

REPORT ON EXAMINATION
OF
BANKERS INSURANCE COMPANY
ST. PETERSBURG, FLORIDA

AS OF
DECEMBER 31, 2008

BY THE
OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida

January 19, 2010

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Dear Sirs and Madam:

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 of December 31, 2008, of the financial condition and corporate affairs of:

**BANKERS INSURANCE COMPANY
1101 ROOSEVELT BLVD. NORTH
ST. PETERSBURG, FLORIDA 33716**

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, 2006, through December 31, 2008. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2005. This examination commenced with planning at the Office from August 24, 2009, to August 31, 2009. The fieldwork commenced on August 24, 2009, and concluded as of January 19, 2010.

This financial examination was an association zone 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.

Risk-focused examinations consist of a seven-phase process that can be used to identify and assess risk, assess the adequacy and effectiveness of strategies/controls used to mitigate risk and assist in determining the extent and nature of procedures and testing to be utilized in order to complete the review of that activity. The process should generally include a determination of the quality and reliability of the corporate governance structure and risk management programs. In addition, it can be used for verification of specific portions of the financial statements or other limited-scope reviews, increased focus on, and can result in increased substantive testing of, accounts identified as being at high risk of misstatement. Conversely, the risk assessment process should result in decreased focus on, and fewer substantive tests on the accounts identified as being at low risk of misstatement. The risk-focused surveillance process can be used to assist examiners in targeting areas of high-risk.

In this examination, emphasis was directed to the quality, value and integrity of the statement of assets and the determination of liabilities, as those balances affect the financial solvency of the Company as of December 31, 2008. Transactions subsequent to year-end 2008 were reviewed where relevant and deemed significant to the Company's financial condition.

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 A.M. Best 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 was confined to financial statements and comments on matters that involved departures from laws, regulations or rules, or which were deemed to require special explanation or description.

Status of Adverse Findings from Prior Examination

The following is a summary of significant adverse findings contained in the Office's prior examination report as of December 31, 2005, along with resulting action taken by the Company in connection therewith.

Information Technology Issues

An information technology report issued by an independent firm in March, 2005, made recommendations to improve controls over the Company's information technology operations in order to further assure the reliability of financial information and other operational documentation produced by the Company's electronic data processing systems. Specifically mentioned was the Company's need to (1) improve their process of validating backup data files, (2) review reports produced by the backup data process after completion to assure accuracy of the backup and (3) initiate a process that periodically and consistently tests the Company's disaster recovery plan. The examination report recommended the Company immediately initiate measures to resolve these problems. **Resolution:** In 2007, the Company engaged Grant Thornton LLP (Grant Thornton), to again review the Company's information technology operations and assist the Company in complying with the recommendations. The report issued by Grant Thornton indicated that the Company took appropriate measures to resolve the key reported problems within the Company's information technology operations as recommended in the previous examination report. This report was accepted by the Office in April, 2008.

HISTORY

General

The Company was incorporated in Florida on May 11, 1976, and commenced business on June 11, 1976, as Bankers Insurance Company.

The Company was authorized to transact the following insurance coverage in Florida on December 31, 2008:

Homeowners Multiple Peril	Glass
Commercial Multiple Peril	Burglary and Theft
Private Passenger Automobile Liability	Accident and Health
Private Passenger Automobile Physical Damage	Bail Bonds
Commercial Automobile Liability	Surety
Commercial Auto Physical Damage	Fidelity
Other Liability	Fire
Allied Lines	Credit
Inland Marine	Service Warranties (non-auto)
Ocean Marine	Workers' Compensation

The Company had not written insurance coverage in the previous calendar year in the following lines of business:

Ocean Marine	Accident and Health
Private Passenger Automobile Liability	Fidelity
Commercial Automobile Liability	Credit
Burglary Theft	Warranty
Glass	

As such, the Company was not in compliance with section 624.430 (1), Florida Statutes, which requires that any insurer who does not write any premiums in a line of insurance it was authorized to write within a calendar year must request the Office to have that line of insurance removed from its Certificate of Authority.

Subsequent Event: Per the response to the 2009 Annual Review, the Company requested retaining the Fidelity and Credit lines of business to meet the licensing requirements of other states which require the company to have the lines in their state of domicile.

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

Capital Stock

As of December 31, 2005, the Company's capitalization was as follows:

Number of authorized common capital shares	1,500,000
Number of shares issued and outstanding	1,500,000
Total common capital stock	\$4,500,000
Par value per share	\$3.00

Control of the Company was maintained by its parent, Bankers Insurance Group, Inc. (BIG), who owned 100 percent of the stock issued by the Company, who in turn was 100 percent owned by Bankers Financial Corporation (BFC). Bankers International Financial Corporation (BIFC), a Florida corporation, was the ultimate controlling United States corporation in the consolidated group. Bankers International Financial Corporation, LTD (BIFCLTD) a corporation organized and existing under the Cayman Islands, British West Indies, owned all of the common capital stock of BIFC. Bankers International Financial Corporation II Trust (the Trust) owned all the stock of BIFCLTD. The three trustees of the Trust are listed in the organizational chart included within this report.

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.

	2008	2007	2006
Premiums Earned	\$46,055,179	\$45,478,619	\$54,404,593
Net Underwriting Gain/(Loss)	2,985,578	(229,867)	3,604,096
Net Income	4,137,427	4,330,406	7,087,155
Total Assets	110,143,824	111,480,713	110,779,062
Total Liabilities	68,842,368	69,664,829	67,140,853
Surplus As Regards Policyholders	41,301,456	41,815,884	43,638,209

Dividends to Stockholders

In accordance with Section 628.371, Florida Statutes, the Company declared and paid dividends to its stockholder in 2008 and 2007 in the amounts of \$2,000,000 and \$3,000,000, respectively.

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, 2008, were:

Directors

Name and Location

William Dawson Gunter, Jr.
Tallahassee, Florida

Edwin Clarence Hussemann (a)
St. Petersburg Beach, Florida

Principal Occupation

Director, Chairman, CEO, Sr. Vice President
Rogers, Gunter, Vaughn Insurance, Inc.

