

REPORT ON EXAMINATION
OF
FLORIDA HOSPITALITY MUTUAL
INSURANCE COMPANY
NOW KNOWN AS FHM INSURANCE
COMPANY
JACKSONVILLE, FLORIDA

AS OF
DECEMBER 31, 2009

BY THE
OFFICE OF INSURANCE REGULATION

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TALLAHASSEE, FLORIDA

March 4, 2011

Kevin M. McCarty
Commissioner
Office of Insurance Regulation
State of Florida
Tallahassee, Florida 32399-0326

Dear Sir:

Pursuant to your instructions, in compliance with Sections 624.316, 628 and 440 Florida Statutes, and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted an examination as of December 31, 2009, of the financial condition and corporate affairs of:

**FLORIDA HOSPITALITY MUTUAL INSURANCE COMPANY
NOW KNOWN AS FHM INSURANCE COMPANY
4601 TOUCHTON ROAD E., BLDG. 300, SUITE 3150
JACKSONVILLE, FLORIDA 32246**

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

SCOPE OF EXAMINATION

This examination covered the period of January 1, 2005, through December 31, 2009. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2004. This examination commenced with planning at the Office on October 11, 2010, to October 15, 2010. The fieldwork commenced on October 20, 2010, and concluded as of March 4, 2011.

This financial examination was a statutory financial examination conducted in accordance with the Financial Condition Examiners Handbook, Accounting Practices and Procedures Manual and annual statement instructions promulgated by the NAIC as adopted by Rules 69O-137.001(4) and 69O-138.001, Florida Administrative Code, with due regard to the statutory requirements of the insurance laws and rules of the State of Florida.

The Financial Condition Examiners Handbook requires that the examination be planned and performed to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation and management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

This report of examination is confined to significant adverse findings, a material change in the financial statements or other information of regulatory significance or requiring regulatory action. The report comments on matters that involved departures from laws, regulations or rules, or which were deemed to require special explanation or description.

SUMMARY OF SIGNIFICANT FINDINGS

Current Exam Findings

There were no material findings or exceptions noted during the examination as of December 31, 2009.

Prior Exam Findings

There were no findings, exceptions or corrective action to be taken by the company for the examination as of December 31, 2004.

SUBSEQUENT EVENTS

Effective October 10, 2010, the Company changed its name to FHM Insurance Company.

HISTORY

General

The Company was incorporated and commenced business in Florida on January 15, 1954, as a trust under the Florida Workers' Compensation Act with the name of Florida Hotel-Motel Self-Insurer's Fund. Pursuant to a plan of reorganization, the Company incorporated on October 1, 1996, under the laws of the State of Florida, as an authorized domestic mutual insurer, with the name of Florida Hotel-Motel Insurance Company. Subsequently, the Company changed its name to Florida Hospitality Mutual Insurance Company on October 21, 1996.

The Company was party to Consent Order 16750-96, filed September 26, 1996, regarding the application for conversion of the Company to a non-assessable mutual insurance company from a self insurers fund. The Company was in compliance with the provisions of this consent order.

The Company was authorized to transact the workers compensation insurance coverage in the states of Alabama, Florida, Georgia, North Carolina, and South Carolina on December 31, 2009. Nearly ninety percent of the direct business was written in the State of Florida.

The Articles of Incorporation and the Bylaws were amended during the period covered by this examination. On September 28, 2007, the Company amended Article XII of the by-laws to revise liability, indemnification and insurance clauses. On October 20, 2010, the Company amended Article I of the Articles of Incorporation to change its name from Florida Hospitality Mutual Insurance Company to FHM Insurance Company.

Dividends to Policyholders

In accordance with Section 628.371, Florida Statutes, the Company declared and paid dividends to its Policyholders in 2009, 2008, 2007, 2006, and 2005 in the amounts of \$3,145,000, \$2,750,000, \$1,890,000, \$555,000, and \$420,000 respectively.

Capital Stock and Capital Contributions

The Company is a mutual insurance Company; therefore, no capital stock was issued or capital contributions made by the stockholders.

Surplus Debentures

The Company entered into a Surplus Subordinate Debenture Agreement with FHM Management Corp. on December 19, 2002, in the amount of \$3,800,000.

