REPORT ON EXAMINATION

OF

FIRST PROFESSIONALS INSURANCE COMPANY

JACKSONVILLE, FLORIDA

AS OF

DECEMBER 31, 2002

BY THE

OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida
February 6, 2003

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Dear Sirs:

Pursuant to your instructions, in compliance with Section 624.316, FS, and in accordance with the practices and procedures promulgated by the NAIC, we have conducted an examination as of December 31, 2002, of the financial condition and corporate affairs of:

FIRST PROFESSIONALS INSURANCE COMPANY
1000 RIVERSIDE AVENUE
JACKSONVILLE, FLORIDA 32204

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, 1999 through December 31, 2002. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 1998. This examination commenced with planning at the Office prior to the fieldwork. The fieldwork commenced on July 7, 2003, and was suspended September 26, 2003. The examination resumed on February 2, 2004 and concluded February 6, 2004. The examination included any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

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

In this examination, emphasis was directed to the quality, value and integrity of the statement assets and the determination of liabilities, as those balances affect the financial solvency of the Company.

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 report, 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) were reviewed and utilized where applicable within the scope of this examination.

We valued and/or verified the amounts of the Company's assets and liabilities as reported by the Company in its annual statement as of December 31, 2002. Transactions subsequent to year-end 2002 were reviewed where relevant and deemed significant to the Company's financial condition.

This report of examination is confined to financial statements and comments on matters that involve departures from laws, regulations or rules, or which are deemed to require special explanation or description.

Based on the review of the Company's control environment and the materiality level set for this examination, reliance was placed on work performed by the Company's CPAs, after verifying the statutory requirements, for the following accounts:

Other Invested Assets	Agents Balances
Other Expenses	Real Estate
Taxes, Licenses and Fees	Ceded Reinsurance
Funds held by Company under Reinsurance Treaties	Federal Income Taxes
Unearned Premium	

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, 1999, along with resulting action taken by the Company in connection therewith.

Conflict of Interest

The Company did not require its directors, officers and key personnel to sign conflict of interest statements. **Resolution:** The Company had taken necessary action to comply.

Statutory Deposits

The company failed to show the deposit with the state of Georgia on Schedule E, Part 2, Special Deposits. **Resolution:** The Company had taken necessary action to comply.

Agents' Balances

The Company did not reduce it Agents' Balances by the total amount of its agents' commissions payable. **Resolution:** The Company has taken necessary action to comply.

HISTORY

General

The Company was incorporated in Florida on October 10, 1985, and organized by conversion of the Florida Physician Insurance Reciprocal, a Florida reciprocal insurer, on January 1, 1986. Florida Physicians Insurance Reciprocal originally commenced business on December 13, 1976. The Company changed its name to First Professionals Insurance Company on May 8, 2001.

In accordance with Section 624.401(1), FS, the Company was authorized to transact the following insurance coverage in Florida on December 31, 2002:

Medical Malpractice
Workers Compensation
Commercial Multi Peril
Other Liability

The articles of incorporation and the bylaws were amended during the period covered by this examination.

Capital Stock

As of December 31, 2002, the Company's capitalization was as follows:

Number of authorized common capital shares	5,000,000
Number of shares issued and outstanding	5,000,000
Total common capital stock	$5,000,000
Par value per share	$1.00

FPIC Insurance Group (FIG), who owned 100% of the stock issued by the Company, maintained control of the Company.

Profitability of Company

The Company, in the year 2002, had a net underwriting loss of $6,892,800, investment gain of $13,938,186, net realized capital gains of $4,694,793, and other income of $319,235 for a net income of $12,059,414.

Dividends to Stockholders

In accordance with Section 628.371, FS, the Company declared and paid dividends to its stockholder in 2001 and 2002 in the amounts of $8,500,000 and $4,000,000, respectively.

