

**STATE OF ALABAMA
DEPARTMENT OF INSURANCE
MONTGOMERY, ALABAMA**

REPORT OF LIMITED SCOPE EXAMINATION OF

SOUTHERN UNITED FIRE INSURANCE COMPANY

MOBILE, ALABAMA

AS OF DECEMBER 31, 2008

**PARTICIPATION:
SOUTHEASTERN ZONE, NAIC
ALABAMA**

**STATE OF ALABAMA
COUNTY OF MOBILE**

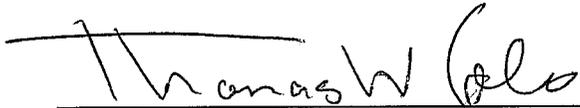
I, Thomas W. Salo, being first duly sworn, upon his oath deposes and says:

That he is an examiner appointed by the Commissioner of Insurance for the State of Alabama;

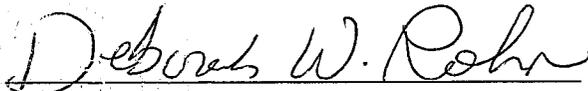
That an examination was made of the affairs and financial condition of Southern United Fire Insurance Company for the period January 1, 2007 through December 31, 2008;

That the following 19 pages constitute the report thereon to the Commissioner of Insurance of the State of Alabama;

And that the statements, exhibits and data therein contained are true and correct to the best of his knowledge and belief.


Thomas W. Salo, Examiner II

Subscribed and sworn to before the undersigned authority this September 4, 2009.


(Signature of Notary Public)

Deborah W. Rohr, Notary Public
(Print Name)

in and for the State of Alabama.

My commission expires 7-7-2013.

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Mobile, Alabama
September 4, 2009

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Dear Commissioners and Directors:

Pursuant to your instructions and in compliance with the statutory requirements of the State of Alabama and the resolutions adopted by the National Association of Insurance Commissioners, a limited scope examination has been made of the affairs and condition of

Southern United Fire Insurance Company
Mobile, Alabama

as of December 31, 2008, at its home office located at One Southern Way, Mobile, Alabama 36619. The report of examination appears herewith.

Where the term "Company" or "SUFIC" appears herein without qualification, it will be understood to indicate Southern United Fire Insurance Company.

SCOPE OF EXAMINATION

A limited-scope examination was authorized pursuant to the instructions of the Alabama Insurance Commissioner and in accordance with the statutory requirements of the Alabama Insurance Code and the regulations and bulletins of the Alabama Department of Insurance; in accordance with the applicable guidelines and procedures promulgated by the National Association of Insurance Commissioners (NAIC); and in accordance with generally accepted examination standards.

The Company was last examined for the four and one half year period ended December 31, 2006. The current examination covers the intervening period from January 1, 2007 through December 31, 2008, and was conducted by examiners from the Alabama Department of Insurance representing the NAIC's Southeastern Zone. Where deemed appropriate, transactions subsequent to December 31, 2008, were reviewed.

In compliance with requirements of the Alabama Department of Insurance, a signed certificate of representation was obtained from the President and the Vice President/ Treasurer of the Company. In this certificate, management attests to having valid title to all assets and to the non-existence of unrecorded liabilities as of December 1, 2008. A signed letter of representation was also obtained at the conclusion of the examination whereby the President and Secretary Treasurer represented that, through the date of this examination report, complete disclosure was made to the examiners regarding asset and liability valuation, financial position of the Company, and contingent liabilities.

The current financial examination was limited in scope and related to the following objectives:

- Determine if records are still being housed at the Company's office located at: One Southern Way, Mobile, AL 36619.
- Determine the location of the Company's assets.
- Determine the location of the Company's claim files.
- Are there sufficient reserves to satisfy the Company's claims as regards the proposed runoff?

