

REPORT ON EXAMINATION
OF
UNITED PROPERTY & CASUALTY
INSURANCE COMPANY
ST. PETERSBURG, FLORIDA

AS OF
DECEMBER 31, 2009

BY THE
OFFICE OF INSURANCE REGULATION

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TALLAHASSEE, FLORIDA

September 24, 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, 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:

**UNITED PROPERTY & CASUALTY INSURANCE COMPANY
360 CENTRAL AVENUE, SUITE 900
ST. PETERSBURG, FLORIDA 33731**

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 14, 2010, to June 17, 2010. The fieldwork commenced on June 21, 2010, and concluded as of September 24, 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.

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 reports, the Demotech rating report, the Company's independent audit reports and certain work papers prepared by the Company's independent certified public accountant (CPA) and other reports as considered necessary were reviewed and utilized where applicable within the scope of this examination.

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

There were no material adverse findings, significant non-compliance findings, or material changes in the financial statements noted during this examination.

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 Company issued a surplus debenture to United Insurance Holding, LC (UIH) for \$4,000,000 in 2004, without prior approval from the Office. **Resolution:** The Company has stated that prior approval will be obtained from the Office for all future issuances of surplus debentures.

Bonds

Two bonds were reported on the annual statement as designation "2FE" and "1FE". The Securities and Valuation office rated these bonds as "NR" (not rated). The Company was not in compliance with Rule 69O-137.001, Florida Administrative Code. **Resolution:** The Company correctly reported the rating designation of all investments as rated by the NAIC Securities Valuation Office in the 2009 annual statement filing.

Agents' Balances

The Company's annual statement did not account for Agents' Balances Deferred and Advance Premiums, rather the premiums receivable were grouped in total as Agents' Balances in the Course of Collection. This process was not in accordance with Rule 69O-137.001, Florida Administrative Code. Premiums collected and deposited by the Managing General Agent (MGA) were not in compliance with "trust account" requirements per Section 625.012, Florida Statutes. **Resolution:** The Company correctly reported premiums due, deferred premiums and advance premiums in accordance with the NAIC Annual Statement Instructions for Property Casualty Companies in the 2009 annual statement. The Company filed a trust agreement and received approval from the Office. The agreement covers premiums collected for the Company by its MGA.

SUBSEQUENT EVENTS

One change has been made to the management of the Company subsequent to the examination date. Joseph Peiso was appointed as the Chief Financial Officer in 2010.

In addition, the Company has been admitted to conduct business in South Carolina. This is part of the Company's planned geographical risk diversification strategy. As part of that process in June 2010, the Company amended the Articles of Incorporation to increase the capital account from 1,000 shares to 150,000 shares to provide for paid in capital of \$1,500,000.

The Company's parent, United Insurance Holdings, LC, made an additional paid-in capital contribution of \$3 million in 2010.

HISTORY

General

The Company was incorporated in Florida on February 25, 1999, and commenced business on April 2, 1999, as United Property & Casualty Insurance Company.

The Company was authorized to transact the following types of insurance coverage in Florida on

December 31, 2009:

Homeowners Multi Peril
Commercial Multi Peril
Other Liability
Inland Marine
Burglary & Theft

Fire
Commercial Auto Physical Damage
Commercial Auto Liability
Allied Lines

The Articles of Incorporation and the Bylaws were not amended during the period covered by this examination.

Dividends to Stockholders

In accordance with Section 628.371, Florida Statutes, the Company declared and paid dividends to its stockholder in 2008 in the amount of \$5,000,000.

Capital Stock and Capital Contributions

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

Number of authorized common capital shares	1,000
Number of shares issued and outstanding	1,000
Total common capital stock	\$10,000
Par value per share	\$10

Over the course of the examination period, the parent company, United Insurance Holdings, LC (UIH), made capital contributions of \$22,000,000 to the Company.

Control of the Company was maintained by its parent, UIH, who owns 100 percent of the stock issued by the Company.

On September 26, 2008, the Office approved by Consent Order 97715-08, the Company's application for indirect ownership of five percent (5%) or more of the issued and outstanding voting securities of the Company by FMG Acquisition Corporation and United Subsidiary Corporation. FMG Acquisition Corporation's name was changed to United Insurance Holding Corporation (UHIC). Subsequent to acquisition, the shareholders owning five percent (5%) or more of UHIC were Synovus Financial Corporation with fourteen and forty-three one hundredths percent (14.43%) and Gregory C. Branch with ten and seventy-eight one hundredths percent (10.78%) and FMG Investors, LLC with nine percent (9%).