Management

The annual shareholder meeting for the election of directors was held in accordance with Sections 607.1601 and 628.231, FS. Directors serving as of December 31, 2002, were:

Directors

Name and Location	Principal Occupation
David Michael Shapiro, M.D. Fort Myers, Florida	Director, FPIC Insurance Group
Gaston Jose Acosta-Rua, M.D. Jacksonville, Florida	Director, FPIC Insurance Group
Guy Thomas Selander, M.D. Jacksonville, Florida	Director, FPIC Insurance Group
Herbert Raymond Klein, D.D.S. Okeechobee, Florida	Director, FPIC Insurance Group
James Wilson Bridges, M.D. Miami, Florida	Director, FPIC Insurance Group.
Elizabeth Marjorie Moya Miami, Florida	Director, FPIC Insurance Group
Richard Julian Bagby, M.D. Winter Park, Florida	Director, FPIC Insurance Group
John Edwin Thrasher Jacksonville, Florida	Director, FPIC Insurance Group
Robert Elwood White, Jr Jacksonville, Florida	Director, FPIC Insurance Group
Terence Patrick McCoy, M.D. Tallahassee, Florida	Director, FPIC Insurance Group
John Ray Byers Jacksonville, Florida	Director, FPIC Insurance Group
James Grady White, M.D. Ormond Beach, Florida	Director, FPIC Insurance Group

In accordance with the Company’s bylaws, the board of directors appointed the following senior officers:

Senior Officers

Name	Title
Robert Elwood White, Jr.	President
Robert Lee Wortelboer, Jr.	Secretary
Louis Vincent Sicilian	Treasurer

The Company's board appointed several internal committees in accordance with Section 607.0825, FS. The following are the principal internal board committees and their members as of December 31, 2002:

Executive Committee	Audit Committee	Investment Committee
Guy T. Selander, M.D.[1]	James W. Bridges[1]	James G. White, M.D.[1]
Richard J. Bagby, M.D.	H. Raymond Klein, D.D.S.	Gaston J. Acosta-Rua, M.D.
James W. Bridges, M.D.	Elizabeth M. Moya, Esq.	Terence P. McCoy, M.D.
Robert E. White, Jr.	Guy T. Selander, M.D.	H. Raymond Klein, D.D.S.
		John E. Thrasher, Esq.

[1] Chairman

The Company did not maintain minutes of the investment committee.

Conflict of Interest Procedure

The Company had adopted a policy statement requiring annual disclosure of conflicts of interest, in accordance with Section 607.0832, FS. No exceptions were noted during this examination period.

Corporate Records

The recorded minutes of the shareholder, board of directors, and executive Committee meetings were reviewed for the period under examination. The recorded minutes of the board adequately documented its meetings and approval of Company transactions in accordance with Section 607.1601, FS, including the authorization of investments as required by Section 625.304, FS.

There was no documentation in the minutes reviewed that the Company's directors reviewed the previous examination report.

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

There were no acquisitions, mergers, disposals, dissolutions or purchase or sales through reinsurance.

Surplus Debentures

The Company reported no surplus debentures.

AFFILIATED COMPANIES

The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), FAC. The latest holding company registration statement was filed with the State of Florida on December 5, 2002, as required by Section 628.801, FS, and Rule 69O-143.046, FAC.

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. As of December 31, 2002, the method of allocation between the Company and its parent was that each member of the affiliated group would bear its appropriate portion of the liability that each would incur if they filed income tax returns separately.

Management Agreement

The Company had a service agreement with its parent (FIG), whereby FIG provided management, marketing, accounting, personnel and legal services for a fee equal to 115% of the actual costs incurred by FIG. The initial term of this agreement was one year and will be automatically renewed for successive one-year terms unless terminated.