ORGANIZATION AND HISTORY

Company Background

The Company was incorporated on May 14, 1963, under the laws of the State of Alabama and began operations on October 28, 1963, with \$100,000 capital and \$100,000 paid in surplus provided from the sale of 100,000 shares of \$1 par value common stock for a price of \$2 per share. From the time of incorporation until 1986, the Company was a wholly owned subsidiary of Southern United Life Insurance Company (SULIC), Montgomery, Alabama. In 1986, SULIC was obtained by Mutual Savings Life Insurance Company (MSLIC), and relocated to Decatur, Alabama. In April of 1989, the Company was purchased by Southern United Holding Company, Inc. (SUH) and moved to Mobile, Alabama. Prior to the sale, most of the Company's business was assumed by Mutual Savings Fire Insurance Company, a subsidiary of MSLIC. In January 1998, Kingsway Financial Services, Inc., Mississauga, Ontario, Canada, through Kingsway of America, Inc., (Kingsway) acquired SUH, the Company's parent. Approval of the transaction was given by the Alabama Department of Insurance on January 16, 1998. During 1998, the Company established a wholly owned subsidiary, Southern United General Agency of Texas, Inc. SUH and the Company are presently based in Mobile, Alabama, and they sell property and casualty insurance products throughout the Southeastern United States.

No amendments to the Company's Articles of Incorporation or By-Laws were made during the period under examination. Since 1997, the Company has received \$53,906,250 in capital contributions and increased paid in and contributed capital to \$55,102,450. The Company's capital structure at year end 2008 was Common capital stock of \$1,500,000, Gross paid in and contributed surplus of \$55,102,450, and Unassigned funds of \$(40,854,773).

On or about February 13, 2009, the management and shareholders of the Company decided to cease writing new policies for the lines of private passenger automobile liability and physical damage in the State of Alabama, effective February 16, 2009. The Company will retain its certificate of authority and plans to continue to service all existing policies through their expiration.

STATUTORY DEPOSITS

At December 31, 2008, as required or permitted by law, the Company maintained deposits with the respective statutory authorities as follows:

<u>State</u>	<u>Statement Value</u>	<u>Market Value</u>
Alabama	\$2,720,354	\$2,904,139
Georgia	\$85,000	\$85,000
Louisiana	\$100,000	\$100,000
South Carolina	\$2,101,842	\$2,131,527

FINANCIAL CONDITION/GROWTH OF COMPANY

	<u>12/31/08*</u>	<u>12/31/07</u>
Admitted Assets	\$33,875,238	\$26,615,079
Liabilities	19,161,561	17,168,567
Common Capital Stock	1,500,000	1,500,000
Paid in and Contributed Surplus	55,102,450	43,737,450
Unassigned Funds	(41,888,773)	(35,790,938)
Gross Written Premium	41,699,038	27,367,682

*The amounts reported for 12/31/08 are per examination, while the amounts reported for 12/31/07 are from the Company's Annual Statements.

MARKET CONDUCT ACTIVITIES

Claims Review

A sample of sixty paid and closed claims from a population of 62,131 were reviewed. The examination of the sample indicated that the Company properly paid the sampled claims in accordance with ALA. ADMIN. CODE 482-1-125(2002), which identifies standards for handling property and casualty insurance claims.

ACCOUNTS AND RECORDS

The Company maintained its accounting, premiums and losses data electronically on servers at their Mobile location. When necessary, the Company prepared additional electronic workpapers and hard copy reconciliations and workpapers. Hard copy claim files were documented and retained at the Mobile office. Additional electronic claim files and file notes were documented and retained at the Company's third-party administrator, Legacy Insurance Services, Inc. in Phoenix, Arizona. The complete claim files were comprised of a combination of electronic and hard copy records.

The Company began utilizing a third party administrator in Arizona to receive and process all incoming claims on July 16, 2007. The Company has been allowing the third party administrator to maintain the claim files at the third party administrator's offices in Arizona. The Company was not in compliance with ALA. CODE §27-27-29(a)(1975) which states in part, "Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds, of insurance transacted."

On July 16, 2009, the servicing contract with the third party administrator expired and the Company has elected to not renew this agreement. All paid claims records were shipped to the Mobile office and all open claim records were shipped to U.S. Security Insurance Company in Miami, Florida. The open claim records will be properly imaged and then stored electronically. The hard-copy files of these open claims will be destroyed. The open claim files will be serviced by the claims personnel at U.S. Security Insurance Company in Miami.