Surplus Debentures

The Company has outstanding, as of December 31, 2009, one surplus debenture between the Company and the State Board of Administration of Florida in the amount of \$19,705,882. The \$20 million, 20 year "Insurance Capital Build-Up Incentive Program Surplus Note" was executed September 22, 2006. The surplus note has a number of conditions including minimum capital requirements and writing ratios. The interest rate is equivalent to the 10-year U.S. Treasury Bond rate.

Three surplus notes from UIH were retired in 2007 as noted below:

\$3,000,000

\$4,000,000

\$5,000,000

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

The Company had no acquisitions, mergers, disposals, dissolutions, and purchases or sales through reinsurance.

CORPORATE RECORDS

The recorded minutes of the shareholder and Board of Directors (Board) were reviewed for the period under examination. The recorded minutes of the Board documented its meetings in accordance with Section 607.1601, 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	Principal Occupation
Gregory Crosswell Branch Ocala, Florida	President, Seminole Feed
Donald J. Cronin St. Petersburg, Florida	President, United Insurance Holding Corp.
Gordon G. Pratt Farmington, CT	Managing Director, Fund Management Group
Alec L. Poitevint II Bainbridge, GA	President, Mineral Associates, Inc. ICAT Holdings
Larry G. Swets Jr. Elk Grove, IL	Managing Director, KFS Capital, LLC
Kent G. Whittemore St. Petersburg, Florida	President, The Whittemore Law Group, P.A.
James R. Zuhlke North Barrington, IL	Executive Chairman, Avalon Risk Management Insurance Agency

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

Senior Officers

Name	Title
Donald Jeffrey Cronin	President/CEO
Melvin Atwood Russell Jr.	Senior Vice President/Secretary

