REPORT ON LIMITED SCOPE EXAMINATION

OF

KINGSWAY AMIGO INSURANCE COMPANY

MIAMI, FLORIDA

AS OF

DECEMBER 31, 2011

BY THE

FLORIDA OFFICE OF INSURANCE REGULATION

TABLE OF CONTENTS

LETTER OF TRANSMITTAL .... -

SCOPE OF EXAMINATION 1

HISTORY 2

General 2

CORPORATE GOVERNANCE 3

ORGANIZATIONAL CHART 5

AFFILIATED AGREEMENTS 6

Services Agreement 6
Agency Agreement 6
Quota Share Reinsurance Agreements 6
Claims Services Agreement 7

INVESTMENTS 7

Bonds and Common Stocks 7
Cash and Short Term Investments 8
Real Estate 8

UNDERWRITING 9

LOSS AND LAE RESERVES 10

REINSURANCE 12

INFORMATION TECHNOLOGY 13

FINANCIAL STATEMENTS PER EXAMINATION 13

Assets 14
Liabilities, Surplus and Other Funds 15
Statement of Income 16

COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS 17

SUMMARY OF FINDINGS 18

Loss and Loss Adjustment Expenses Reserves 18

CONCLUSION 19

Tallahassee, Florida

July 20, 2012

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 a limited scope examination of corporate governance, affiliated agreements, investments, underwriting, loss and loss adjustment expense (LAE) reserves, reinsurance and information technology as of December 31, 2011, of:

KINGSWAY AMIGO INSURANCE COMPANY
3155 N.W. 77th AVENUE
MIAMI, FLORIDA 33122

Hereinafter referred to as the "Company". Such report of examination is herewith respectfully submitted.

SCOPE OF EXAMINATION

This was a limited scope examination of Kingsway Amigo Insurance Company (Company) to the extent and in the manner directed by the Florida Office of Insurance Regulation (Office). The Company was last examined by representatives of the Office as of December 31, 2009. To the extent applicable, the limited scope examination was conducted in accordance with the guidance of the National Association of Insurance Commissioners (NAIC) Financial Condition Examiner's Handbook, the NAIC Accounting Practices and Procedures Manual and the Florida Administrative Code. The limited scope examination differed in many respects from that of a full-scope examination or an audit performed in accordance with generally accepted auditing standards.

The field work commenced on April 16, 2012 and concluded as of July 20, 2012. The limited scope examination included material events occurring subsequent to December 31, 2011, and noted during the course of the examination as they related to the foregoing areas within the limited scope of the examination.

This examination covered the corporate governance, affiliated agreements, investments, underwriting, loss and loss adjustment expense (LAE) reserves, and reinsurance, as of December 31, 2011. An Information Technology (IT) evaluation related to the Company's recent conversion to Stingray, a new software system used for its personal lines products, was also performed. The examination was conducted by INS Regulatory Insurance Services, Inc.

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 changed its name to Kingsway Amigo Insurance Company.

The Company was authorized to transact private passenger auto liability, private passenger auto physical damage, commercial auto liability, commercial auto physical damage, other liability and allied lines insurance coverage in Florida as of December 31, 2011. The Company also wrote flood insurance through the National Flood Insurance Program. The Company was licensed in Florida, Alabama and South Carolina, but only wrote business in Florida during the period of examination.

The Company was wholly owned by Hamilton Risk Management Company (HRM), who in turn was owned by Kingsway America, Inc. (KAI). The ultimate parent was Kingsway Financial Services, Inc. (KFS), a Canadian corporation listed on the New York Stock Exchange. On March 30, 2011, KAI closed on the sale of HRM to Acadia Acquisition Partners, LP (Acadia). Pursuant to the sale, KAI became the General Partner of Acadia and maintained a 40% ownership in Acadia. That interest was managed through an operating agreement with the subsidiary entity, Acadia GP, LLP, that in turn was managed by William Hickey, Jr. and Larry Swets. United Property and Casualty Insurance Company (UPCI) was a 49% limited partner in Acadia and had an exclusive right of first refusal should Acadia decide to sell HRM in the future. A group of six members of HRM's senior management team were also 11% owners and limited partners of Acadia.