In order to facilitate this process, **for good cause shown and with the written permission of the commissioner**, the Company was approved on July 22, 2009 to maintain their executive office out of Alabama at the location of their sister company, U.S. Security Insurance Company in Miami, Florida. Also, it was approved for the Company to transport hard copy files to U.S. Security in Miami so they may be imaged and stored in electronic form. The Company will also continue to maintain an office in Alabama managed by one of its officers. All of the books and records will be available for viewing in that office in either hard copy or archival electronic form. All of the electronic records will be maintained on servers in the Alabama office. Any records at the Company's executive office in Miami will also be available to the Department for inspection. (This is discussed further in the Subsequent Events section of this report at page 15).

FINANCIAL STATEMENTS

EXAMINER'S NOTE: SINCE THIS WAS A LIMITED-SCOPE EXAMINATION, MOST AREAS OF THE COMPANY'S FINANCIAL CONDITION WERE **NOT** REVIEWED. EMPHASIS WAS FOCUSED ON ASSETS OF THE COMPANY [CASH AND INVESTMENTS] AND LIABILITIES RELATED TO THE RUN-OFF OF THE COMPANY'S BLOCK OF BUSINESS.

NO OPINION IS EXPRESSED ON THE OVERALL FINANCIAL STATEMENTS OF THE COMPANY.

WITH THE EXCEPTION OF THE AMOUNTS REPORTED IN THE NOTES TO FINANCIAL STATEMENTS, THE AMOUNTS REPORTED ON PAGES 7-9 OF THIS REPORT WERE COMPILED BASED ON COMPANY-REPORTED DATA.

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THE NOTES IMMEDIATELY FOLLOWING THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART THEREOF.

Southern United Fire Insurance Company
Statement of Assets, Liabilities, Surplus and Other Funds
For the Year Ended December 31, 2008 (Amended)

Assets

	Assets	Non- admitted Assets	Net Admitted Assets
Bonds	\$10,289,758	\$	\$10,289,758
Stocks: Common Stock	1,000	1,000	
Real Estate: Properties occupied by the Company	2,302,062		2,302,062
Real Estate: Properties held for the production of income	462,197	165,947	296,250
Cash, cash equivalents, and short-term investments	4,291,864		4,291,864
Investment income due and accrued	111,510		111,510
Premiums and considerations: Uncollected premiums and agents' balances in the course of collection	365,081	47,182	317,899
Premiums and considerations: Deferred premiums, agents' balances and installments booked but deferred and not yet due	10,937,555	73,864	10,863,491
Reinsurance: Amounts recoverable from reinsurers			
Reinsurance: Other amounts receivable under reinsurance contracts	3,257,360		3,257,360
Current federal and foreign income tax recoverable and interest thereon	250,000		250,000
Net deferred tax asset	7,326,446	7,326,446	
Guaranty funds receivable or on deposit	9,487	9,487	
Electronic data processing equipment and software	135,895		135,895
Furniture and equipment, including health care delivery assets	17,397	17,397	
Receivables from parent, subsidiaries and affiliates	613,592		613,592
Aggregate write-ins for other than invested assets	111,733	111,733	
Total Assets	\$40,482,737	\$7,753,056	\$32,729,681

Liabilities, Surplus, and Other Funds

Liabilities:	
Losses (Note 1)	\$4,277,701
Reinsurance payable on paid losses and loss adjustment expenses	1,063,007
Loss adjustment expenses (Note 1)	1,821,972
Commissions payable, contingent commissions and other similar charges	4,552,222
Other expenses	507,981
Taxes, licenses, and fees	950,512
Unearned Premiums	3,297,042
Ceded reinsurance premiums payable	1,450,626
Amounts withheld or retained by the Company for the account of others	93,941
Provision for reinsurance	1,000
Total Liabilities	\$18,016,004
Surplus and Other Funds:	
Common capital stock	1,500,000
Gross paid in and contributed surplus	55,102,450
Unassigned funds (Note 2)	(41,888,773)
Surplus as regards policyholders	\$14,713,677
Total Liabilities and Stockholders' Equity	\$32,729,681

Southern United Fire Insurance Company
 Summary of Operations
 For the Years Ended December 31, 2008 and December 31, 2007