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

There were no acquisitions, mergers, disposals, dissolution, and purchase or sales through reinsurance during period covered by this examination.

CORPORATE RECORDS

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

Conflict of Interest

The Company adopted a policy statement requiring annual disclosure of conflicts of interest in accordance with the NAIC Financial Condition Examiners Handbook adopted by Rule 69O-138.001, Florida Administrative Code.

MANAGEMENT AND CONTROL

Management

The annual meeting for the election of directors was held in accordance with Sections 607.1601 and 628.231, Florida Statutes. Directors serving as of December 31, 2009, were:

Directors

| Name and Location | Principal Occupation |
|--|--|
| Jack B. Healan, Amelia Island, Florida | President Amelia Island Plantation |
| George D. Gabel, Jr., Jacksonville, Florida | Attorney Holland & Knight, LLP |
| Joseph G. Seay Jacksonville, Florida | Insurance & Tax Consultant |
| Walter L. Banks Ft. Lauderdale, Florida | Owner & Operator Largo Mar Resort & Club |
| Mary A. Richardson Daytona Beach, FL | Property Manager |
| Ruel L. Bradley, Jr. Tallahassee, FL | Treasurer Florida Hospitality Mutual Insurance Company |
| William Bond, Jr., St. Petersburg, FL | President Florida Hospitality Mutual Insurance Company |

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

Senior Officers

| Name | Title |
|----------------------|-------------------------|
| William Bond, Jr | President |
| Mary A. Richardson | Secretary |
| Ruel L. Bradley, Jr. | Treasurer |
| John A. Lemine | Chief Operating Officer |
| Heather L. McCoy | VP of Finance |
| Angela R. Adamson | VP of Policy Services |
| John M. Bledsoe | VP of Field Services |

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, 2009:

Budget Committee

Jack B. Healan¹
Ruel L. Bradley, Jr.
Joseph G. Seay

¹ Chairman

Audit Committee

George D. Gabel Jr. ¹
Joseph G. Seay
Walter Banks
Mary A. Richardson

Investment Committee

Ruel L. Bradley, Jr. ¹
Jack B. Healan, Jr.
Joseph G. Seay

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

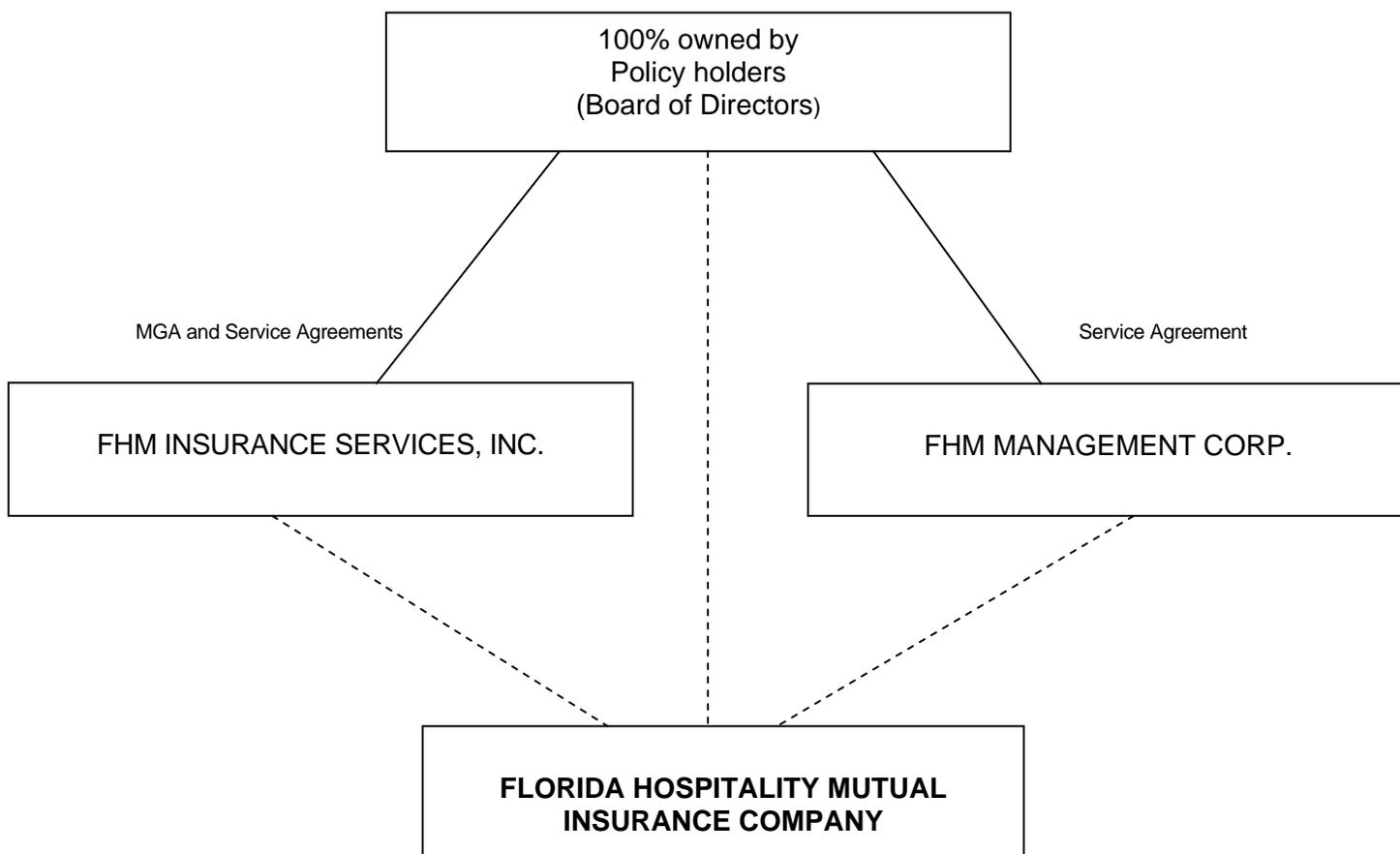
Affiliated Companies

The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code. The latest holding company registration statement was filed with the State of Florida on February 24, 2010, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

An organizational chart as of December 31, 2009, reflecting the holding company system, is shown below. Schedule Y of the Company's 2009 annual statement provided a list of all related companies of the holding company group.

**FLORIDA HOSPITALITY MUTUAL INSURANCE COMPANY
ORGANIZATIONAL CHART**

DECEMBER 31, 2009



Board of Directors are the same for three companies.
Affiliated through common Board of Directors.

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

Managing General Agreement

The Company entered into an MGA agreement with its affiliate, FHM Insurance Services, Inc. (FHMIS) on January 1, 2007, for underwriting and producing gross direct written premium subject to the guidelines contained in Article III., Section E of the MGA agreement. The Company was a member of the National Council of Compensation Insurers (NCCI) and adopted NCCI rates and policy forms. Per the terms of the agreement, FHMIS was subject to adhering to NCCI's rates and policy forms, risk classifications permitted by the Company and Section 440, Florida Statutes. FHMIS was to render accounts to the Company detailing all transactions and remit funds due under this agreement directly to the Company on the day on which the funds are received. All premium payments collected for the account of the Company were to be deposited by FHMIS on the day on which they were received into the account of the Company at banks that were members of the Federal Reserve System. FHMIS was authorized to negotiate reissuance on behalf of the Company. However, FHMIS was not authorized to bind reinsurance or retrocession or settle claims on behalf of the Company. The Company did not compensate its MGA, FHMIS.

Management Service Agreement with FHMIS

The Company entered into a management services agreement with its affiliate, FHMIS, on January 1, 2005, Inc., to administer and manage some of the services previously provided by Brown & Brown d/b/a United Self Insured Services (USIS).

Under the terms of this agreement, FHMIS provided marketing services to the Company which included employing a full time marketing executive whose sole responsibility was to develop and

strengthen key agents on behalf of the Company and a staff of field marketing representatives. FHMIS assisted the Company in underwriting the business, coordinating lines of communication between underwriters and agents to insure a smooth working relationship. Also, FHMIS assisted in developing and implementing, with the approval of the Company, incentive programs and new marketing ideas to assist in the achievement of the desired premium volume for the Company. The Company amended this agreement five times by adding additional "Brown & Brown Services" to be assumed by FHMIS. The Company entered into a third amendment on October 1, 2007, pursuant to Article V, Section A to increase the percentage used to calculate the compensation to be paid to FHMIS, and FHM Management Corp (another affiliate) from a combined total of 16.5% to 21.5% of total written premiums and claims payments made for large deductible policies. Again, on October 1, 2007, the Company entered into a fifth amendment with FHMIS to revise Article V (Compensation), Section A to define the term "written premium" as the earned portion of premium billed. All of the amendments were reviewed and approved by the Office.

