigo Insurance Company
Liabilities, Surplus and Other Funds
December 31, 2014

	Per Company	Examination Adjustments	Per Examination
Losses	\$ 5,260,133		\$ 5,260,133
Loss adjustment expenses	3,584,204		3,584,204
Commissions payable	61,957		61,957
Other expenses	29,804		29,804
Taxes, licenses and fees	41,975		41,975
Payable to parent, subsidiaries and affiliates	131,380		131,380
Aggregate write-ins for liabilities	6,096,982		6,096,982
Total Liabilities	\$ 15,206,435	\$ -	\$ 15,206,435
Common capital stock	2,000,000		2,000,000
Surplus Notes	2,600,000		2,600,000
Gross paid in and contributed surplus	45,853,395		45,853,395
Unassigned funds (surplus)	\$ (48,423,516)		\$ (48,423,516)
Surplus as regards policyholders	\$ 2,029,879	\$ -	\$ 2,029,879
Total liabilities, surplus and other funds	\$ 17,236,314	\$ -	\$ 17,236,314

Kingsway Amigo Insurance Company
Statement of Income and Capital and Surplus Account
December 31, 2014

Underwriting Income

Premiums earned		\$13,626
	Deductions:	
Losses incurred		(\$1,371,087)
Loss expenses incurred		(1,013,378)
Other underwriting expenses incurred		1,037,443
Aggregate write-ins for underwriting deductions		0
Total underwriting deductions		<u>(\$1,347,022)</u>
Net underwriting gain or (loss)		\$1,360,648

Investment Income

Net investment income earned		(\$331,739)
Net realized capital gains or (losses)		(3,237,418)
Net investment gain or (loss)		<u>(\$3,569,157)</u>

Other Income

Net gain or (loss) from agents' or premium balances charged off		\$1,818
Finance and service charges not included in premiums		17,174
Aggregate write-ins for miscellaneous income		\$35,966
Total other income		<u>\$54,958</u>

Net income before dividends to policyholders and before federal & foreign income taxes		(\$2,153,551)
Dividends to policyholders		0
Net Income, after dividends to policyholders, but before federal & foreign income taxes		(\$2,153,551)
Federal & foreign income taxes		<u>(60,239)</u>
Net Income		<u>(\$2,093,312)</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year		\$2,944,218
Net Income		(\$2,093,312)
Net unrealized capital gains or losses		(7,949)
Change in non-admitted assets		(511,472)
Change in provision for reinsurance		0
Change in excess statutory over statement reserves		0
Surplus adjustments: Paid in		1,698,395
Aggregate write-ins for gains and losses in surplus		0
Change in surplus as regards policyholders for the year		<u>(\$914,338)</u>
		(1)
Surplus as regards policyholders, December 31 current year		<u>\$ 2,029,879</u>

Kingsway Amigo Insurance Company
Comparative Analysis of Changes in Surplus
December 31, 2014

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

Surplus as Regards Policyholders
 December 31, 2014, per Annual Statement \$2,029,879

	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:			
No adjustments per exam			
LIABILITIES:			
No adjustments per exam			
Surplus as Regards Policyholders			

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses

Lee M. Smith with Paradigm Actuaries, who was appointed by the Board, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2014, made a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

The Office's consulting actuary, Lisa Chanzit, FCAS, MAAA of Risk & Regulatory Consulting, LLC, reviewed the loss and loss adjustment expense work papers provided by the Company and she was in concurrence with this opinion.

Capital and Surplus

The amount of capital and surplus reported by the Company was \$2,029,879. Pursuant to the Company's runoff plan, which was approved by the Office, in lieu of the minimum capital and surplus of \$4,000,000, the Company would maintain its RBC above 200% until the runoff was completed. As of December 31, 2014 the Company was in compliance with the runoff plan.

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, 2014, consistent with the insurance laws of the State of Florida.

The Company's surplus as regards policyholders was \$2,029,879, which was in compliance with runoff plan approved by the Office.

In addition to the undersigned, Jacqueline L. Gardner, FLMI, CFE, Examiner-in-Charge, Thomas H. Hayden, AES, CISA, IT Specialist; Lisa Chanzit and David S. Wolfe, ACAS, MAAA, Actuarial Examiners, Participating Examiners, of Risk & Regulatory Consulting, LLC also participated in the examination. Members of the Office who participated in the examination include Jonathan Frisard, Financial Examiner/Analyst Supervisor, Examination Manager, and Kyra D. Brown, Financial Specialist, Participating Examiner.

Respectfully submitted,

Lamar Downs, CPA
Deputy Chief Examiner
Florida Office of Insurance Regulation