	2008	2007
Underwriting Income		
Premiums earned	\$14,356,793	\$9,704,678
Deductions		
Losses incurred (Note 1)	11,816,797	6,734,396
Loss expenses incurred (Note 1)	3,462,672	3,471,317
Other underwriting expenses Incurred	5,861,266	10,024,781
Aggregate write-ins for Underwriting deductions	83,759	462,377
Total underwriting deductions	<u>\$21,224,494</u>	<u>\$20,692,871</u>
Net underwriting gain / (loss)	\$(6,867,701)	\$(10,988,193)
Investment Income		
Net investment income earned	721,989	738,032
Net realized capital gains / (loss)	6,079	(33,336)
Net investment gain / (loss)	728,068	704,696
Other Income		
Net gain/(loss) from agents' or premium balances charged off	(2,599,078)	(1,378,962)
Finance and service charges not included in premiums	2,208,279	1,467,563
Aggregate write-ins for miscellaneous income	63,904	62,790
Total other income	<u>(326,895)</u>	<u>151,391</u>
Net income, after dividends to policyholders, after capital gains tax and before all federal and foreign income tax	(6,466,528)	(10,132,106)
Federal and foreign income taxes incurred	(235,857)	(251,912)
Net Income	<u>\$(6,230,671)</u>	<u>\$(9,880,194)</u>

Southern United Fire Insurance Company
 Capital and Surplus
 For the Years Ended December 31, 2008 and December 31, 2007

	2008	2007
Surplus as regards policyholders, December 31, prior year	<u>\$9,446,512</u>	<u>\$14,684,472</u>
Net income	(6,230,671)	(9,880,194)
Change in net deferred income tax	1,679,446	3,006,808
Change in nonadmitted assets	(1,546,610)	(2,869,378)
Change in provision for reinsurance	0	4,804
Surplus adjustments: Paid in	11,365,000	4,500,000
Change in surplus as regards policyholders for the year	<u>\$5,267,165</u>	<u>\$(5,237,959)</u>
Surplus as regards policyholders, December 31 current year	<u>\$14,713,677</u>	<u>\$9,446,512</u>

**THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART
 THEREOF.**

NOTES TO FINANCIAL STATEMENTS

<u>Note 1 – Losses</u>	<u>\$4,277,701</u>
<u>Loss adjustment expenses</u>	<u>\$1,821,972</u>

The captioned amounts are \$439,000 more and \$595,000 more, respectively, than the amounts reported in the Company's 2008 Annual Statement.

Following is a Comparison of the Actuarial Report to Booked Reserves and the Examination Actuary's Reserves

Following is a comparison of the 2008 Towers Perrin (TP) indicated reserves, the Company's booked reserves, and the examination actuary's indicated reserves on a Gross and Net basis.

**Estimated Required Reserves Including IBNR & ULAE
As of December 31, 2008**

	<u>Gross (000)</u>	<u>Net (000)</u>
Towers Perrin	\$19,677	\$5,252
Examination actuary	\$21,465	\$6,100
Booked by Company	\$18,793	\$5,066
Deficiency	\$ 2,672	\$1,034

The examination actuary's estimate of required reserves as of December 31, 2008 is greater than the Company's by \$2.672 million (14.2% of booked reserves) on a Gross basis and greater than the Company's by \$1.034 million (20.4% of reserves) on a Net basis. These amounts are barely within TP's estimated reserve range, which had a maximum of \$22.3 million Gross. Therefore, the reserves may still be considered "reasonable" as opposed to "deficient" from TP's perspective, as defined in the Statement of Actuarial Opinion Exhibit B: Disclosures, Item 4. However, given the higher estimate of required reserves, the examiners deem that there is a significant risk of material adverse deviation from the booked reserves as of December 31, 2008 and the examiners adjusted the reserves upwards to our best estimate.

The additional reserves that the examiners recommend are allocated as follows:

	<u>Gross (000)</u>	<u>Net (000)</u>
LOSS	\$ 1,876	\$ 439
LAE	\$ 796	\$ 595
TOTAL	\$ 2,672	\$1,034

TP has included the TPA's claims handling fees in ALAE since the TPA charges on a per claim basis. This categorization may not be appropriate; however, for comparison sake, the examiners have done the same. TP has not established the ALAE reserves so as to include provision for prepaid TPA fees, as called for by Interpretation 02-21, Appendix B, NAIC Accounting Practices & Procedure Manual. Since the TPA contract has been terminated and claims handling is being brought in-house, the examiners have also elected to not include a provision for the prepaid TPA fees. However, the examiners have selected higher ULAE reserves than did TP in order to reflect the increase in ULAE expenses now and going forward.