Management Service Agreement with FHM CORP

The Company amended and restated its management services agreement with its affiliate, FHM Management Corp (FHMMC) on January 1, 2005. Under the terms of the agreement, FHMMC was responsible for handling and processing claims, assisting in the preparation of statutory accounting, maintaining adequate and correct claim, accounting, insurance policy statistical records on behalf of the Company. FHMMC in turn, had an agreement with USIS (United Self Insured Services), Inc., a subsidiary of Brown & Brown for processing and handling claims. FHMMC was responsible for assuring that adequate funds were available to consummate the workers' compensation settlements approved by FHMMC management on behalf of the

Company. The Company paid FHMMC a management fee of the services it provided monthly. The management fees paid to FHMMC Management and FHMIS, did not exceed the 16.5% of the total of written premiums and claim payments made for large deductible policies. On October 1, 2007, the Company amended its agreement with FHMMC to change the percentage used to calculate the management fee to be paid to FHMMC and FHMIS from 16.5% to 21.5%. On April 30, 2010, the Company entered into a second amendment with FHMMC to revise Article VI, Section 1 defining the term “written premium” as the earned portion of premium billed. All of the amendments were reviewed and approved by the Office.

FIDELITY BOND AND OTHER INSURANCE

The Company maintained fidelity bond coverage up to \$800,000 with a deductible of \$5,000, which reached the suggested minimum as recommended by the NAIC. The policy limits were increased in August 2009 to coverage of \$1.2 Million with a deductible of \$12,000. The Company also maintained D & O liability, excess of D & O liability, media perils policy, professional liability and a commercial package as of December 31, 2009.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company did not have employees. Therefore, there were no pension, stock ownership and insurance plans.

TERRITORY AND PLAN OF OPERATIONS

The Company was authorized to transact worker's compensation insurance in the following states:

Florida
Georgia

North Carolina
South Carolina

Alabama

Treatment of Policyholders

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

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

COMPANY GROWTH

The Company's direct premiums decreased by 11.7%, net premium written decreased by 11.8% and net earned premiums decreased by 24.3% during 2009. The majority of the decrease in premiums written for 2009 resulted from the 19% rate reduction that was imposed by the State of Florida effective January 1, 2009. The premiums earned during 2009, included significant adjustments made to prior years retrospective policyholders' premiums and adjustments were made based on the final audited payroll. In prior years, a significant portion of the Company's business was written under retrospective policies. Therefore, when the aforementioned prior year reserve redundancies were recognized, the corresponding retrospective premium adjustments reduced premiums earned. The impact of the prior years' retrospective adjustments was more in 2009 than in 2008. The Company is reducing writing retrospective premiums as more policyholders are shifting to dividend paying plans. The Company experienced a net underwriting loss of \$ (865,000) in 2007. This was due to the 15.7% Florida rate reduction that

was effective January 1, 2007. The Company was not able to match the strong underwriting results that it achieved during 2006. In addition the Company incurred one claim that exceeded its \$1 million retention. The Company attempted to mitigate the effect of the rate reduction by continuing to employ strong underwriting standards and aggressive claims management and loss control. The Company is expanding into other south eastern states by writing workers compensation business. On April 1, 2009, the Company began writing business in South Carolina and on August 1, 2009, the Company began writing business in North Carolina. In the first quarter of 2010, the Company received approval to write business in Virginia and Kentucky.