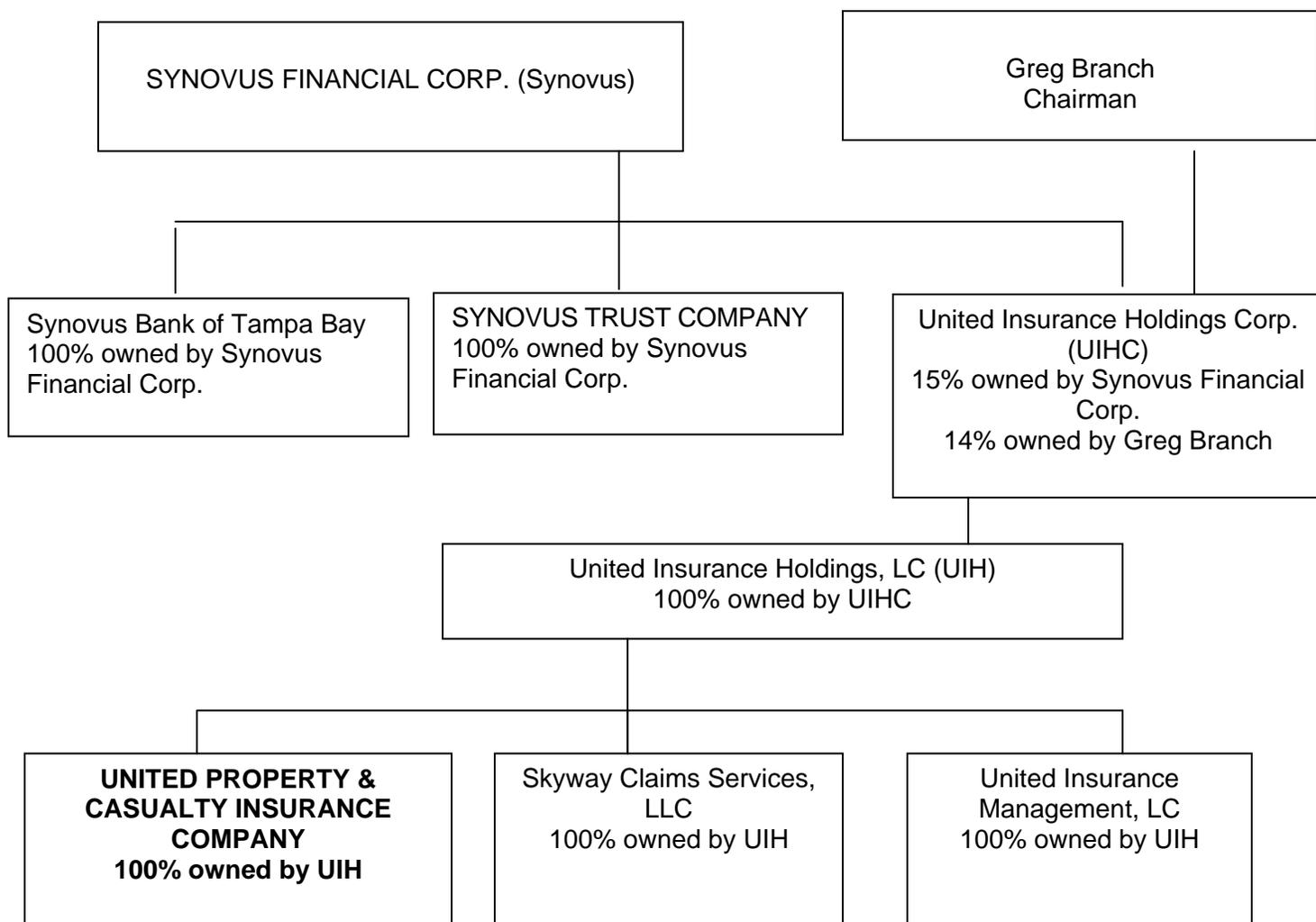
Affiliated Companies

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 February 25, 2010, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code. The Company filing did not disclose the agreements with Synovus Trust Company N.A. and Skyway Claims Service as required by Rule 69O-143.046 (2)(c)(5), Florida Administrative Code. **Subsequent event:** The Company filed an amended 2009 annual registration statement which included the above agreements.

An 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.

**UNITED PROPERTY & CASUALTY INSURANCE COMPANY
ORGANIZATIONAL CHART**

DECEMBER 31, 2009



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

Tax Allocation Agreement

Effective October 1, 2008, a tax allocation agreement was executed between United Insurance Holdings, LC and its affiliated companies. The Company, along with its parent, filed a consolidated federal income tax return. On December 31, 2009, the method of allocation between the Company and its parent was as if they were unaffiliated corporations and to compensate each entity for offsets used in computing the consolidated return.

Management General Agent Agreement

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

Claims Services Agreement

Effective April 1, 2004, a claims services agreement was executed between the Company and an affiliate, Skyway Claims Services, L.C. (Skyway). Skyway would perform certain claims adjustment services for the Company.

Investment Management Agreement

Effective October 8, 2003, an investment management agreement was executed between the Company and Synovus Trust Company, N.A. (Synovus). Synovus is to provide investment

management services and to select investments in accordance with Section 625.302, Florida Statutes.

Custodial Agreement

The following provisions required by Rule 69O-143.042, Florida Administrative Code, were not contained in the custody agreement with Synovus dated June 3, 2005:

Section (2) (h) The custodian shall maintain records sufficient to determine and verify information relating to custodied securities that may be reported in the insurance company's Annual Statement and supporting schedules and information required in any audit of the financial statements of the insurance company.

Section (2) (j) A national bank, state bank or trust company shall secure and maintain insurance protection in an adequate amount covering the bank's or trust company's duties and activities as custodian for the insurer's assets, and shall state in the custody agreement that protection is in compliance with the requirements of the custodian's banking regulator. A broker/dealer shall secure and maintain insurance protection for each insurance company's custodied securities in excess of that provided by the Securities Investor Protection Corporation in an amount equal to or greater than the market value of each respective insurance company's custodied securities.

Section (2) (o) The custodian shall provide written notification to the Office if the custodial agreement with the insurer has been terminated or if 100% of the account assets in any one custody account have been withdrawn. This notification shall be remitted to the Office within three (3) business days of the receipt by the custodian of the insurer's written notice of termination or within three (3) business days of the withdrawal of 100% of the account assets.

Subsequent event: On November 1, 2010, the Company and Synovus executed a new Custodial Agreement which included all required provisions.

FIDELITY BOND AND OTHER INSURANCE

The Company maintained fidelity bond coverage up to \$15,000 which did not reach the suggested minimum recommended by the NAIC. **Subsequent event:** The Company increased its fidelity bond coverage to the amount of \$1,000,000 effective July 29, 2010 to meet the minimum amount of coverage suggested by the NAIC.

The Company also maintained a commercial liability insurance policy with coverage limits of \$1,000,000.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company had no pension, stock ownership or insurance plans as of December 31, 2009.