Director and Treasurer
Bankers Insurance Company

David Kevin Meehan ¹ St. Petersburg, Florida	President and Board Chairman Bankers Insurance Company
John Arthur Strong ² Greensboro, North Carolina	Physician Moses Cone Hospital
Robert Miller Menke Tierra Verde, Florida	Founder and Director Bankers Insurance Company
John Wayne Mixon Tallahassee, Florida	Director and Chairman Bayside Federal Savings & Loan Association
Brian Lee Keefer (b) Tampa, Florida	Director and Chief Risk Officer Bankers Insurance Company
Bennett Bradford Martz Tampa, Florida	Senior Vice President and Chief Financial Officer Bankers Financial Corporation
Connie Simmons Parker Annapolis, Maryland	Managing Director JE Robert Company
Alejandro Modesto Sanchez Tallahassee, Florida	President and Chief Executive Officer Florida Bankers Association
Matthew Bernard Connolly Jr. Germantown, Tennessee	President Bonefish and Tarpon Unlimited Inc.

¹ – Chairman
² – Co-chairman
(a) – Deceased February 3, 2009
(b) – Resigned from Board March 3, 2009

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

Senior Officers

Name	Title
David Kevin Meehan	President and Board Chairman
Wayne Spencer Matthews	Chief Financial Officer
Gregory Lee Hoffman	Secretary
Edwin Clarence Hussemann (a)	Treasurer
Brian Jay Kesneck	Senior Vice President
Cathleen MaCready Batson	Senior Vice President
Barry Wayne Gates	Vice President
Judy Marie Copechal	Vice President
William Mitchell Gray II	Vice President

Joseph William Kinker	Vice President
Robert Grant Southey, Jr.	Vice President
Janet Hewlett Till	Vice President
Timothy James Fallabaum	Vice President
Barbara Ann Peat	Vice President
Donald Barnett Roberts	Vice President
Steven Harold Struss	Vice President
Brian Lee Keefer	Chief Risk Officer

(a) – deceased February 3, 2009 replaced by Bennett Bradford Martz

The Company's Board appointed several internal committees in accordance with Section 607.0825, Florida Statutes. Following were the principal internal Board committees and their members as of December 31, 2008:

Executive Committee

David Kevin Meehan ¹
 John Arthur Strong ²
 Robert Miller Menke
 Edwin Clarence Hussemann
 Brian Lee Keefer
 Bennett Bradford Martz

Audit Committee

Connie Simmons Parker ¹
 William Dawson Gunter Jr. ²
 David Kevin Meehan
 Robert Gregory Menke
 Alejandro Modesto Sanchez
 John Arthur Strong

Investment Committee

David James Nye ¹
 Edwin Clarence Hussemann ²
 Robert Miller Menke
 Bennett Bradford Martz
 Brian Lee Keefer
 Don Barnett Roberts
 John Stuart Platter
 Matthew Bernard Connolly Jr.

Claims Committee

Alejandro Modesto Sanchez ¹
 Brett Miller Menke ²
 William Dawson Gunter Jr.
 David Kevin Meehan
 Brian Lee Keefer
 Edwin Clarence Hussemann
 John Arthur Strong
 Don Barnett Roberts
 Matthew Bernard Connolly Jr.

Reinsurance Committee

Edwin Clarence Hussemann ¹
 Brian Lee Keefer ²
 Robert Miller Menke
 David Kevin Meehan
 Don Barnett Roberts

Compliance Committee

William Dawson Gunter Jr. ¹
 Alejandro Modesto Sanchez ²
 Connie Simmons Parker
 Matthew Bernard Connolly Jr.

Risk Management Committee

David Kevin Meehan ¹
 Bennett Bradford Martz ²
 Robert Miller Menke
 Don Barnett Roberts
 Brian Lee Keefer
 Edwin Clarence Hussemann
 Steven Harold Struss

¹ - Chairman

² - Co-chairman

Conflict of Interest Procedure

The Company adopted a policy statement requiring annual disclosure of conflicts of interest in accordance with the NAIC Financial Condition Examiners Handbook.

Corporate Records

The recorded minutes of the shareholder, Board of Directors, and certain internal committees were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions and events in accordance with Section 607.1601, Florida Statutes, including the authorization of investments as required by Section 625.304, Florida Statutes.

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 examination.

Surplus Debentures

The Company had no surplus debentures for the period under examination.