TP did not perform an actual reserve review on the Commercial Auto reserves, but rather reviewed the analysis performed by the Company's internal actuarial staff and found those projections to be reasonable.

1st Quarter 2009 Reserve Strengthening

The Company's management communicated to the examiners that they had strengthened reserves in the 1st Quarter of 2009, so the examiners tested the increase in gross reserves shown in the Company's 1st Quarter 2009 Statement versus the expected change in reserves in that quarter based on the Company's historical patterns and the examination actuary's projections of needed reserves. The examiners deemed it sufficient to limit the review to reserves in accident years 2007 and 2008 and for Personal Auto Liability and Physical Damage since these represented the vast majority of the reserves and were likely the cases that would have been affected. The examiner's findings were that Gross reserves had indeed been strengthened in the 1st Quarter of 2009 by \$3.1 million, split as follows:

Auto Liability: +\$1.6 million (virtually all was in accident year 2008)
Auto Physical Damage: +\$1.5 million (93% of the increase was in accident year 2008)

Loss case reserves received all of the increase while ALAE case and Loss & ALAE IBNR were all decreased, as follows:

Auto Liability & Physical Damage, 2007 & 2008 Loss Case Reserves: +\$6.3 million
Auto Liab. & Phy. Dam., 2007 & 2008 ALAE Case, Loss & ALAE IBNR: -\$3.2 million

Combining this reserve strengthening in the 1st Quarter of 2009 with the estimated Gross reserve deficiency of \$2.67 million (shown above) as of December 31, 2008, yields a Gross reserve redundancy as of March 31, 2009 of

Corporate Records

It is recommended that the Company implement procedures to ensure that the Company complies with Section 1033 of Title 18 of the United States Code, which prohibits the Company from having employees, producers, insurance agencies, consultants, third party administrators, MGA's, subcontractors, or an agency who has been convicted of a felony involving dishonesty or a breach of trust unless the prohibited person has obtained permission to serve in their capacity by the Commissioner.

The Company did not comply with this recommendation as it did not have a plan in place to periodically verify that all employees are still in compliance with Section 1033 of Title 18 of the United States Code. This is not limited to new employees and/or agents as it refers to all employees.

Common Stock

It is recommended that the Company obtain audited financial statements for its subsidiary in order that the true equity value of the SCA investment can be verified by the Alabama Department of Insurance. It is noted that SUGAT is potentially subject to future audit by the Alabama Department of Insurance in order to determine the true financial position of SUGAT and to determine the nature and extent of transactions occurring through SUGAT, if audited financial statements are not available in the future.

The Company did not comply with this recommendation as it did not obtain an audited statement on its wholly-owned subsidiary, SUGAT. It does not appear as though the expenses and income are appropriately flowing through the subsidiary and there is the possibility that the subsidiary could have a significant negative net worth, which would have a significant financial impact on the company. If the Company does not dissolve the subsidiary, they need audited financials on it. Management's original response dated April 13, 2009 to the December 31, 2006 Examination Report stated that "SUGAT will be wound up and therefore an audit is not appropriate." SUGAT is still an entity. If the Company did not want to get audited financials, they should have contested the previous examination report. The recommendations are not optional.

COMMENTS AND RECOMMENDATIONS

Losses – page 8

Loss Adjustment Expense – page 8

COMMENTS AND RECOMMENDATIONS

Losses – page 8

Loss Adjustment Expense – page 8

It is recommended that the Company record reserves comparable to their opening actuary's indicated amounts or document the reasons for significant variations, supporting management's best estimate in accordance with the requirements of SSAP No. 55.

Accounts and Records

It is again recommended that the Company implement procedures to ensure that the Company complies with Section 1033 of Title 18 of the United States Code, which prohibits the Company from having employees, producers, insurance agencies, consultants, third party administrators, MGA's, subcontractors, or an agency who has been convicted of a felony involving dishonesty or a breach of trust unless the prohibited person has obtained permission to serve in their capacity by the Commissioner.

Common Stock

It is again recommended that the Company obtain audited financial statements for its subsidiary in order that the true equity value of the SCA investment can be verified by the Alabama Department of Insurance. It is noted that SUGAT is potentially subject to future audit by the Alabama Department of Insurance in order to determine the true financial position of SUGAT and to determine the nature and extent of transactions occurring through SUGAT, if audited financial statements are not available in the future.