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.

COMPANY GROWTH

The Company has plans for geographical expansion as a means of managing its geographical risk and to help minimize the cost of reinsurance.

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	77,632,582	79,594,410	79,435,821	77,146,988	74,887,398
Net Underwriting Gain/(Loss)	(17,386,017)	341,948	(1,507,596)	(6,492,013)	(8,991,075)
Net Income	(8,048,821)	8,911,263	11,487,745	(1,603,529)	(4,889,564)
Total Assets	138,467,765	147,773,498	145,153,411	167,398,422	108,212,336
Total Liabilities	88,122,956	93,098,743	93,454,803	112,083,446	92,721,460
Surplus As Regards Policyholders	50,344,809	54,674,755	51,698,608	55,314,977	15,490,875

LOSS EXPERIENCE

Loss ratios have been relatively stable throughout the examination period. The ultimate loss and allocated loss adjustment expenses have decreased for most lines of business; however, there have been significant increases in sinkhole and catastrophe estimates. As the catastrophe losses are almost 100% ceded, the net loss estimate increases were not significant.

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.

Assumed

The Company assumed business from Citizens Property Insurance Company. Effective August 29, 2008, the Company was approved to withdraw policies from Citizens Property Insurance Company via Consent Order 97399-08-CO. The Company assumed approximately \$5.6 million and \$1.5 million premiums in 2008 and 2009 respectively.

Ceded

The Company ceded risk on an excess of loss basis to multiple reinsurers as listed on Schedule F, Part 3 of the Annual Statement.

The Company had a 50% quota share agreement for its commercial multiple peril business.

Property catastrophe occurrence claims were protected by excess covers with the Florida Hurricane Catastrophe Fund and with private reinsurance sources.

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

ACCOUNTS AND RECORDS

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

An independent CPA audited the Company's statutory basis financial statements annually for the years 2005 to 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:

Outsourcing Services Agreement

Effective October 1, 1999, the Company entered into an agreement with SunGard Insurance Systems Inc. (Sungard). Sungard processed and recorded the Company's investment transactions for Schedule D reporting.

Catastrophe Claims Service Provider Agreement

Effective April 1, 2002, the Company entered into an agreement with IMS Catastrophe Services, Inc. (IMS) to engage IMS to perform catastrophe claim adjustment services for the Company in the aftermath of a catastrophe occurrence, or at any time when the volume of claims exceeded the response ability of the Company's staff.

Service Agreement

Effective January 1, 2007, the Company entered into an agreement with BMS Intermediaries Limited (BMS) and United Insurance Management, LC (UIM) to provide an array of reinsurance and broker services to the Company.

Information Technology Report

INS Services, Inc. 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:

<u>State</u>	<u>Description</u>	<u>Par Value</u>	<u>Market Value</u>
FL	CD, 1.6 %	<u>\$ 300,000</u>	<u>\$ 300,000</u>
Total Florida Deposits		<u>\$ 300,000</u>	<u>\$ 300,000</u>
Total Special Deposits		<u>\$ 300,000</u>	<u>\$ 300,000</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."

UNITED PROPERTY & CASUALTY INSURANCE COMPANY
Assets

DECEMBER 31, 2009

	Per Company	Examination Adjustments	Per Examination
Bonds	\$98,308,852	\$0	\$98,308,852
Stocks:			
Preferred stocks	3,644,069	0	3,644,069
Common stocks	3,630,957	0	3,630,957
Cash, cash equivalents and short-term investments	14,245,303	0	14,245,303
Investment income due and accrued	1,103,323	0	1,103,323
Premiums and considerations:			
Uncollected premium and agents' balances in the course of collection	778,131	0	778,131
Deferred premiums, agents' balances and installments booked but deferred and not yet due	6,312,229	0	6,312,229
Amounts recoverable from reinsurers	2,030,129	0	2,030,129
Current federal and foreign income tax recoverable	3,017,400	0	3,017,400
Net deferred tax asset	2,950,456	0	2,950,456
Receivable from parents, subsidiaries and affiliates	921,827	0	921,827
Aggregate write-in for other than invested assets	1,525,088	0	1,525,088
Totals	<u>\$138,467,765</u>	<u>\$0</u>	<u>\$138,467,765</u>