CORPORATE GOVERNANCE

Examination procedures were conducted that included inquiry and interviews of selected senior management and review of the corporate minutes. The Company had a Board of Directors (Board) that consisted of five (5) members, one (1) of which was independent of Company management. The Board and its appointed committees consisted of individuals with experience in the insurance and/or financial services industry. The Board established audit and investment committees for the review and/or approval of select processes and transactions. Except for one individual, all members of the audit committee were members of management.

Subsequent event: James Zuhlke resigned from the Board on February 23, 2012, and was replaced by Yvonne Alfonso-Lievano, Vice President, Human Resources and Secretary.

Directors serving as of December 31, 2011, were:

Directors

Name and Location	**Principal Occupation**
Alberto Naon Miami, Florida	President & Chief Operating Officer Kingsway Amigo Insurance Company
Rachael L. Aldulaimi Davie, Florida	Treasurer & Chief Financial Officer Kingsway Amigo Insurance Company
Timothy Lane Ocala, Florida	Vice President – Claims Kingsway Amigo Insurance Company
Carmen Valdes Miami, Florida	Senior Manager - Underwriting Kingsway Amigo Insurance Company
James R. Zuhlke (a) Jacksonville, Florida	Consultant Hamilton Risk Management Company

(a) James Zuhlke resigned from the Board on February 23, 2012, and was replaced by Yvonne Alfonso-Lievano, Vice President, Human Resources and Secretary.

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

Senior Officers

Name	**Title**
Alberto Naon	Acting President
Rachael L. Aldulaimi	CFO & Treasurer
Timothy Lane	Vice President, Claims
Carmen Valdes	Sr. Manager, Underwriting
Yvonne Alfonso-Lievano	Vice President, Human Resources; Secretary

The Board appointed two (2) committees. Following were the board committees and their members as of December 31, 2011:

Audit Committee	**Investment Committee**
James Zulke [1] [(a)]	James Zulke [1]
Alberto Naon	Alberto Naon
Rachael L. Aldulaimi	Rachael L. Aldulaimi