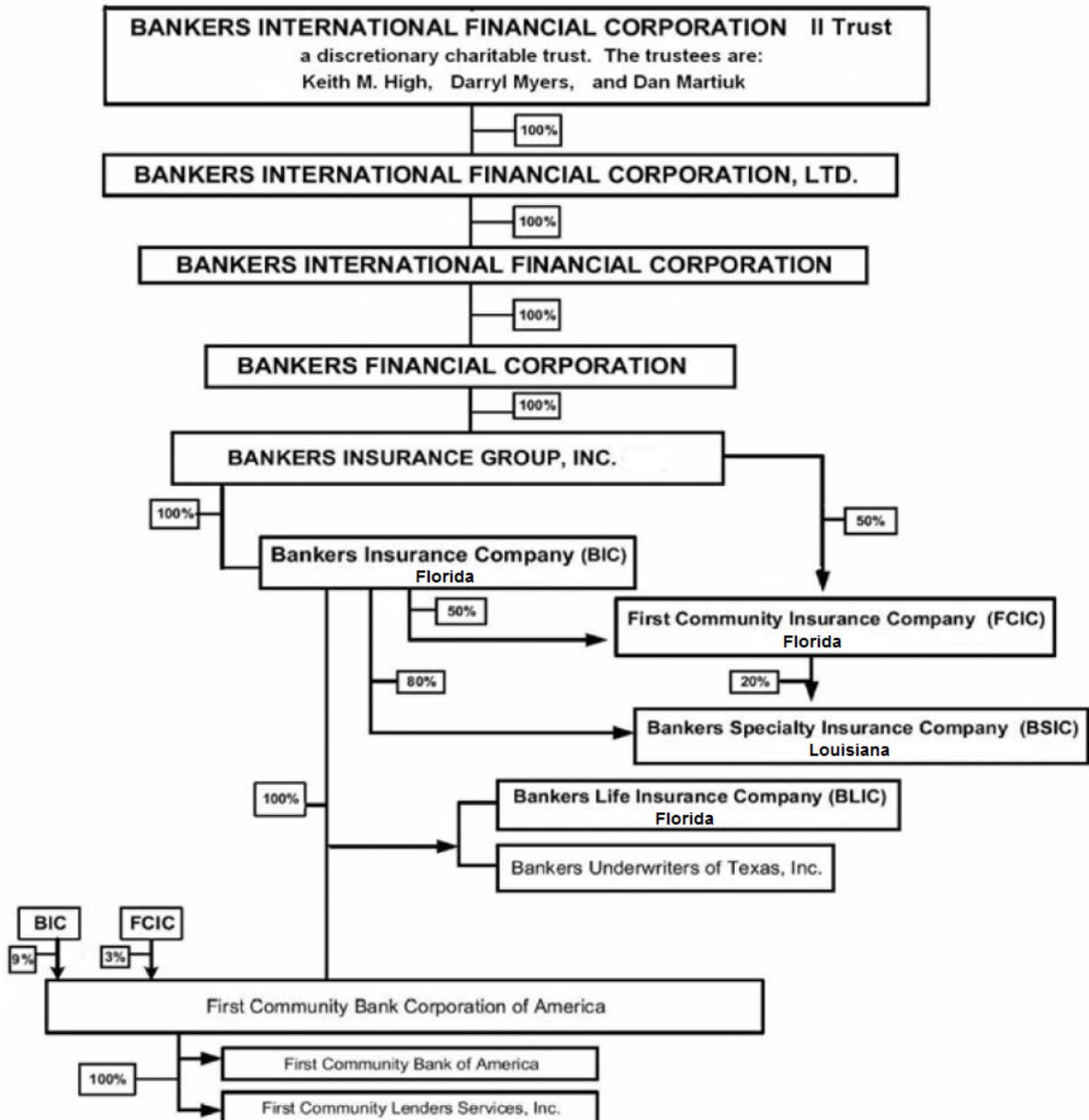
AFFILIATED COMPANIES

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 December 19, 2008, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

A condensed organizational chart, reflecting the Company' position, relationships, and ownership within the holding company system as of December 31, 2008, is shown on the following page. Schedule Y of the Company's 2008 annual statement provided a list of all related companies within the holding company group.

Bankers Insurance Company Organizational Chart

December 31, 2008



In 2007, the Company and its subsidiary, First Community Insurance Company (FCIC), formed Bankers Specialty Insurance Company (BSIC), a Louisiana domiciled property and casualty insurer. In the formation of BSIC, the Company directly acquired an 80% ownership stake for \$4,000,000. In November 2008, the Company contributed an additional \$600,000 to BSIC.

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

Tax Allocation Agreement

The Company, along with its parent, filed a consolidated federal income tax return. On December 31, 2008, the method of allocation between the Company and its parent was based as if each participant filed its tax return separately.

Cost Allocation Agreements

The Company participated in several cost allocation agreements with BIG, First Community Insurance Company (FCIC), and Bintech Partners Inc. (Bintech), an indirect affiliate of the Company also wholly owned by BIG. All of the contracts became effective in 2004 with the exception of the Bintech arrangement which became effective in 2008. The contracts allocated costs based on estimated percentages and/or actual usage if the cost is directly identifiable to the entity incurring the cost. Cost allocation percentages are reviewed and adjusted periodically as mutually agreed upon by all parties involved.

Managing General Agent Agreement

Since 2005, the Company has used Bankers Underwriters Inc. (BUI) as a managing general agent to produce and administer its casualty and liability business lines to independent agents.

The written agreement between the two affiliates specified the lines of business to be marketed and administered, maximum coverage limits, and the States BUI was allowed to operate in on the Company's behalf. Compensation to BUI by the Company is specified in the contract. The agreement also allowed BUI to negotiate facultative reinsurance with General Reinsurance Inc. The agreement could be terminated by either party upon 90 days written notice. BUI is a licensed managing general agent in the State of Florida.

General Agency Agreements

Since 2000, the Company has used Bankers Insurance Services Inc. (BISI) as a general agent to, produce and administer its casualty and liability business lines to retail and financial institutions. The written agreement between the two affiliates specified the lines of business to be marketed and administered, maximum coverage limits, and the States BISI was allowed to operate in on the Company's behalf. Compensation to BISI by the Company is also specified in the contract. The agreement could be terminated by either party upon 60 days written notice.

Since 2001, the Company has used Bankers Surety Services Inc. (BSSI) as a general agent to produce and administer its bail bonds and immigration surety business. The written agreement between the two affiliates specified that BSSI not allow its agents to issue policies without the Company's consent. The contract also requires BSSI to adhere to specific policy underwriting and issuing standards and guidelines. The agreement also listed the States BSSI was allowed to operate in on the Company's behalf and also outlined compensation to BSSI for services performed. The agreement could be terminated by either party upon 90 days written notice.

Administrative Services Agreement

In 2007, the Company entered into an agreement with BSSI to administer the commercial bail bonds business produced by the Company within the State of California. Compensation to BSSI for services performed is outlined in the contract. The agreement could be terminated by either party upon 90 days written notice.

Contractual Liability Agreements

The Company was involved in two contractual liability agreements with another affiliate, Bonded Builders Service Corporation (BBSC). One of the agreements, effective in 1997, states that if BBSC becomes insolvent, the Company will assume the liability for each limited warranty certificate issued by BBSC prior to the insolvency, not to exceed an aggregate limit of \$1,000,000. Premium payable by BBSC to the Company for this coverage was \$10 per issued certificate. The arrangement covered certificates issued by BBSC in the States of Florida and Georgia. The agreement could be terminated by either party upon 45 days written notice and can also be terminated by the Company on 10 days written notice for non-payment of premiums.