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

DECEMBER 31, 2009

	Per Company	Examination Adjustments	Per Examination
Losses	\$17,336,964		\$17,336,964
Loss adjustment expenses	3,327,789		3,327,789
Other expenses	528,005		528,005
Taxes, licenses and fees	352,281		352,281
Borrowed money and interest thereon	166,690		166,690
Unearned premium	33,546,343		33,546,343
Advance premiums	3,823,970		3,823,970
Ceded reinsurance premiums payable	28,162,089		28,162,089
Remittances and items not allocated	14,696		14,696
Provisions for reinsurance	663,000		663,000
Aggregate write-ins for liabilities	201,128		201,128
Total Liabilities	\$88,122,955	\$0	\$88,122,955
Common capital stock	\$10,000		10,000
Surplus notes	19,705,882		19,705,882
Gross paid in and contributed surplus	27,990,000		27,990,000
Unassigned funds (surplus)	2,638,926		2,638,926
Surplus as regards policyholders	\$50,344,809	\$0	\$50,344,809
Total liabilities, surplus and other funds	\$138,467,765	\$0	\$138,467,765

UNITED PROPERTY & CASUALTY INSURANCE COMPANY
Statement of Income

DECEMBER 31, 2009

Underwriting Income

Premiums earned	\$77,632,582
Deductions:	
Losses incurred	36,331,503
Loss expenses incurred	4,763,803
Other underwriting expenses incurred	53,923,292
Aggregate write-ins for underwriting deductions	0
Total underwriting deductions	\$95,018,598
Net underwriting gain or (loss)	(\$17,386,017)
Investment Income	
Net investment income earned	\$3,883,899
Net realized capital gains or (losses)	(157,259)
Net investment gain or (loss)	\$3,726,639
Other Income	
Net gain or (loss) from agents' or premium balances charged off	(\$1,190)
Finance and service charges not included in premiums	442,445
Aggregate write-ins for miscellaneous income	6,728
Total other income	\$447,983
Net income before dividends to policyholders and before federal & foreign income taxes	(\$13,211,394)
Dividends to policyholders	0
Net Income, after dividends to policyholders, but before federal & foreign income taxes	(\$13,211,394)
Federal & foreign income taxes	(5,162,573)
Net Income	(\$8,048,821)
Capital and Surplus Account	
Surplus as regards policyholders, December 31 prior year	\$54,674,755
Net Income	(8,048,821)
Change in net unrealized capital gains or losses	1,940,168
Change in net deferred income tax	(484,272)
Change in non-admitted assets	822,510
Change in provision for reinsurance	(265,415)
Change in surplus notes	(294,117)
Change in excess statutory over statement reserves	0
Surplus adjustments: Paid in	2,000,000
Aggregate write-ins for gains and losses in surplus	0
Examination Adjustment	0
Change in surplus as regards policyholders for the year	(\$4,329,946)
Surplus as regards policyholders, December 31 current year	\$50,344,809

A comparative analysis of changes in surplus is shown below.

UNITED PROPERTY & CASUALTY 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 \$50,344,809

	<u>PER</u> <u>COMPANY</u>	<u>PER</u> <u>EXAM</u>	<u>INCREASE</u> <u>(DECREASE)</u> <u>IN SURPLUS</u>
ASSETS:			
No Adjustments			\$0
LIABILITIES:			
No Adjustments			\$0
Net Change in Surplus:			<u>0</u>
Surplus as Regards Policyholders December 31, 2009, Per Examination			<u><u>\$50,344,809</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses

\$20,664,753

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, 2009, 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 engaged an independent actuarial firm, INS Consultants, Inc., to review the Statutory Reserves carried in the Company's balance sheet as of December 31, 2009 and the actuarial firm was in concurrence with the above opinion.

Capital and Surplus

The amount reported by the Company of \$50,344,809, exceeded the minimum of \$8,706,128 required by Section 624.408, Florida Statutes.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of United Property & Casualty 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 \$50,344,809, in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned, Candice Melton, CPCU, Participating Examiner, Florida OIR, Joseph A. Rome, CFE, CIE, INS Regulatory Insurance Services, Inc. (InsRis); and Patricia Casey Davis, CPA, CFE, Manager, InsRis, participated in the examination. We also recognize the participation of James R. Neidermyer, FCAS, MAAA, and Michael W. Morro, ACAS, MAAA, both of INS Consultants, Inc. and the participation of Paul L. Berkerbile, CISA, CFSA, INS Services, Inc. in the examination.

Respectfully submitted,

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