MGA Agreement

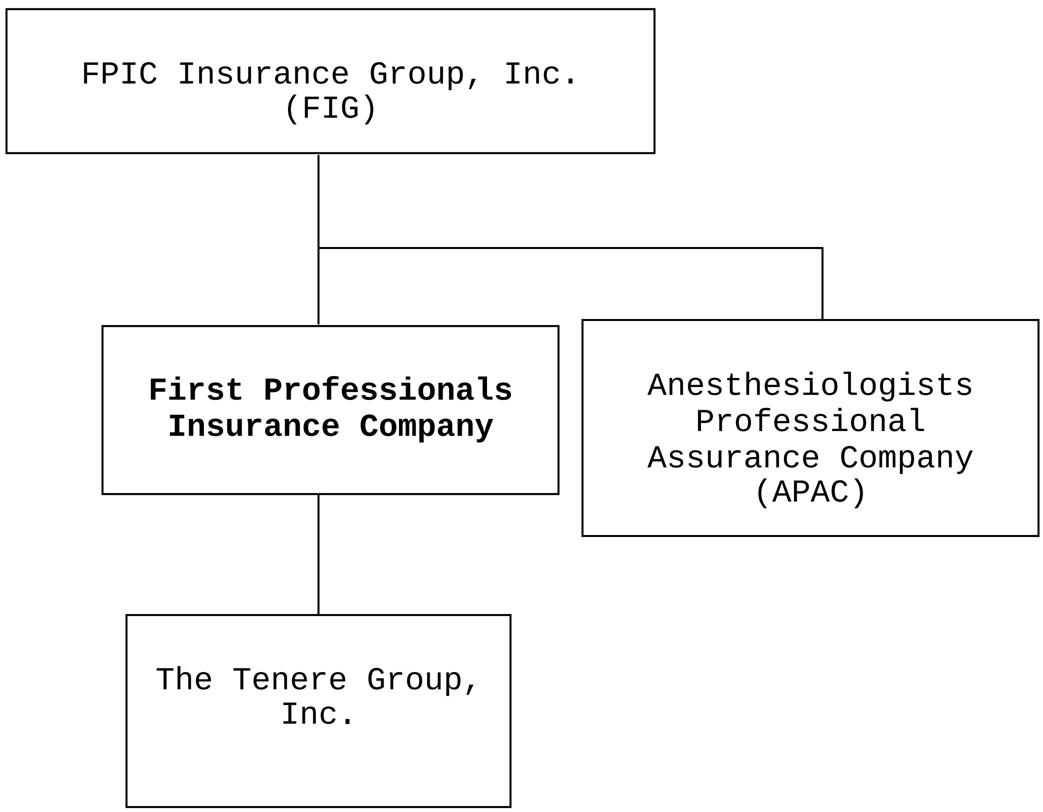
The Company had a managing general agency agreement with Professional Medical Administrators, an affiliate.

Intercompany Pooling Agreement

The Company was a participant with its United States insurance company affiliates, in an inter-company pooling arrangement whereby each participating affiliate ceded 100% of its net written premium (after deducting premiums ceded to non-affiliates). The Company then allocated to itself and the participating affiliates a pro-rata portion of the premium, losses, and administrative expenses based on the participant's proportionate surplus to total surplus of the participant's prior to pooling. Each participant prior to pooling ceded reinsurance on a treaty basis. Each pooling participant had a contractual right of direct recovery from its other reinsurers. There were no discrepancies between the assumed and ceded reinsurance. Each participant established its own provisions for reinsurance and write-off of uncollectible reinsurance.

A simplified organizational chart as of December 31, 2002 reflecting the holding company system is shown below. Schedule Y of the Company's 2002 annual statement provided a list of all related companies of the holding company group.

FIRST PROFESSIONALS INSURANCE COMPANY
ORGANIZATIONAL CHART
DECEMBER 31, 2002



FIDELITY BOND AND OTHER INSURANCE

The Company maintained fidelity bond coverage up to $1,500,000 with a deductible of $100,000, which adequately covered the suggested minimum amount of coverage for the Company as recommended by the NAIC. The bond listed FPIC Insurance Group, Inc. and its offices. The Company should be specifically named as covered in the policy.

PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS

The Company had no employees; therefore, there were no pension or retirement plans or other benefits.

