REPORT ON EXAMINATION

OF

FIRST COMMUNITY

INSURANCE COMPANY

ST. PETERSBURG, FLORIDA

AS OF

DECEMBER 31, 2005

BY THE

OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida

February 9, 2007

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

Dear Sir:

Pursuant to your instructions, in compliance with Section 624.316, Florida Statutes, 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, 2005, of the financial condition and corporate affairs of:

FIRST COMMUNITY INSURANCE COMPANY
360 CENTRAL AVENUE
ST. PETERSBURG, FLORIDA 33701

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

SCOPE OF EXAMINATION

This examination covered the period of July 1, 2002 through December 31, 2005. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of June 30, 2002. This examination commenced, with planning at the Office, on April 24, 2006, to April 28, 2006. The fieldwork commenced on May 1, 2006, and was concluded as of August 4, 2006. 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 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.

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 integrity of the balances of the Company's assets and liabilities as reported in its annual statement as of December 31, 2005 as those balances affect the financial solvency of the Company.

Transactions subsequent to year-end 2005 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:

Reinsurance
Consideration of Fraud
Federal Income Taxes

Status of Adverse Findings from Prior Examination

The following is a summary of adverse findings contained in the Office's prior examination report along with the resulting action taken by the Company.

Bonds

Bonds were reduced by $773,236 due to the Company reporting two bonds that exceeded the 2% limitation test for any one insurer. **Resolution:** Limitation tests were performed on reported audited balances as of December 31, 2005 and no bonds exceeded the limitations test.

Stocks

Stocks were reduced $4,197,824 due to the Company reporting stocks that exceeded diversification limits. **Resolution:** The Company reported stocks at the proper admitted value subsequent to the examination report.

HISTORY

General

The Company was incorporated in Florida on November 18, 1993 and commenced business on November 18, 1993 as Bankers Security Insurance Company. The Company changed its name to First Community Insurance Company on July 26, 2004. It was a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code.

The Company was authorized to transact the following insurance coverage in Florida on December 31, 2005:

Homeowners Multi Peril	Fire
Commercial Multi Peril	Allied Lines
Other Liability	Fidelity
Surety	Bail Bonds
Miscellaneous Casualty	

The articles of incorporation and the bylaws were amended during the period covered by this examination to change the Company name from Bankers Security Insurance Company to First Community Insurance Company. The amendment to the articles of incorporation was adopted on February 26, 2004 and executed on March 18, 2004.

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	750,000
Total common capital stock	$1,500,000
Par value per share	$2.00

Control of the Company was maintained by its parents, 50% owned by Bankers Insurance Company and 50% owned by Bankers Insurance Group, Inc., which was 100% owned by Bankers Financial Corporation. Bankers Financial Corporation was 100% owned by Bankers International Financial Corporation, which was 100% owned by Bankers International Financial Corporation, LTD.

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 statement.

	2005	2004	2003
Premiums Earned	16,529,881	12,342,715	14,663,988
Net Underwriting Gain/(Loss)	2,185,912	(9,398,581)	(1,474,738)
Net Income	1,947,115	(3,644,137)	227,901
Total Assets	32,253,086	25,726,753	26,117,635
Total Liabilities	21,348,651	18,659,502	15,375,484
Surplus As Regards Policyholders	10,904,437	7,067,250	10,742,151

Dividends to Stockholders

There were no dividends declared or paid to stockholders during the period of examination.

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, 2005, were:

Directors

Name and Location	Principal Occupation
David J. Nye Gainesville, Florida	Director, Chairman (resigned 1/26/06) Professor, University of Florida Director, Florida Insurance Research Center
David K. Meehan St. Petersburg, Florida	Director, President (effective 12/31/04) Chairman (effective 1/26/06)
Robert M. Menke Tierra Verde, Florida	Director
Edwin C. Hussemann St. Petersburg Beach, Florida	Director, Treasurer

Douglas B. Pierce St. Petersburg, Florida	Director, Vice Chairman President (resigned 1/26/06) Pierce Consulting
William D. Gunter, Jr. Tallahassee, Florida	Director Rogers, Atkins, Gunter & Associates Insurance, Inc., Director, Chairman, CEO
John A. Strong Greensboro, North Carolina	Director Moses Cone Hospital, Doctor
J. Wayne Mixson Tallahassee, Florida	Director First Community Insurance Company
Brian L. Keefer Tampa, Florida	Director, Executive Vice President, COO
William Van Syckle Stamford, Connecticut	Director Retired

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

Senior Officers

Name	**Title**
David K. Meehan	President
Brian L. Keefer	Executive Vice President
Edwin C. Husseman	Treasurer
John T. White	Secretary
Barry W. Gates	Senior Vice President
Wayne S. Matthews	Senior Vice President
Russell A. Fischer	Senior Vice President
Teresa D. Heller	Senior Vice President
Barbara A. Peat	Senior Vice President
Judy M. Copechal	Vice President
Janet H. Till	Vice President
William M. Gray II	Vice President

The Company's board appointed several internal committees in accordance with Section 607.0825, Florida Statutes. Following is the principal internal board committees and their members as of December 31, 2005:

Executive Committee	Audit Committee	Investment Committee
David J. Nye[1]		David J. Nye[1]
David K. Meehan[2]	William D. Gunter[1]	David K. Meehan[2]
	William Van Syckle[2]	Mario Gil
Brian L. Keefer	J. Wayne Mixson	Brian L. Keefer
Edwin C. Hussemann	Donald B. Roberts	William. Gray
Robert M. Menke	John A. Strong	Robert M. Menke
		Edwin C. Hussemann
		Wayne S. Matthews

[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. No exceptions were noted during this examination period.