Per the terms of the other agreement effective in 2003, the Company assumed the stated limited liability for each limited warranty certificate issued by BBSC prior to January 1, 2003, in fifteen other States that was being covered by FCIC. The Company assumed this contractual liability in exchange for the remaining unearned premium on the certificates. In addition the Company agreed to cover all subsequent limited warranty certificates issued by BBSC within the listed fifteen States after January 1, 2003, in exchange for a premium of \$25 per issued certificate. The agreement could be terminated by either party upon 60 days written notice.

Cooperative Agreement

In 2007 the Company entered into a cooperative agreement with another affiliate, Bonded Builders Warranty Group (BBWG). Under the terms of this agreement the Company agreed to pay BBWG for each specifically defined “qualified referral” for its personal lines, commercial general liability or builders risk policies. The amount paid was based on the type of coverage referral made. The agreement could be terminated by either party with 30 days written notice.

Payment of Balances Agreement

This agreement became effective in 2008 among all the subsidiaries and affiliates of Bankers International Financial Corporation. It required all inter-company balances to be settled within 60 days of the event that caused the required need for settlement. This agreement was specifically made to comply with the requirements of SSAP 96 which required that inter-company contracts contain appropriate language requiring settlement of inter-company balances within a specific period of time in order for recoverable amounts to be admissible on the financial statements.

FIDELITY BOND AND OTHER INSURANCE

Through the inclusion of the Company's name on a fidelity bond issued to BIFC, the Company's coverage in place at December 31, 2008, provided aggregate coverage of up to \$1,500,000 with a deductible of \$100,000, which was more than the suggested calculated minimum recommended by the NAIC. Also through the inclusion of the Company's name on policies issued to BIFC, Directors and Officers (D&O) liability insurance coverage was in place through December 31, 2008, providing up to \$10,000,000 per occurrence coverage with a \$500,000 deductible. Other insurance coverages the Company had in place at December 31, 2008, through the inclusion of the Company's name on policies issued to BIFC were:

Commercial General Liability
Commercial Excess Umbrella Liability Insurance
Employee Benefits Liability
Commercial Inland Marine
Employers Liability
Commercial Building and Property including Contents
Commercial Automobile

Coverage on a per occurrence and in aggregate as well as deductible amounts varied depending upon the various types of insured accidents, hazards or locations described within each policy.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company had a qualified 401(k) retirement plan for the benefit of their employees. The Company also had employee medical and dental plans available for its employees. Both plans are sponsored by Bankers Financial Corporation.

STATUTORY DEPOSITS

The following securities were deposited with the State of Florida as required by Section 624.411, Florida Statutes, and on special deposit with other States:

STATE	Description	Par Value	Market Value
FL	Bank Of America Corp., 10.2%, 07/15/2015	\$ 250,000	\$ 287,225
FL	Alcoa Inc., 6.5%, 06/01/2011	800,000	747,760
FL	Anheuser-Busch Cos. Inc., 6.5%, 01/01/2028	656,000	580,560
FL	Waxahachie Isd., 4.25%, 08/15/2023	540,000	518,562
FL	Morgan Stanley, 6.75%, 04/15/2011	535,000	540,885
FL	Fedex Corp 1993 Pass Trust, 8.76%, 05/22/2015	500,000	522,635
FL	Verizon Communications, 7.375%, 09/01/2012	500,000	542,800
FL	Bethlehem - Txb. - B, 5.25%, 11/01/2017	277,000	269,576
FL	Weber Sd. Ut. Sch. Bond - B, 4.5%, 06/15/2023	400,000	402,880
TOTAL FLORIDA DEPOSITS		\$ 4,458,000	\$ 4,412,883
GA	Evergreen Institution Money Market Fund	\$ 102,397	\$ 102,397
IN	Cash	87,585	87,585
LA	US Treasury Note, 4.625%, 08/31/2011	75,000	82,529
MA	US Treasury Note, 4.625%, 08/31/2011	500,000	549,497
NV	Alcoa Inc., 6.5%, 06/01/2011	200,000	205,563
NM	US Treasury Note, 4.375%, 08/15/2012	350,000	392,383
NC	US Treasury Note, 4.375%, 08/15/2012	1,500,000	1,681,170
OR	Montgomery Cty. MD Txb., 5.4%, 02/15/2017	260,000	256,625
PA	2 Certificates of Deposit, 1.92%	400,132	400,000
SC	Morgan Stanley, 6.75%, 04/15/2011	200,000	196,786
TN	Certificate of Deposit, 4.04%	40,000	40,000
TX	113 Certificates of Deposit with branches of 12 different banks, varying rates	5,624,493	5,624,493
VA	GE Capital Corp., 6.75% due 3/15/2032	500,000	537,637
TOTAL OTHER DEPOSITS		\$ 9,839,607	\$ 10,156,665
TOTAL SPECIAL DEPOSITS		\$ 14,297,607	\$ 14,569,548

INSURANCE PRODUCTS

Territory

The Company was authorized to market its insurance products in the following States, Districts and Commonwealths of the United States:

Alabama	Iowa	North Dakota
Arizona	Kansas	Ohio
Arkansas	Kentucky	Oklahoma
California	Louisiana	Oregon
Colorado	Maryland	Pennsylvania
Connecticut	Massachusetts	South Carolina
Delaware	Mississippi	South Dakota
District of Columbia	Missouri	Tennessee
Florida	Montana	Texas
Georgia	Nebraska	Utah
Hawaii	Nevada	Virginia
Idaho	New Mexico	Washington
Illinois	North Carolina	West Virginia
Indiana		Wyoming

Treatment of Policyholders

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

The Company maintained detailed procedures for handling each type of claim in accordance with Section 626.9541(1) (i) 3a, Florida Statutes.

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.