STATUTORY DEPOSITS

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

State	Description	Par Value	Market Value
FL	USTNTS, 5.63%, 02/15/06	$2,500,000	$ 2,601,215
TOTAL FLORIDA DEPOSITS		$2,500,000	$ 2,601,215
AZ	USTNTS, 6.5%, 10/15/06	$ 110,000	$ 110,085
AR	USTNTS, 6.0%, 02/15/26	125,000	124,865
DE	Evergreen MMF	100,000	100,000
GA	Wachovia MMF	25,000	25,000
IN	USTNTS, 6.5% 10/15/06	100,000	100,067
KY	USTNTS, 6.5% 10/15/06	1,000,000	1,000,562
MO	USTNTS, 6.5% 10/15/06	1,200,000	1,200,697
NV	Lasalle Bank, 5.25% 12/19/08	100,000	100,000
NV	MBNA CD 5.1% 12/19/06	100,000	100,000

NV	Waypoint Bank, 5.0% 12/27/12	100,000	100,000
NC	USTNTS, 10.75% 08/15/05	50,000	54,997
OH	USTNTS 6.5% 10/15/06	100.000	100,067
OR	USTNTS 5.625% 2/15/06	110,000	114,249
UT	USTNTS 6.5% 10/15/06	2,000,000	2,001,153
VA	USTNTS 6.0% 02/15/26	225,000	221,984
TOTAL OTHER DEPOSITS		$5,445,000	$5,453,726
Total Special Deposits		$7,945,000	$8,054,941

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operation

The Company was authorized to transact insurance in the following states, in accordance with Section 624.401(2), FS:

Florida	Washington	Utah
Georgia	Tennessee	Virginia
Alabama	Arkansas	Arizona
Delaware	Illinois	Indiana
Kansas	Kentucky	Massachusetts
Minnesota	Mississippi	Missouri
Montana	North Carolina	Ohio
Oregon	Pennsylvania	South Carolina
Texas	West Virginia	Michigan

Treatment of Policyholders

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

The Company maintained a claims procedure manual that included detailed procedures for handling each type of claim.

REINSURANCE

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

Assumed

The Company assumed risk through its intercompany pooling agreement.

Ceded

The Company ceded under reinsurance arrangements, primarily on an excess of loss basis to reinsurers under various contracts that cover individual risks, or entire classes of business.

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

ACCOUNTS AND RECORDS

An independent CPA audited the Company's statutory basis financial statements annually for the years 2000, 2001 and 2002, in accordance with Section 624.424(8), FS. Supporting work papers were prepared by the CPA as required by Rule 69O-137.002, FAC.

The Company's accounting records were maintained on a computerized system. The Company's balance sheet accounts were verified with the line items of the annual statement submitted to the Office.

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

The Company and non-affiliates had the following agreements:

Custodial Agreement

The Company had a custodial agreement with SunTrust Bank. The agreement contained the appropriate safeguards and controls indemnifying the Company as provided by Rule 69O-143.042, FAC.

MGA Agreement

The Company had an MGA agreement with Professional Medical Administration, an affiliate.

Independent Auditor Agreement

The Company had an agreement with PriceWaterhouseCoopers, LLP for the purpose of auditing and reporting on the balance sheet and statutory financial statements of the Company.

Risk-Based Capital

The Company reported its risk-based capital at an adequate level.

Information Technology

An information technology evaluation resulted in recommended improvements to the information systems utilized by the Company. These recommendations included the following:

Document and implement a complete and comprehensive business continuity/disaster recovery plan

Restrict the Company programmers production access to “Read Only”

Enforce adherence to the change control policies and procedures

Strengthen UNIX security

Enforce receipt of the employee handbook policy

Enforce user policies concerning the Add/Move/Change procedures

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company’s financial position as of December 31, 2002, and the results of operations 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.” Due to subsequent events discussed later in this examination, the Company is not required to reflect the adjustment in its financial statements.