Profitability of Company

The following table shows the profitability trend (in dollars) of the Company for the period of examination, as reported in the field annual statements.

| | 2009 | 2008 | 2007 | 2006 | 2005 |
|----------------------------------|-------------|-------------|-------------|-------------|-------------|
| Premiums Earned | 29,273,193 | 38,659,671 | 36,940,497 | 39,608,761 | 44,281,337 |
| Net Underwriting Gain/(Loss) | 2,449,455 | 4,644,376 | (865,659) | 2,737,662 | 5,370,774 |
| Net Income | 4,322,863 | 4,810,364 | 1,944,943 | 5,409,880 | 7,185,456 |
| Total Assets | 117,521,170 | 125,790,064 | 134,914,516 | 132,663,889 | 133,089,981 |
| Total Liabilities | 59,181,795 | 72,744,431 | 85,630,665 | 86,344,773 | 91,417,254 |
| Surplus As Regards Policyholders | 58,339,375 | 53,045,633 | 49,283,851 | 46,329,116 | 41,672,727 |

LOSS EXPERIENCE

In 2007, the Company incurred one claim that exceeded its \$1 million retention. As a result, the Loss and LAE ratio increased to from 62.2% in 2006 to 73.2% during 2007. The losses and

LAE decreased from 58.7% in 2008 to 55.8% in 2009 due to improved changes in underwriting standards, claims management and loss control.

REINSURANCE

The reinsurance agreements reviewed complied with NAIC standards with respect to the standard insolvency clause, arbitration clause, transfer of risk, reporting and settlement information deadlines.

Assumed

The Company did not assume risk during the period covered by this examination.

Ceded

The Company ceded risk on an excess of loss basis to various reinsurers during the period covered by this examination by utilizing Guy Carpenter and Axiom Re as the reinsurance intermediaries. As of December 31, 2009, Midwest Employers Casualty Company was the lead reinsurer for excess of loss contracts.

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

ACCOUNTS AND RECORDS

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

An independent CPA audited the Company's statutory basis financial statements annually for the years 2005, 2006, 2007, 2008, and 2009 in accordance with Section 624.424(8), Florida Statutes. Supporting work papers were prepared by the CPA as required by Rule 69O-137.002, Florida Administrative Code.

The Company's accounting records were maintained on a computerized system. The Company utilized Great Plains software for general ledger, Portman software to record investment transactions, and Tropics for underwriting, policy issuance, policy recording and processing. Claims were handled and processed by a third party administrator, USIS, Inc.

The Company and non-affiliates had the following agreements:

Custodial Agreement

The Company entered into a custodial agreement with Morgan Stanley & Co, on December 8, 2008. The agreement was in compliance with Rule 69O-143.042, Florida Administrative Code.

Service Agreement with Brown & Brown Inc., (B & B)

The Company and its affiliates (FHMMC and FHMS) entered into an agreement with Brown & Brown Inc. (B & B), an independent insurance intermediary organization that provided a variety of insurance services to its clients effective January 1, 2009. As authorized by this agreement, B & B used United Self Insured Services (USIS), Inc., and Public Risk Underwriters of Georgia (PRU), its affiliates to provide certain services which included, but were not limited to, providing administrative support, information technology, policy support, loss prevention, claims handling, data management, claims recoveries, and medical cost containments. B & B also assisted the Company in procuring specific excess of loss reinsurance or other reinsurance, annuity

purchases, and performance bonds meeting or exceeding benchmarks/regulatory requirements in the performance of its services. FHMMC agreed to pay USIS the total sum of \$3,504,000 for the services required as outlined in Exhibit C of this agreement. The services fee was for services provided in all states in which the Company was duly licensed. The services did not include administration support services and fees for Georgia Loss Prevention Services. This agreement was renewed annually.

Independent Auditor Agreement

The Company contracted with Johnson Lambert & Co., LLP, an external, independent CPA firm to perform the annual audit of its financial statements as required by Rule 690-137.002 (7) (c), Florida Administrative Code.

Information Technology Report

Computer Aid, Inc. performed an evaluation of the information technology and computer systems of the Company. Results of the evaluation were noted in the Information Technology Report provided to the Company.