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

Assumed From Affiliates

The Company participated in three separate reinsurance contracts with FCIC. One of the contracts, active since November, 2003, covered all lines of property and casualty business produced by FCIC. The contract currently required the Company to assume on 50% of all net losses incurred by FCIC. Prior to April 1, 2007, the Company was required to assume 75% of all net losses incurred by FCIC. The Company's aggregate exposure under this contract throughout the period under examination was \$125.0 million per contract period. The other two contracts, effective as of June 2008, are catastrophe excess of loss arrangements. One contract currently required the Company to assume on a per risk basis, all losses incurred by FCIC up to \$2.0 million per risk with an aggregate per occurrence limit of \$4.0 million per contract year. The other contract required the Company to assume on a per occurrence basis all losses above a \$73.3 million retention limit up to a maximum of \$17.7 million with an aggregate limit of \$17.7 million per contract year. In tandem, the arrangement essentially wrapped the catastrophic loss protection afforded by the Florida Hurricane Catastrophe Fund and achieves statutory compliance. The majority of the Company's assumed reinsurance activity during the three year period under examination stemmed these reinsurance arrangements in place with FCIC. In 2008, over 96.5% of the Company's assumed reinsurance activity resulted from these contracts with FCIC.

The reinsurance agreement with FCIC was not disclosed in any holding company registration statement during the current period, a violation of Rule 69O-143.046, Florida Administrative Code.

The Company also had an excess of loss arrangement in place with BSIC. Under the terms of this contract, effective as of July 2008, the Company assumed all losses on a per risk basis incurred by BSIC above an initial \$150,000 retention limit up to \$200,000. The Company's exposure in aggregate was limited to \$1.05 million per occurrence contract year. No losses were assumed by the Company in 2008 from this contract.

In November 2007, the Company entered into an excess of loss arrangement with another affiliate, Bonded Builders Insurance Company (BBIS). Under the terms of this contract, the Company assumed all per contract losses incurred on a claims made basis above an initial \$20,000 retention limit. There was no aggregate exposure limit described in this contract. No losses were assumed by the Company in 2007 or 2008 from this contract.

Assumed Retroactive Reinsurance

In January 2003, the Company entered into a retroactive reinsurance arrangement with Fidelity National Property and Casualty Insurance Company (FNPCIC), an unaffiliated insurer. The agreement corresponded with the Company's sale of an affiliated Company to FNPCIC in January 2003. Under the terms of the contract, the Company reassumed all but the flood business underwritten by the affiliate prior to its sale to FNPCIC. At December 31, 2008 about \$12,191,000 of the Company's liquid assets were held in trust pursuant to requirements specified in the contract associated with this reinsurance arrangement. The Company's disclosure of and accounting for this retroactive reinsurance transaction properly complied with the requirements of SSAP #62 paragraphs 28 and 29. The calculation as disclosed in Note 22E of the 2008 annual statement reflected \$376,755 of current year restricted surplus and no cumulative amount transferred to unassigned funds.

Other Assumed Reinsurance from Non-affiliated Insurers

In January, 2007, the Company entered into an arrangement with AmTrust North America Inc. (AmTrust) to assume warranty service contracts issued by VAC Services Corp. (VAC) and administered by affiliates of AmTrust since April, 2003. VAC, a New York domiciled corporation, was an indirect affiliate of the Company through BFG. The agreement required the Company to assume all policy liabilities and release AmTrust from all policy liabilities under service contracts sold between April 1, 2003, and March 5, 2004. In consideration, AmTrust delivered to the Company a claims Fund of \$3,528,427. At December 31, 2008, \$1,500,000 of the Company's liquid assets were pledged as security pursuant to contract requirements. VAC ceased issuing the warranty service contracts in March 2004.

Any remaining assumed reinsurance activity from non-affiliated insurers during the three year period under review came from pools and associations the Company participates in.

Ceded

All of the Company's reinsurance cession arrangements were with unaffiliated reinsurers and were administered through Willis Re Incorporated, a globally recognized reinsurance intermediary.

Property Catastrophe Exposure

The Company's reinsurance protection in place at December 31, 2008, pertaining to property catastrophe exposure provided coverage for up to four events occurring within a single underwriting period. First and second catastrophic events were covered under a contract that protected the Company for up to \$51.0 million per event and up to \$66.0

million in aggregate above a \$2.0 million initial per event Company retention limit. The following table outlines the three tiered structure of the coverage outlined in the contract.

Layer	Per Event		Aggregate Limit Both Events
	Coverage	Excess	
1	\$ 11,000,000	\$ 2,000,000	\$ 22,000,000
2	6,000,000	13,000,000	12,000,000
3	34,000,000	19,000,000	68,000,000

The cost of reinstatement for the second event was covered by a separate reinsurance premium protection contract that provided for the cost of one full reinstatement, with an obligatory additional premium calculated at 100% as to time and pro rata as to amount. Third and fourth catastrophic events were covered by a separate contract that provided coverage per event of up to \$11.0 million and up to \$22.0 million in aggregate, above a \$2.0 million initial per event Company retention limit.

Excess Flood Exposure

The Company's reinsurance protection in place at December 31, 2008, pertaining to excess flood exposure employed both primary per risk and catastrophe excess of loss arrangements to address events that exceed National Flood Insurance Program limits. The primary per risk contact provided the Company with excess of loss protection of up to \$600,000 per risk, per loss and \$1.2 million per loss event above an initial \$500,000 per loss, per risk Company retention limit. In addition, the reinsurers' liability for aggregate losses that occur during the term on the contract were limited to \$1.2 million. Catastrophe coverage was provided by a separate agreement featuring a two layer structure that covered losses above an initial per event \$1.5 million Company retention amount. The first layer provided protection of \$4.5 million excess of the Company's

initial \$1.5 million per event retention amount limited to \$9 million of losses in aggregate for all events that occurred during the term of the contract. The second layer provided an additional \$6.5 million excess of \$6 million, limited to \$13 million of losses in aggregate for all events that occurred during the term of the contract.