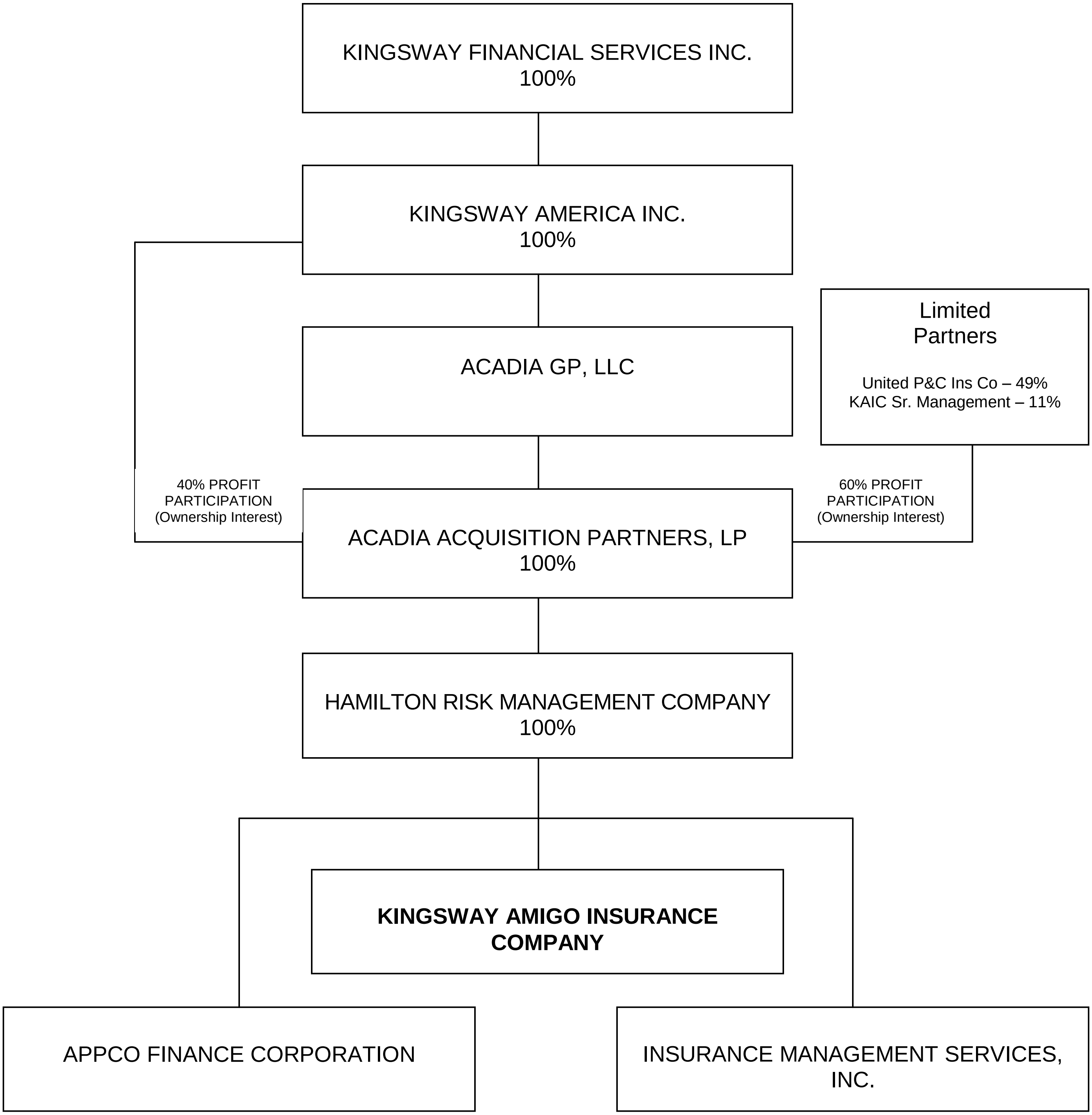
[1] Chairman

(a) James Zuhlke resigned from the audit committee on February 23, 2012. The vacancy has not yet been filled.

An organizational chart as of December 31, 2011, reflecting the holding company system, is shown on the following page. Schedule Y of the Company's 2011 annual statement provided a list of all related companies of the holding company group.

KINGSWAY AMIGO INSURANCE COMPANY
ORGANIZATIONAL CHART

December 31, 2011



AFFILIATED AGREEMENTS

Procedures were performed to identify and ensure that all related parties, as defined by SSAP No. 25, paragraphs 2-5, were properly disclosed and reported. Based on those procedures the following related parties and associated agreements were found to be in place at December 31, 2011:

Services Agreement

The Company had a services agreement with its parent, Hamilton Risk Management (HRM) dated August 28, 2001. Under the terms of agreement, data processing and other management functions were performed by HRM. The Company remitted a management fee monthly to HRM. Fees totaled $2,404,000 and $1,828,200 in 2011 and 2010, respectively.

Agency Agreement

The Company had a Managing General Agent with affiliate, Insurance Management Services, Inc. (IMS) dated December 2, 1992. Per the agreement, the Company granted authority to IMS to receive and accept proposals for insurance, collect all premiums and have the responsibility for the payment of all premiums to the Company whether collected or not. IMS charged the Company 18.8 % commission on premiums written. IMS also retained the $25 policy fee.

Quota Share Reinsurance Agreements

The Company entered into a quota share reinsurance agreement with affiliate, Kingsway Reinsurance Corporation (Kre). Per the agreement, the Company ceded 25% of all private passenger auto and commercial auto policies with effective dates of October 1, 2011 to December 31, 2011. The Company also entered into a separate quota share agreement with

Kre to cede 25% of all private passenger auto and commercial auto policies with effective dates of October 1, 2011 to December 31, 2012.

Claims Services Agreement

The Company entered into a claims services agreement with an indirect affiliate, Southern United Fire Insurance Company (SUFI) on April 1, 2009. Pursuant to the agreement, the Company provided claims management services. A monthly fee paid by SUFI was based on actual claims staff hours and any additional expenses paid by the Company. The agreement was properly submitted to the Office for approval per Rule 69O-143.047, Florida Administrative Code. On March 12, 2010 SUFI, an Alabama domestic insurance company, merged into America Service Insurance Company, Inc. an Illinois domestic insurance company.

There were no exceptions or findings as of December 31, 2011, related to affiliated agreements.

INVESTMENTS

Bonds and Common Stocks

At December 31, 2011, all bonds held by the Company had NAIC designations of 1 and 2. Bonds were carried at their amortized cost using the interest method. Amortization of the discount or premium on the bonds was tested to determine the appropriateness of the amortization method utilized. Common stocks were held at fair value. An independent evaluation of the fair value of common stock was utilized to determine the reasonableness of the reported fair value.