SUBSEQUENT EVENTS

On or about February 16, 2009, the Company notified all state regulators and producers that there would be a cessation of all new business and the Company would begin to move into run-off status.

Effective July 15, 2009, Kevin Walton, EVP and CFO of the Company resigned.

The Company entered into three management and service agreements with three separate affiliates. All three agreements had an effective date of April 1, 2009:

On July 9, 2009 a management and service agreement was approved by the Alabama Department of Insurance between the Company and Hamilton Risk Management (Hamilton) of Miami, Florida. The Scope of Services in this agreement stated that Hamilton shall perform management services in accordance with all guidelines set forth by the Company with respect to Accounting, Human Resources, Information Technology and general management.

On July 9, 2009 a management and services agreement was approved by the Alabama Department of Insurance between the Company and U.S. Security Insurance Company (USSI) of Miami, Florida. The Scope of Services in this agreement states that:

A. USSI shall perform underwriting services in accordance with all guidelines set forth by the Company with respect to: underwriting; the acceptance or rejection of certain classes of business; the scope of coverage; and the provisions of the coverage document or related to the issuance of policies. The underwriting services performed shall include, but are not limited to:

- a. Reviewing applications for policies of insurance;
- b. Making decisions on coverage;
- c. Conducting follow-up with applicants for additional information;
- d. Working with reinsurers.

B. USSI shall perform claim management services, including, but not limited to:

- a. Investigating liability, damages and coverage; evaluating, negotiating claims through settlement or final disposition; and issuing all claim payments with funds provided by the Company. All payments will be documented and supported, with frequent reconciliation by traditional accounting methods.
- b. Preparing and filing all reports and handling all claims in accordance with established procedures and state guidelines.
- c. Maintaining a claim file, solely owned by the Company, on each claim with appropriate physical documentation and within an electronic information management system, to track activities files notes and to manage all reserve and payment activity.

d. Coordinating, directing and managing litigation activity; assigning defense counsel.

e. Establishing initial reserves and adjusting them accordingly for potential exposure, considering value and liability.

f. Coordinating all outside field assignments, investigations, appraisals and experts, based on need, cost-effectiveness and return on expense/cost.

g. Managing, directing and coordinating claim file and operational audits, re-inspections of direct repair facilities, and regular evaluation of cost containment and other cost control measures.

h. USSI will promptly provide to the Company supporting documentation of USSI's internal audits if requested.

i. Address all complaints, including regulatory inquiries, maintaining a log recording them, including whether such is justified, the resolution and steps taken to address the issues.

On July 9, 2009 a management and services agreement was approved by the Alabama Department of Insurance between the Company and Insurance Management Services, Inc. (IMS) of Miami, Florida. The Scope of Services in this agreement states that:

A. IMS shall perform underwriting services in accordance with all guidelines set forth by the Company with respect to: underwriting; the acceptance or rejection of certain classes of business; the scope of coverage; and the provision of the coverage document or related to the issuance of policies. The underwriting services performed shall include, but are not limited to:

a. Reviewing applications for policies of insurance;

b. Making decisions on coverage;

c. Conducting follow-up with applicants for additional information;

d. Working with reinsurers;

e. Address all complaints, including regulatory inquiries, maintaining a log recording them, including whether such is justified, the resolution and steps taken to address the issues.

On July 22, 2009 the Company received approval from ALDOI to maintain an executive office out of Alabama at the location of their sister company, U.S. Security Insurance Company (U.S. Security) in Miami, Florida. It was also approved for the Company to transport hard copy files to U.S. Security in Miami so they may be imaged and stored in electronic form. The Company will also continue to maintain an office in Alabama managed by one of its officers. All of the books and records will be available for viewing in that office in either hard-copy or archival electronic form. All of the electronic records will be maintained on servers in the Alabama office. Any records at the Company's executive office in Miami will also be available to the Department for inspection.

Ms. Carrie R. Harper, VP and Treasurer of the Company, stated that her last day with the Company will be October 15, 2009.