Bail Bond, Tenant Bond, and Other Surety Exposures

The Company's reinsurance protection in place at December 31, 2008, pertaining to bail bonds, tenant bonds, and other such surety exposures was provided by a quota share contract the Company had with Western International Insurance Company (WIIC), an offshore unauthorized reinsurer. Under this arrangement, the Company ceded a quota share 50% of applicable surety exposures to WIIC, subject to a \$2,500 limit of liability. The contract required WIIC to maintain collateral consisting of bank deposits and fixed income securities to ensure that it could meet its obligations under the reinsurance arrangement. The Company was authorized to make deposits and withdrawals from these accounts as premiums or losses were ceded to Western. At December 31, 2008, and 2007, the funds held in trust approximated \$1,616,000 and \$2,480,000, respectively.

Other Business Lines

Reinsurance protection in place at December 31, 2008, pertaining to the Company's other property and casualty business lines was provided by a multi-line excess of loss contract with General Reinsurance Corporation (Gen Re). The arrangement was structured in three tiers for both property and casualty risks and in each instance required the Company to retain the first \$500,000, of incurred loss per risk (individually or combined per occurrence). For property risks, the first layer of the contract then provided additional per risk coverage of up to \$500,000, with Gen Re's per occurrence

losses capped at \$1.5 million. The second layer of coverage provided an additional per risk coverage of up to \$1.0 million, with Gen Re's per occurrence losses capped at \$2.0 million. The third layer provided additional per risk coverage of up to \$1.0 million, with Gen Re's per occurrence losses limited to \$2.0 million. Additionally, Gen Re's total net property losses caused by acts of terrorism were limited to \$2.0 million per contract period. For casualty risks, the first layer of the contract provided additional per occurrence coverage of up to \$500,000 and the second layer provided an additional \$2.0 million of per occurrence coverage. The third layer provided additional per occurrence coverage of up to \$1.0 million. Gen Re's total casualty per occurrence losses were capped at \$3.5 million. Additionally, Gen Re's combined property and casualty losses arising from bacteria, wet or dry rot, or fungus were limited to \$2.0 million per contract year.

Commutations

In June, 2008, the Company commuted a total of three workers compensation reinsurance treaties with a reinsurer. The "Commutation and Release Agreement" included one treaty from 1997 and two treaties from 1999. The reinsurer paid the Company \$3.5 million for the three commutations. The Company assumed the risk on all remaining claims under the treaties. The gross ceded reinsurance recoverable totaled approximately \$4.7 million prior to the commutations. The net effect of the commutations was an increase in losses and loss adjustment expenses of \$1,170,069 resulting in a \$742,290 decrease in net income.

In October, 2008, the Company commuted a 25% portion of three workers compensation reinsurance treaties with another reinsurer. The "Commutation and Release Agreement" included two treaties from 1982 and one treaty from 1984. The reinsurer paid the Company \$550,000 for

the three commutations. The Company assumed the risk on the reinsurer's proportionate share on all remaining claims under the treaties. The gross ceded reinsurance recoverable totaled approximately \$756,000 prior to the commutations. The net effect of the commutation was an increase in losses and loss adjustment expenses of \$205,683 resulting in a \$130,485 decrease in net income.

The examiner noted that an amendment to one the Company's catastrophe excess of loss agreements in place with FCIC (treaty TR 40.8) was not disclosed in the 2008 holding company registration filing with the Office as required by 69O-143.046, Florida Administrative Code. All other new inter-company reinsurance agreements or amendments to other existing inter-company reinsurance agreements during the period under review were appropriately disclosed in the holding company registration statements filed with the Office.

Subsequent Event: In compliance with Rule 69O-143.046, Florida Administrative Code, the Company reported changes to the Holding Company Registration Statements as part of their 2009 Annual Statement.

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 2006, 2007 and 2008, 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 electronic data processing systems. The Company's balance sheet accounts, with the exception of two accounts, were verified with the line items of the annual statement submitted to the Office.

The Company and non-affiliates had the following agreements:

Custodial Agreement

Since June 2007, the Company utilized the Northern Trust Bank (Northern) as custodian for its securities. Previously they utilized the custodial services of The Bank of New York. The written agreement with the Company's current custodian as amended through December 31, 2008 did not contain the following clauses as required by Rule 69O-143.042, Florida Administrative Code:

- That Northern secure and maintain insurance protection in an adequate amount covering its duties and activities as custodian for the Company's assets; such insurance protection to be compliant with the requirements, if any, of its banking regulators.
- That in the event Northern gains entry in a clearing corporation through an agent, there is to be an agreement between Northern and the agent in which the agent is subject to the same liability for loss of securities in custody as the custodian. Furthermore if the agent is subject to regulations under the laws of a jurisdiction which differ from the jurisdiction the laws of which regulate Northern, the Director of the Office may accept a standard of liability applicable to the agent which is different from the standard of liability applicable to Northern as custodian.
- That Northern notify the Office in writing within 3 business days of the occurrence if its agreement with the Company has been terminated or if 100% of the account assets in any one account have been withdrawn.

Subsequent Event: In 2009, the custodial agreement with Northern was amended to include all of the above clauses to comply with the requirements of Rule 69O-143.042, Florida Administrative Code.

General Agency Agreements

Since 2001, the Company used American Team Managers Insurance Services (ATMIS) as a general agent to produce and administer its casualty and liability business lines in the State of California. In 2006, the contract was amended to include the State of Arizona. The written agreement specified the lines of business to be marketed and administered, as well as maximum coverage limits. Compensation to ATMIS by the Company was also specified in the contract. The agreement may be terminated by either party upon 90 days written notice.

The Company also used Builders & Tradesman Insurance Services (BTIS) as a general agent to produce and administer its casualty and liability business lines in the Northern part of the State of California. The arrangement between the two companies was in effect since 2001. However the Company terminated the arrangement with BTIS in September 2006.

Since 2007, the Company has used Blackthorn Insurance Underwriters (BIU) as a general agent to produce and administer its casualty and liability business lines in the States of Washington and Oregon. The written agreement specified the lines of business to be marketed and administered, as well as maximum coverage limits. Compensation to BIU by the Company was also specified in the contract. The agreement could be terminated by either party upon 120 days written notice.