Direct confirmation of all securities as of the examination date was obtained from custodians as well as applicable state insurance departments' security divisions. Confirmed securities listings (e.g., description, par value, number of shares, cost) were compared with applicable Schedule D parts. In additional to the securities listing provided, the custodians verified how securities were registered (e.g., company name, company's nominee name or custodian's nominee name) and whether securities deposited were subject to any liens, claims or held as collateral for any loans made to an officer, director or employee of the Company.

Cash and Short Term Investments

Direct confirmation of all reported cash and short term investment balances as of the examination date was obtained from the applicable depository except for one certificate of deposit that was deemed to be immaterial. Bank reconciliations obtained from the Company were utilized to identify reconciling items. Bank statements subsequent to the examination date were obtained and reviewed to ensure proper inclusion of withdrawals. In addition to the confirmed balance, the depository verified that the amounts held were free and clear of any hypothecation, pledges, liens or guarantees.

Real Estate

The Company reported an investment in property that it occupied. Verification was made to determine that the actual cost on Schedule A - Real Estate was the sum of the original cost plus total capitalized improvements or additions. The reasonableness of the Company’s depreciation methods was also tested. An independent appraisal was conducted in 2010. The value of that appraisal was compared to the carrying value, in accordance with SSAP No. 40, paragraphs 11-12.

The Company reported investments in real estate in the amount of $8,860,114. This exceeded the statutory limit of $8,337,909 by $522,205 as prescribed by Section 625.333(3), Florida Statutes.

Subsequent Event: The Office approved the Company to carry the amount which exceeded the statutory limit.

UNDERWRITING

The Company primarily wrote non-standard private passenger auto liability and auto physical damage business, and a smaller amount of commercial auto business. General liability premium was reduced to zero in 2011. The Company also wrote flood business that was not retained. All business was produced and managed by the Company's affiliated agent, IMS.

The following table shows underwriting results (in dollars) of the Company for the past three years of operations, as reported in the filed annual statements.

	2011	**2010**	**2009**
Gross Premiums Written	49,395,469	70,456,560	75,883,662
Net Premiums Written	33,008,655	61,785,176	72,477,753
Net Underwriting Loss	(13,827,555)	(18,217,369)	(5,578,634)

Increased personal injury protection (PIP) claim activity in recent years has significantly contributed to underwriting losses. Changes to the Company's underwriting guidelines were made recently by the Company to counter the increase in PIP loss activity. Underwriting rules were changed in 2010 when a significant correlation was found between PIP claimants and individuals with prior PIP claim history. Effective September 15, 2010, private passenger auto (PPA) renewal risks with two or more prior PIP claims in the last 36 months were unacceptable. Effective November 1, 2010, commercial auto (CA) renewal risks with three or more claims and/or accidents in the past twelve months were unacceptable.

On August 1, 2010, the Company implemented significant rate increases including a 47% increase in PIP, where most of the negative results were occurring. In addition, bodily injury (BI) and property damage (PD) rates were raised by double digits and significant underwriting restrictions, as noted above, were added. Additional rate increases were implemented during 2011.

A sample of in-force policy data was tested for accuracy and completeness by the external auditor. The data was tested to verify and validate individual determinants, such as effective date; term and expiration date of the coverage; contract or identification number; premium amount; and negative amounts. Reliance was placed on the work performed by the external auditor.

There were no exceptions or findings as of December 31, 2011, related to underwriting.

LOSS AND LOSS ADJUSTMENT EXPENSE (LAE) RESERVES

The Board appointed and the Company contracted with Daniel David Schlemmer, ACAS, MAAA, an employee of Kingsway America, Inc., a direct subsidiary of Kingsway Financial Services, Inc., who rendered an opinion that the loss and loss adjustment expense reserves carried in the balance sheet as of December 31, 2011, made a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements. However, in the Statement of Actuarial Opinion, there were comments concerning the existence of significant risks and uncertainties that may expose the company's ultimate payments to material adverse deviation relative to carried reserves at December 31, 2011. The major risks identified were the relationship between the carried reserves and surplus, the relationship between the carried reserves and the Opining Actuary's point estimate, and the reopening of industry PIP claims as the result of a recent adverse court ruling regarding the implementation of policy wording around fee schedules used to pay PIP claims.