STATUTORY DEPOSITS

The following securities were deposited with the State of Florida as required by Section 624.411, Florida Statutes and with various state officials as required or permitted by law:

| STATE | Description | Par Value | Market Value |
|------------------------|---------------------------------|---------------------|--------------------|
| FL | GE Bond, 5.8750% 2/15/2012 | <u>\$ 2,000,000</u> | <u>\$2,142,740</u> |
| TOTAL FLORIDA DEPOSITS | | 2,000,000 | 2,142,740 |
| GA | US T.Notes, 2.875%, 06/30/10 | \$ 85,000 | \$ 86,113 |
| NC | US T. Notes, 1.125%, 1/15/2012 | 225,000 | 224,789 |
| SC | US T. Notes, 1.750%, 11/15/2011 | 125,000 | 126,578 |
| TOTAL OTHER DEPOSITS | | <u>\$ 435,000</u> | <u>\$ 437,480</u> |
| TOTAL SPECIAL DEPOSITS | | <u>\$2,435,000</u> | <u>\$2,580,220</u> |

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2009, and the results of its operations for the year then ended as determined by this examination. Adjustments made as a result of the examination are noted in the section of this report captioned, "Comparative Analysis of Changes in Surplus."

FLORIDA HOSPITALITY MUTUAL INSURANCE COMPANY
Assets

DECEMBER 31, 2009

| | Per Company | Examination Adjustments | Per Examination |
|---|----------------------|------------------------------------|------------------------|
| Bonds | \$94,465,079 | \$0 | \$94,465,079 |
| Stocks: | | | |
| Common | 1,473,672 | | 1,473,672 |
| Preferred | 9,695,900 | | 9,695,900 |
| Cash | 3,122,344 | | 3,122,344 |
| Investment income due and accrued | 1,493,208 | | 1,493,208 |
| Agents' Balances: | | | |
| Uncollected premium | 768,789 | | 768,789 |
| Deferred premium | 535,956 | | 535,956 |
| Accrued retrospective premiums | 2,919,201 | | 2,919,201 |
| Reinsurance recoverable | 331,888 | | 331,888 |
| Current federal & foreign income tax recoverable | 83,829 | | 83,829 |
| Net deferred tax assets | 2,082,139 | | 2,082,139 |
| Receivable from parents, subsidiaries and affiliates | 1,428 | | 1,428 |
| Aggregate write-in for other than invested assets | 547,737 | | 547,737 |
| | | | |
| Totals | <u>\$117,521,170</u> | <u>\$0</u> | <u>\$117,521,170</u> |

FLORIDA HOSPITALITY MUTUAL INSURANCE COMPANY
Liabilities, Surplus and Other Funds

DECEMBER 31, 2009

| | Per Company | Examination Adjustments | Per Examination |
|---|----------------------|----------------------------|----------------------|
| Losses | \$40,322,475 | | \$40,322,475 |
| Loss adjustment expenses | 11,343,745 | | 11,343,745 |
| Commissions Payable | 159,981 | | 159,981 |
| Other expenses | 13,614 | | 13,614 |
| Taxes, licenses and fees | 488,261 | | 488,261 |
| Unearned premium | 2,596,146 | | 2,596,146 |
| Advance premiums | 895,467 | | 895,467 |
| Dividends declared and unpaid | 35,513 | | 35,513 |
| Ceded reinsurance permiums payable | 651,015 | | 651,015 |
| Amounts withheld or retained by Company | 242,713 | | 242,713 |
| Provisions for reinsurance | 3,600 | | 3,600 |
| Payable to parent, subsidiaries and affiliates | 76,464 | | 76,464 |
| Aggregate write-ins for liabilities | 2,352,801 | | 2,352,801 |
| Total Liabilities | \$59,181,795 | \$0 | \$59,181,795 |
| Aggregate write-ins for special Surplus Funds | \$678,682 | | \$678,682 |
| Surplus Notes | 3,800,000 | | 3,800,000 |
| Gross paid in and contributed surplus | 10,391,310 | | 10,391,310 |
| Unassigned funds (surplus) | 43,469,383 | | 43,469,383 |
| Surplus as regards policyholders | \$58,339,375 | \$0 | \$58,339,375 |
| Total liabilities, surplus and other funds | \$117,521,170 | \$0 | \$117,521,170 |