Since 2007, the Company has used Converge Services Group LLC (CSG) as a general agent to produce and administer its tenant bond business. The written agreement specified the lines of business to be marketed and administered, as maximum coverage limits, and the states CSG was allowed to operate in on the Company's behalf. Compensation to BIU by the Company was also specified in the contract. The agreement could be terminated by either party upon 90 days written notice.

Independent Auditor Agreement

The Company annually contracted with an external CPA firm to perform the annual audit of its financial position as required by Rule 690-137.002(7)(c), Florida Administrative Code.

Actuarial Services Agreement

The Company annually contracted the Madison Consulting Group to provide the actuarial services.

Information Technology Report

Tracy Gates from Highland Clark, LLC 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.

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2008, 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."

BANKERS INSURANCE COMPANY
Assets

DECEMBER 31, 2008

	<u>Per Company</u>	<u>Examination Adjustments</u>	<u>Per Examination</u>
Bonds	\$54,223,658		\$54,223,658
Stocks:			
Common	25,630,745		25,630,745
Real Estate:			
Properties Held for Income			
Production	895,313		895,313
Cash on Deposit	14,069,274		14,069,274
Other Invested Assets	3,145,083		3,145,083
Investment Income Due or Accrued	582,242		582,242
Agents' Balances:			
Uncollected Premium	1,373,771		1,373,771
Deferred Premium	2,508,206		2,508,206
Reinsurance Recoverable	1,910,899		1,910,899
Funds Held by or Deposited with			
Reinsured Companies	52,748		52,748
Federal Income Taxes Recoverable	462,370		462,370
Net Deferred Tax Asset	2,668,576		2,668,576
Guaranty Funds Receivable or			
on Deposit	20,787		20,787
Electronic Data Processing Equipment	1,414,770		1,414,770
Furniture and Equipment	0		0
Receivable from Parent, Subsidiaries			
and Affiliates	136,691		136,691
Equities and Deposits in Pools			
and Associations	306,827		306,827
Pre-Paid Expenses	0		0
Dividends Receivable	500,000		500,000
Recoupment of Assessments	226,153		226,153
Other Accounts Receivable	15,711		15,711
Totals	<u>\$110,143,824</u>	<u>\$0</u>	<u>\$110,143,824</u>

BANKERS INSURANCE COMPANY
Liabilities, Surplus and Other Funds

DECEMBER 31, 2008

	<u>Per Company</u>	<u>Examination Adjustments</u>	<u>Per Examination</u>
Losses	\$26,292,746		\$26,292,746
Reinsurance Payable on Paid Losses	172,887		172,887
Loss adjustment expenses	10,678,552		10,678,552
Commissions Payable Contingent or Otherwise	732,056		732,056
Other expenses	2,310,372		2,310,372
Taxes, licenses and fees	885,101		885,101
Unearned premium	23,271,966		23,271,966
Dividends Declared and Unpaid to Stockholders	2,000,000		2,000,000
Ceded Reinsurance Premiums Payable	1,036,658		1,036,658
Amounts withheld by Company for Account of Others	702,872		702,872
Remittance and Items Not Allocated	570,371		570,371
Provision for Reinsurance	71,429		71,429
Payable to parent, subsidiaries and affiliates	90,052		90,052
Accrued Expense Servicing Carrier Operations	25,230		25,230
Portfolio Transfer	2,075		2,075
Total Liabilities	\$68,842,367	\$0	\$68,842,367
Common capital stock	\$4,500,000		\$4,500,000
Gross paid in and contributed surplus	32,380,816		32,380,816
Unassigned funds (surplus)	4,420,640		4,420,640
Surplus as regards policyholders	\$41,301,456		\$41,301,456
Total liabilities, surplus and other funds	<u>\$110,143,823</u>	<u>\$0</u>	<u>\$110,143,823</u>

BANKERS INSURANCE COMPANY
Statement of Income

DECEMBER 31, 2008

Underwriting Income		
Premiums earned		\$46,055,179
Deductions:		
Losses incurred		14,069,314
Loss expenses incurred		4,033,838
Other underwriting expenses incurred		24,966,449
Total underwriting deductions		<u>\$43,069,601</u>
Net underwriting gain or (loss)		\$2,985,578
Investment Income		
Net investment income earned		\$4,779,586
Net realized capital gains or (losses)		<u>(1,491,416)</u>
Net investment gain or (loss)		\$3,288,170
Other Income		
Net gain or (loss) from agents' or premium balances charged off		(32,448)
Finance and service charges not included in premiums		\$98,733
Aggregate write-ins for miscellaneous income		<u>(71,946)</u>
Total other income		(\$5,661)
Net income before dividends to policyholders and before federal & foreign income taxes		\$6,268,087
Dividends to policyholders		<u>0</u>
Net Income, after dividends to policyholders, but before federal & foreign income taxes		\$6,268,087
Federal & foreign income taxes		<u>2,130,660</u>
Net Income		<u><u>\$4,137,427</u></u>
Capital and Surplus Account		
Surplus as regards policyholders, December 31, 2007		\$41,815,888
Net Income		\$4,137,427
Net unrealized capital gains or losses		(1,991,691)
Change in net deferred income tax		(11,623)
Change in non-admitted assets		(1,177,962)
Change in provision for reinsurance		29,420
Dividends to Stockholders		(2,000,000)
Aggregate write-ins for gains and losses in surplus		500,000
Change in surplus as regards policyholders for the year		<u>(\$514,429)</u>
Surplus as regards policyholders, December 31, 2008		<u><u>\$41,301,459</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Assets

Bonds \$54,223,658

This amount represented the net admitted value of the Company's bond portfolio as of December 31, 2008 reflected by the Company in its annual statement. The amount was net of \$484,727 of non-admitted carrying value and \$1,277,081 of unrealized losses. During 2008, the Company recognized and wrote off \$1,136,607 of investment value as Other Than Temporarily Impaired.