FIRST PROFESSIONALS INSURANCE COMPANY
Assets

DECEMBER 31, 2002

Classification	Per Company	Examination Adjustments	Per Examination
Bonds	$316,332,122		$316,332,122
Stocks:			
Common	23,608,636		23,608,636
Real Estate:			
Properties occupied by Company	4,136,141		4,136,141
Other properties	217,636		217,636
Cash:			
On deposit	9,075,979		9,075,979
Short-term investments	41,657,381		41,657,381
Other investments	3,067,600		3,067,600
Receivable for Securities	38,175,739		38,175,739
Aggregate write-in for invested assets	2,036,892		2,036,892
Agents' Balances:			
Uncollected premium	18,212,006		18,212,006
Deferred premium	52,632,602		52,632,602
Reinsurance recoverable	4,233,267		4,233,267
Federal income tax recoverable	5,865,674		5,865,674
Interest and dividend income due & accrued	4,597,103		4,597,103
Receivable from PSA	989,916		989,916
Aggregate write-ins for other than invested assets	507,526		507,526
Totals	$525,346,220	$0	$525,346,220

FIRST PROFESSIONALS INSURANCE COMPANY
Liabilities, Surplus and Other Funds

DECEMBER 31, 2002

Liabilities	Per Company	Examination Adjustments	Per Examination
Losses	$148,895,353	22,017,000	170,912,353
Reinsurance payable	901,796		901,796
Loss adjustment expenses	40,341,437		40,341,437
Commissions payable, contingent commissions	1,485,506		1,485,506
Other expenses	201,561		201,561
Taxes, licenses and fees	3,402,147		3,402,147
Unearned premium	87,632,726		87,632,726
Ceded reinsurance premiums payable	14,716,937		14,716,937
Advance premium	7,458,874		7,458,874
Amounts withheld	60,195,618		60,195,618
Remittances and items not allocated	4,225,911		4,225,911
Payable to parent, subsidiaries and affiliates	6,855,216		6,855,216
Payable for securties	33,103,527		33,103,527
Aggregate write-ins for liabilities	5,071,470		5,071,470
Total Liabilities	$414,488,079	22,017,000	436,505,079
Common capital stock	5,000,000		5,000,000
Gross paid in and contributed surplus	32,026,617		32,026,617
Unassigned funds (surplus)	73,831,524	(22,017,000)	51,814,524
Surplus as regards policyholders	110,858,141	(22,017,000)	88,841,141
Total liabilities, capital and surplus	$525,346,220	$0	$525,346,220

FIRST PROFESSIONALS INSURANCE COMPANY
Statement of Income

DECEMBER 31, 2002

Underwriting Income	
Premiums earned	$101,676,277
DEDUCTIONS:	
Losses incurred	65,145,385
Loss expenses incurred	27,830,697
Other underwriting expenses incurred	15,592,995
Aggregate write-ins for underwriting deductions	0
Total underwriting deductions	$108,569,077
Net underwriting gain or (loss)	($6,892,800)
Investment Income	
Net investment income earned	$13,938,186
Net realized capital gains or (losses)	4,694,793
Net investment gain or (loss)	$18,632,979
Other Income	
Net gain or (loss) from agents' or premium balances charged off	($667,564)
Finance and service charges not included in premiums	272,117
Aggregate write-ins for miscellaneous income	714,682
Total other income	$319,235
Net income before dividends to policyholders and before federal & foreign income taxes	$12,059,414
Dividends to policyholders	0
Net Income, after dividends to policyholders, but before federal & foreign income taxes	$12,059,414
Federal & foreign income taxes	1,098,153
Net Income	$10,961,261
Capital and Surplus Account	
Surplus as regards policyholders, December 31 prior year	$91,681,606
Gains and (Losses) in Surplus	
Net Income	$10,961,261
Net unrealized capital gains or losses	1,589,382
Change in non-admitted assets	1,208,779
Change in provision for reinsurance	(582,887)
Dividends to Stockholders	(4,000,000)
Surplus adjustments: Paid in	10,000,000
Aggregate write-ins for gains and losses in surplus	0
Examination Adjustment	(22,017,000)
Change in surplus as regards policyholders for the year	(2,840,465)
Surplus as regards policyholders, December 31 current year	88,841,141

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses $211,253,790

An independent actuary reviewed the work papers provided by the Company and performed an independent evaluation of the loss and loss adjustment expense reserves (LAE). The independent actuary also considered information that became available after December 31, 2002. The independent actuary concluded that the Company was deficient in the amount of $22,017,000, after pooling.