FLORIDA HOSPITALITY MUTUAL INSURANCE COMPANY
Statement of Income

DECEMBER 31, 2009

Underwriting Income

| | | |
|---|--------------------|--------------|
| Premiums earned | | \$29,273,193 |
| | Deductions: | |
| Losses incurred | | 10,749,489 |
| Loss expenses incurred | | 5,575,053 |
| Other underwriting expenses incurred | | 10,499,196 |
| Aggregate write-ins for underwriting deductions | | 0 |
| Total underwriting deductions | | \$26,823,738 |
| Net underwriting gain or (loss) | | \$2,449,455 |

Investment Income

| | | |
|--|--|-------------|
| Net investment income earned | | \$5,596,031 |
| Net realized capital gains or (losses) | | (203,643) |
| Net investment gain or (loss) | | \$5,392,388 |

Other Income

| | | |
|---|--|----------|
| Net gain or (loss) from agents' or premium balances charged off | | \$2,244 |
| Finance and service charges not included in premiums | | 51,585 |
| Aggregate write-ins for miscellaneous income | | 58 |
| Total other income | | \$53,887 |

| | | |
|---|--|-------------|
| Net income before dividends to policyholders and before federal & foreign income taxes | | \$7,895,730 |
| Dividends to policyholders | | 3,145,000 |
| Net Income, after dividends to policyholders, but before federal & foreign income taxes | | \$4,750,730 |
| Federal & foreign income taxes | | 427,867 |
| Net Income | | \$4,322,863 |

Capital and Surplus Account

| | | |
|--|--|--------------|
| Surplus as regards policyholders, December 31 prior year | | \$53,045,633 |
| Net Income | | \$4,322,863 |
| Net unrealized capital gains or losses | | (27,075) |
| Change in non-admitted assets | | 1,894,789 |
| Change in provision for reinsurance | | (3,600) |
| Change in net deferred income tax | | (893,235) |
| Surplus adjustments: Paid in | | 0 |
| Aggregate write-ins for gains and losses in surplus | | 0 |
| Examination Adjustment | | 0 |
| Change in surplus as regards policyholders for the year | | \$5,293,742 |
| Surplus as regards policyholders, December 31 current year | | \$58,339,375 |

A comparative analysis of changes in surplus is shown below.

FLORIDA HOSPITALITY MUTUAL INSURANCE COMPANY
Comparative Analysis of Changes In Surplus

DECEMBER 31, 2009

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

Surplus as Regards Policyholders
December 31, 2009, per Annual Statement \$58,339,375

| | <u>PER</u> <u>COMPANY</u> | <u>PER</u> <u>EXAM</u> | <u>INCREASE</u> <u>(DECREASE)</u> <u>IN SURPLUS</u> |
|--|------------------------------|---------------------------|---|
| ASSETS: | | | |
| No adjustment | | | |
| LIABILITIES: | | | |
| No adjustment | | | |
| Net Change in Surplus: | | | <u>0</u> |
| Surplus as Regards Policyholders December 31, 2009, Per Examination | | | <u><u>\$58,339,375</u></u> |

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses \$51,666,000

An outside actuarial firm appointed by the Board of Directors, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2009, made a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

The Office engaged Anthony Pipia, ACAS of Actuaries, Inc., to review the reserves carried in the Company's balance sheet as of December 31, 2009. According to the Office contracted actuary, the Company's reserves were deficient by \$2,772,000 as of December 31, 2009. The Company's booked reserves as of December 31, 2009 were \$51,666,000. The Office Contracted actuary's estimated reserves for 2009 were \$54,438,000. Since the understatement of \$2,772,000 was 4.8% of the Surplus and within the range of reasonable expectations, no exam adjustment was made.

Capital and Surplus

The amount reported by the Company of \$58,339,375 exceeded the minimum of \$5,816,525 required by Section 624.405, Florida Statutes.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Florida Hospitality Mutual Insurance Company** as of December 31, 2009, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was \$58,339,375, which exceeded the minimum of \$5,816,525 required by Section 624.408, Florida Statutes.

In addition to the undersigned, James Pafford, Financial/Examiner/Analysis Supervisor of the Office; Anthony Pipia, FCA, MAAA, ACAS and G. Clinton Scornberger, FCAS, MAAA, of Actuaries, Inc., and N. Jane Snurr, of Computer Aid, Inc., participated in the examination.

Respectfully submitted,

Samita Lamsal
Financial Examiner/Analyst II
Florida Office of Insurance Regulation