The Office engaged an independent actuarial firm, INS Consultants, Inc. (INS), to review the loss and loss adjustment expense reserves carried in the Company's balance sheet as of December 31, 2011. Based on the review, INS found the Company's carried gross and net loss and loss adjustment expense reserves to be considerably below INS' indications. INS' estimates and the opining actuary's point estimates were relatively close to each other and well above the company's carried reserves. Carried gross reserve of $33,447,000 was lower than INS' estimate of $36,563,000 by $3,116,000, or 9.3% of the carried reserve. Carried net reserve of $32,553,000 was lower than INS' estimate of $35,618,000 by $3,065,000, or 9.4% of the carried reserve, or 29.7% of the $10,325,949 policyholders' surplus. An adjustment to increase the estimated loss expense reserves by $3,065,000 is reflected in the financial statements of this examination report.

Subsequent Event: The Company contributed a total of $6.3 million for reserve strengthening. It is reflected in their September 30, 2012 Quarterly statement.

REINSURANCE

The Company, as cedant, was party to several reinsurance contracts with both affiliated and unaffiliated reinsurers. Contracts included quota-share, property catastrophe excess of loss and an excess clash cover. The Company also had an arrangement with the Federal Emergency Management Agency (FEMA) that enabled the Company to write flood policies that are 100% ceded back to FEMA. The Company did not assume any reinsurance.

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

The reinsurance contracts were reviewed for proper risk transfer in accordance with SSAP No. 62, paragraphs 9-16. Due to certain loss limiting features contained in the three quota share contracts, reliance was placed on a risk transfer analysis performed by an independent actuarial firm engaged by the external auditor.

Financial information was obtained and reviewed for reinsurers to whom significant business was ceded, including affiliated reinsurer, Kingsway Reinsurance Corporation. Sources of information included financial reports and insurance industry reporting and rating services.

Procedures were performed to address the completeness and accuracy of the ceded reinsurance premium payable balance of $5,623,943 reported by the Company as of December 31, 2011. Work performed by the external auditors was obtained and reviewed to ensure premiums remitted and losses and LAE payments billed as part of the reinsurance agreements were accurately recorded and reported. Analytical procedures were performed on the reported reinsurance recoverable balance due to the amount being below materiality.

There were no exceptions or findings as of December 31, 2011, related to reinsurance.

INFORMATION TECHNOLOGY

A limited information technology (IT) review of the Company was performed by INS Services, Inc. (Services). The purpose of this review was primarily to evaluate the Company's conversion to the Stingray system that will be used for personal lines underwriting, premium and claims processing, and the security of this new system. Secondarily, and in a limited capacity, Services obtained an understanding of the IT systems and the design of IT general controls (ITGC) at the Company and ascertained the remediation status of the most recent BDO USA, LLP (BDO) IT findings from their audit of the 2011 Company financial statements; and the IT findings related to the Office's 2009 examination of the Company. Results of the evaluation were noted in the Information Technology Report provided to the Company.

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2011, 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, 2011

	Per Company	Examination Adjustments	Per Examination
Bonds	$29,477,634		$29,477,634
Common Stocks	875,318		$875,318
Properties occupied by the company	8,860,114		8,860,114
Cash	(2,745,132)		(2,745,132)
Short-term investments	6,557,481		6,557,481
Subtotals, cash and invested assets	43,025,415		43,025,415
Investment income due and accrued	156,425		156,425
Uncollected premiums and agents' balances	2,491,695		2,491,695
Deferred premiums, agents' balances and installments	5,474,139		5,474,139
Amounts recoverable from reinsurers	173,570		173,570
Current federal and foreign taxes recoverable	117,887		117,887
Net tax deferred asset	837,837		837,837
EDP equipment and software	2,464		2,464
Receivables from parent, subs, and affiliates	3,745,780		3,745,780
Aggregate write-ins for other than invested assets	83,053		83,053
Total Assets	$56,108,265		$56,108,265