At December 31, 2008 the Company had around \$11,300,000 of its bond portfolio being held in a trust account pursuant to a reinsurance assumption arrangement with Fidelity National Property Casualty Company entered into in 2003. **Subsequent Event:** In April 2009, the Company was able to negotiate a reduction to the amount held in trust down to \$500,000 with a promise to add another \$100,000 to the trust if the need arises.

Common Stock \$25,630,745

This amount represented the net admitted market value of the Company's common stock portfolio as of December 31, 2008 reflected by the Company in its annual statement. The amount was net of \$209,146 of non-admitted carrying value. The Company's investment in affiliates and subsidiaries comprised \$23,258,025 of this amount. The examiners determined that that the value of the Company's investments subsidiaries and affiliates complied with the requirements of SSAP #97.

The value of the Company's investment in Bankers Life Insurance Company (BLIC) included the effects of a \$1,000,000 surplus note the Company issued to BLIC in 2007. The value of this

surplus note was reflected as an asset in the “Other Invested Assets” amount reflected in the Company’s annual statement.

Other Invested Assets \$3,145,083

This amount represented the net admitted market value of the Company’s investment in other types of assets as of December 31, 2008 reflected by the Company in its annual statement. During 2008, the Company recognized and wrote off around \$430,000 of investment value in these assets as Other Than Temporarily Impaired.

This amount included investment valuations of limited partnerships and joint ventures at cost. This is contrary to the requirements of SSAP #48 which requires investments in limited partnerships to be valued using an applicable equity method described in SSAP #97. The valuation of these investments using the equity method would reduce the asset value of the Company’s investment in these other types of assets by about \$172,500 at December 31, 2008.

This amount also included a \$1,000,000 surplus note issued to BLIC in 2007. The value of this note was also included in the value of the Company’s investment in BLIC contained within the “Common Stocks” amount reflected in the annual statement at December 31, 2008.

Subsequent Event: In 2009, the Company established a process to record investment in limited partnerships and joint ventures using the equity method, which is in compliance with SSAP #48 and SSAP #97. The Company applied this treatment for the December 31, 2009 Annual Statement.

Uncollected Premiums and Agents' Balances in Course of Collection \$1,373,771

This amount represented the admitted balance reflected by the Company's as of December 31, 2008 for premium amounts due and in course of collection. The Company was aging premium amounts due from agents based on the due date of the agent's statement rather than the policy effective date. This is contrary to the requirements of SSAP #6 and Rule 69O-138.024(3) Florida Administrative Code which requires that the aging of premiums due be based on the policy effective date and that amounts over 90 days past due be reflected in an insurer's financial reports as a non-admitted asset. An additional amount of around \$132,000 should have been reflected as a non-admitted asset in the Company's annual statement as of December 31, 2008 per SSAP #6 and 625.012(5)(a) Florida Statutes had due premium amounts due from agents been correctly aged based upon the policy effective date.

Subsequent Event: In 2009, the Company established a process to age premiums due from agents based on the policy effective date and in accordance with SSAP #6 and Rule 69O-138.024(3), Florida Administrative Code, reported those premiums over 90 days past due as non-admitted for the December 31, 2009 Annual Statement.

Liabilities

Losses and Loss Adjustment Expenses \$36,971,298

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, 2008, made a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

Dennis Henry, FCAS, MAAA, Consulting Actuary on the examination, reviewed the work papers provided by Company's consulting actuary the was in concurrence with the opinion.

Capital and Surplus

The amount reported by the Company of \$41,301,456, exceeded the minimum of \$6,884,237 required by Section 624.408, Florida Statutes.

A comparative analysis of changes in surplus is shown below.

**BANKERS INSURANCE COMPANY, INC.
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS**

DECEMBER 31, 2008

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, 2008, per Annual Statement	\$41,301,456
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	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:			
No Adjustments			
LIABILITIES:			
No Adjustments			
Net Change in Surplus:			<u>0</u>
Surplus as Regards Policyholders December 31, 2008, Per Examination			<u>\$41,301,456</u>

SUMMARY OF FINDINGS

Compliance with previous directives

The Company took the necessary actions to comply with the comments made in the 2005 examination report issued by the Office.

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 examination as of December 31, 2008.

General

The Company had not written insurance coverage in the following lines of business, (Ocean Marine, Accident and Health, Private Passenger Automobile Liability, Commercial Automobile Liability, Burglary and Theft, Warranty, and Glass) for a twelve month period. **We recommend that the Company comply with Section 624.430, Florida Statutes, and request that the Office remove these lines of insurance from its certificate of authority.**

SUBSEQUENT EVENTS

In the first two quarters of 2009, the Company acquired some bonds at a fair market of around \$3,500,000 from BLIC, its wholly owned subsidiary. In accordance with the designation assigned to these investments by the Valuation of Securities Office of the NAIC, the Company listed them at fair market value and applied valuation based upon the NAIC approved PIMCO model in their 2009 yearend financial reports. The Company also contributed \$500,000 to BLIC in the second quarter of 2009.

In the third quarter of 2009, the Company sold two bonds to BLIC for around \$1,285,000, their fair market value. The Company realized a gain on the sale of approximately \$84,400.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of Bankers Insurance Company of Florida as of December 31, 2008, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders' was \$41,301,456 in compliance with Section 628.903, Florida Statutes.

In addition to the undersigned Perry L. DiCastrì, CPA, CFE, Examiner-in-Charge; Brad R. Hazelwood, Assistant Examiner; Frank A. Jones, Reinsurance/Financial Specialist; Kethessa Carpenter, CPA, Financial Examiner/Analyst Supervisor; Tracy Gates, Information Technology Specialist and Joseph R. Peiso, ARe, participated in the examination. Dennis Henry, FCAS, MAAA of The Actuarial Advantage Inc., also participated in the examination. We also recognize the participation of Highland Clark, LLC in the examination.

Respectfully submitted,

Mary M. James, CFE
Financial Examiner/Analyst Supervisor
Florida Office of Insurance Regulation