Subsequent event:

As of June 30, 2003, the Company's reserve indications for accident years 2002 and prior, assumed via the inter-company pooling arrangement, were strengthened (increased) by $7,878,000. Additionally, as of December 31, 2003, the Company's reserve indications for accident years 2002 and prior, were strengthened (increased) by $8,223,000. The increases in reserves recognized by the Company in 2003 have effectively reduced the difference to less than three percent of total reserves, which is within a reasonable range of the reserves as established by the independent actuary. The Company is directed to diligently monitor its reserves, however, no further strengthening for accident years 2002 and prior is required by this examination. Moreover, no adjustment to the Company's financial statements is required by this examination. Pages 16, 17, and 20 show the effects of the above mentioned item as if it had been reflected on the Company's financial position as of December 31, 2002, and its results of operations. Had an adjustment been required, the resulting impact would have been effected by a corresponding tax asset of approximately $8.5 million resulting in a net change in surplus of approximately $13.5 million.

Unearned Premium Reserve $87,632,726

An independent actuary reviewed the reserve for death, disability or permanent retirement from medicine (DDR). The actuary concluded that the booked reserve by Company was within a spread of + 2.0% to –2.0%, which is considered reasonable.

FIRST PROFESSIONALS INSURANCE COMPANY
Comparative Analysis of Changes in Surplus

DECEMBER 31, 2002

Surplus as Regards Policyholders per December 31, 2002, Annual Statement				$110,858,141
	PER COMPANY	PER EXAM	INCREASE (DECREASE) IN SURPLUS	
ASSETS:				
No adjustment.				
LIABILITIES:				
Losses & LAE	189,236,790	211,253,790	(22,017,000)	
Net Change in Surplus:				(22,017,000)*
Surplus as Regards Policyholders December 31, 2002, Per Examination				$88,841,141

*-Had an adjustment been required, the resulting impact would have been effected by a corresponding tax asset of approximately $8.5 million resulting in a net change in surplus of approximately $13.5 million.

SUMMARY OF FINDINGS

Compliance with previous directives

The Company has taken the necessary actions to comply with the comments made in the 1998 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, 2002.

General

The Company is not specifically named as an insured on the fidelity bond. **The Company is directed to specifically name the Company on the policy and provide evidence to the Office within 90 days of the receipt of the issued report.**

The Company failed to document in the board of directors minutes the discussion of the prior examination report. **The Company is directed to record in the future, the review and approval of the examination report in the board of directors minutes.**

It is recommended that the Company comply with the information technology evaluation recommendations to improve its information systems.

An independent actuary reviewed the work papers provided by the Company and performed an independent evaluation thereof. In addition, the independent actuary considered information that became available after December 31, 2002. As a result of this review, the independent actuary concluded that the loss reserves were deficient in the amount of $22,017,000. **The Company is directed to diligently monitor its reserves and to adequately reserve for loss and loss adjustment expenses in all future financial statements; however, no further strengthening for accident years 2002 and prior is required by this examination. Moreover, no adjustment to the Company's financial statements is required by this examination.**

Subsequent event:

As of June 30, 2003, the Company's reserve indications for accident years 2002 and prior, assumed via the inter-company pooling arrangement, were strengthened (increased) by $7,878,000. Additionally, as of December 31, 2003, the Company's reserve indications for accident years 2002 and prior, were strengthened (increased) by $8,223,000. The increases in reserves recognized by the Company in 2003 have effectively reduced the difference to less than three percent of total reserves, which is within a reasonable range of the reserves as established by the independent actuary.

CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **FIRST PROFESSIONALS INSURANCE COMPANY** as of December 31, 2002, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's surplus as regards policyholders was $88,841,141 which was in compliance with Section 624.408, FS.

In addition to the undersigned, Bill Myers, Examiner and Mark Sobel, Actuary, participated in the examination.

Respectfully submitted,

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