The Company received permission from the Alabama Department of Insurance to commute its reinsurance agreement with its primary reinsurer Kingsway Reinsurance Corporation (Kingsway Re) of Barbados. The commutation agreement will be as of June 30, 2009 and as of this date, the reinsurance liability of Kingsway Re will be commuted for a total of \$12,477,063. The reserves to be commuted equaled \$11,977,063 as of June 30, 2009. The Company will also issue a Surplus Note for \$950,000 to Kingsway America. The floor amount of the note is \$12,550,567 and the ceiling amount is \$15,625,000. The Commissioner of the Alabama Department of Insurance must approve any repayments. The Surplus Note has an interest rate of 7.25% per annum, and shall be payable quarterly beginning in September 2010.

On August 10, 2009, the ALDOI approved the proposed acquisition of up to 19.9% of the outstanding common stock of Kingsway Financial Services, Inc., ultimate parent of Southern United Fire Insurance Company, and the solicitation and securing of Kingsway shareholder proxies by Stilwell Value Partners III, L.P., Stilwell Associates, L.P., Stilwell Value LLC, together with Stilwell Offshore Ltd., Stilwell Management LLC, Stilwell Advisers LLC, and Stilwell Advisors LLC and Stilwell Associates Insurance Fund of the S.A.L.I. Multi-Series Fund L.P. (Stilwell Group), and Joseph Stilwell (Mr. Stilwell).

It was recently learned that Kingsway Financial Services, Inc., the ultimate controlling parent, has decided that they desire to centralize all accounting services and records for all companies to their offices in Chicago, Illinois. As mentioned above, the Company recently was granted permission to have their accounting services and records in the offices of Hamilton Risk Management of Miami, Florida. The Company will once again have to seek permission from the Alabama Department of Insurance to relocate the accounting records and perform accounting services in Chicago, Illinois.

CONCLUSION

Acknowledgement is hereby made of the courtesy and cooperation extended by all persons representing Southern United Fire Insurance Company during this limited scope examination.

The customary insurance examination procedures, as recommended by the National Association of Insurance Commissioners, have been followed in connection with the verification and valuation of assets and the determination of liabilities set forth in this report. Since this was a limited scope examination, most areas of the Company's financial condition were not reviewed. Emphasis was focused on assets of the Company [cash and investments] and liabilities related to the run-off of the Company's block of business.

In addition to the undersigned, Charles Angell, FCAS, MAAA, Examination Actuary, also representing the Alabama Department of Insurance, participated in this examination of Southern United Fire Insurance Company.

Respectfully submitted,

A handwritten signature in black ink that reads "Thomas W. Salo". The signature is written in a cursive style with a long horizontal stroke at the beginning.

Thomas W. Salo
Examiner-in-Charge
Alabama Department of Insurance

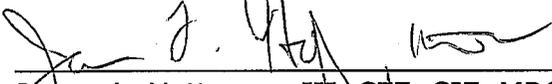
EXAMINER'S AFFIDAVIT AS TO STANDARDS AND PROCEDURES USED IN AN EXAMINATION

STATE OF ALABAMA, COUNTY OF MOBILE

James L. Hattaway, III, being duly sworn, states, as follows:

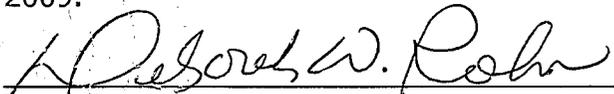
1. I have authority to represent the State of Alabama in the examination of Southern United Fire Insurance Company.
2. The Alabama Department of Insurance is accredited under the National Association of Insurance Commissioners Financial Regulation Accreditation Standards.
3. I have reviewed the examination workpapers and examination report, and the December 31, 2008 limited scope examination of Southern United Fire Insurance Company, Mobile, Alabama, was performed in a manner consistent with the standards and procedures required by the Alabama Department of Insurance, and the National Association of Insurance Commissioners.

The affiant says nothing further.

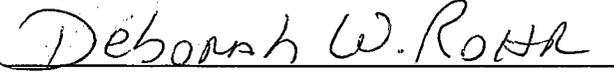


James L. Hattaway, III, CFE, CIE, MRC, ARC
Insurance Examination Supervisor
State of Alabama, Department of Insurance

Subscribed and sworn before me the undersigned authority this 4th day of September, 2009.



(Signature of Notary Public)



(Print Name) Notary Public

in and for the State of Alabama.

My Commission expires 7-7-2013