KINGSWAY AMIGO INSURANCE COMPANY
Liabilities, Surplus and Other Funds

December 31, 2011

	Per Company	Examination Adjustments	Per Examination
Losses	$20,589,413	$3,065,000	$23,654,413
Loss adjustment expenses	11,963,232		11,963,232
Commissions payable, contingent commission	38,452		38,452
Other expenses	72,076		72,076
Taxes, licenses, and fees	3,384		3,384
Unearned premium	7,066,240		7,066,240
Ceded reinsurance premiums payable	5,623,943		5,623,943
Amounts withheld or retained for others	425,576		425,576
Total Liabilities	$45,782,316	$3,065,000	$48,847,316
Common capital stock	$2,000,000		$2,000,000
Surplus notes	$2,600,000		$2,600,000
Gross paid in and contributed surplus	35,635,000		35,635,000
Unassigned funds (surplus)	(29,909,051)	(3,065,000)	(32,974,051)
Surplus as regards policyholders	$10,325,949	($3,065,000)	$7,260,949
Total liabilities, surplus and other funds	$56,108,265		$56,108,265

KINGSWAY AMIGO INSURANCE COMPANY
Statement of Income

December 31, 2011

Underwriting Income

Premiums earned	$48,494,773
Deductions:	
Losses incurred	36,146,230
Loss adjustment expenses incurred	17,170,499
Other underwriting expenses incurred	9,005,599
Total underwriting deductions	$62,322,328
Net underwriting gain or (loss)	($13,827,555)

Investment Income

Net investment income earned	$289,125
Net realized capital gains or (losses)	714,295
Net investment gain or (loss)	$1,003,420

Other Income

Net gain or (loss) from agents' or premium balances charged off	($397,580)
Finance and service charges not included in premiums	608,915
Aggregate write-ins for miscellaneous income	902
Total other income	$212,237
Net income before dividends to policyholders, after capital gains tax and before all other federal & foreign income taxes	($12,611,898)
Net Income, after dividends to policyholders, after capital gains tax and before all other federal & foreign income taxes	($12,611,898)
Federal & foreign income taxes	(357,347)
Net Income	($12,254,551)

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year	$20,685,463
Net Income	($12,254,551)
Change in net unrealized capital losses	($828,480)
Change in net deferred income tax	(5,870,964)
Change in nonadmitted assets	4,279,481
Surplus adjustment: Paid in	4,315,000
Examination Adjustment	3,065,000
Change in surplus as regards policyholders for the year	$139,390,949
Surplus as regards policyholders, December 31 current year	$7,260,949

A comparative analysis of changes in surplus is shown below.

KINGSWAY AMIGO INSURANCE COMPANY
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS

DECEMBER 31, 2011

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, 2011, per Annual Statement				$10,325,949
	PER COMPANY	PER EXAM	INCREASE (DECREASE) IN SURPLUS	
LIABILITIES:				
Losses and LAE	$32,552,645	$35,617,645	($3,065,000)	
Net Change in Surplus:				(3,065,000)
Surplus as Regards Policyholders December 31, 2011, Per Examination				$7,260,949

SUMMARY OF FINDINGS

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 limited scope examination as of December 31, 2011.

Loss and Loss Adjustment Expenses Reserves

The Office's actuarial review of the Company's reserves as of December 31, 2011, calculated estimated net loss and loss adjustment expense reserves $3,065,000 higher than the Company's booked net loss and loss adjustment expense reserves as reported in the 2011 annual statement. This variance represents 29.7% of surplus. **We recommend that the Company adopt a more conservative position when setting estimated loss reserves.**

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of the **Kingsway Amigo Insurance Company** as of December 31, 2011, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's surplus as regards policyholders was $7,260,949 which exceeded the minimum of $5,000,000 required by Section 624.408, Florida Statutes.

In addition to the undersigned, John V. Normile, CFE, Examiner-In-Charge and Patricia Casey Davis, CPA, CFE, Manager of INS Regulatory Insurance Services, Inc.; Eugene G. Thompson, ACAS, MAAA, and Robert W. Gardner, FCAS, MAAA, consulting actuaries of INS Consultants, Inc.; and Paul Berkebile, CFSA, CISA, Senior Manager, Claude Granese, CPA, Director of Finance and Quality Control and Sherese Mack, BA, IT Examiner of INS Services, Inc., participated in the examination. Kethessa Carpenter, CPA, Office of Insurance Regulation also participated in the examination.

Respectfully submitted,

____

Mary James, CFE, CPM
Chief Examiner
Florida Office of Insurance Regulation