Corporate Records

The recorded minutes of the shareholder, Board of Directors, and certain internal committees adequately documented its meetings and approval of Company transactions 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, purchases or sales through reinsurance.

Surplus Debentures

The Company had no surplus debentures.

AFFILIATED COMPANIES

The latest holding company registration statement was filed with the State of Florida on June 30, 2006, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

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, 2005, the method of allocation between the Company and its parent was based on a separate tax return basis with current credit for any net operating losses or other items utilized in the consolidated tax return. Intercompany tax balances were settled at year-end.

Cost Sharing Agreement

The Company had a cost sharing agreement with the parent company at December 31, 2005. The agreement allocated cost based upon the scope of work and responsibilities performed for the benefit of other affiliated companies.

Managing General Agent Agreement

The Company had a managing general agent (MGA) agreement with Bankers Underwriters, Inc., an affiliate, on December 12, 2005. The Company agreed to pay a variable commission rate of 2% to 4%. In addition to the commission rate, the Company paid a $25 fee per policy to the MGA.

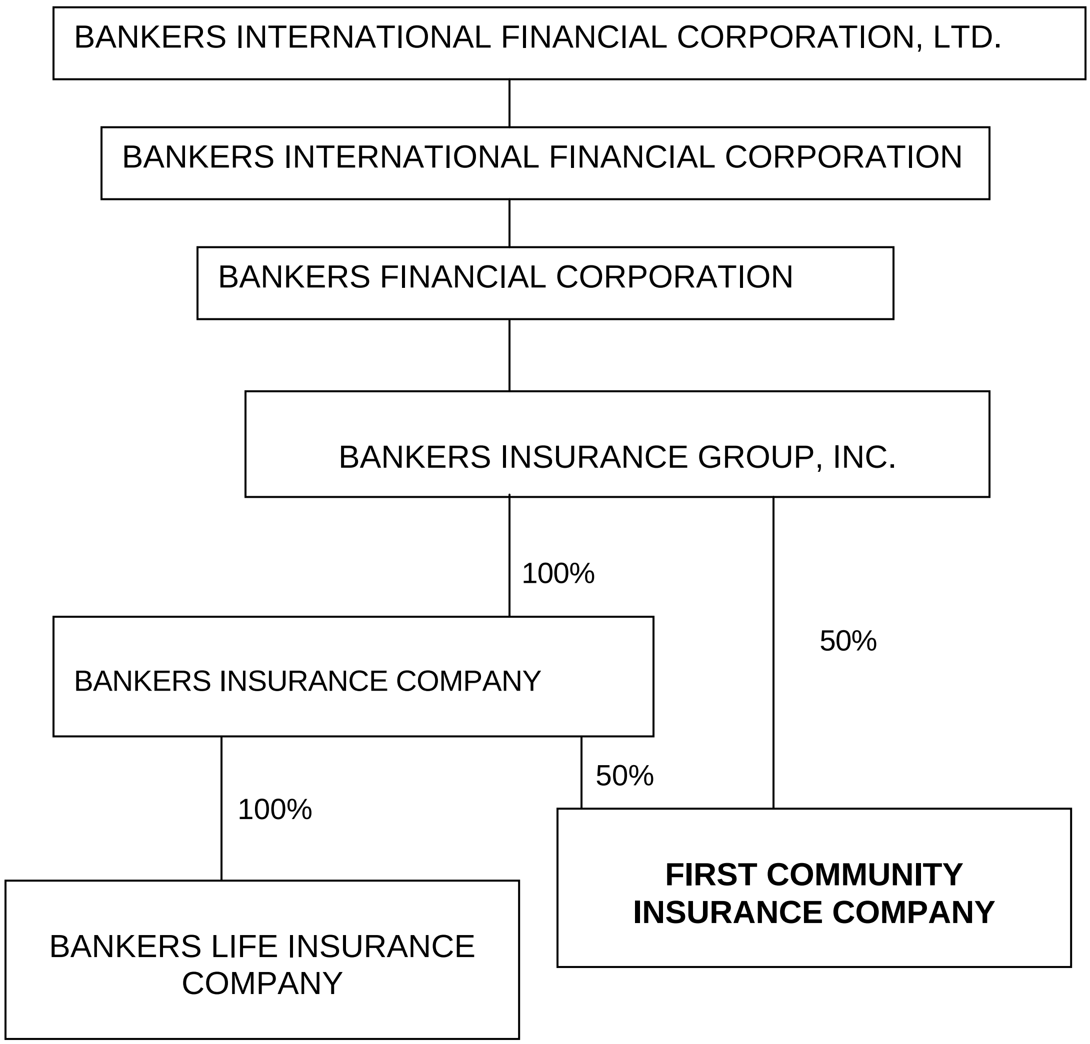
Agency Agreement

The Company had an agency agreement with Bankers Insurance Services, Inc., an affiliate, on July 31, 2000. The agent agreed to receive and accept proposals for insurance, countersign and deliver policies, endorsements, and binders of insurance, if authorized, and to collect, receive and receipt premiums due to the Company.

An organizational chart as of December 31, 2005, reflecting the holding company system, is shown below. Schedule Y of the Company's 2005 annual statement provided a list of all related companies of the holding company group.

FIRST COMMUNITY INSURANCE COMPANY
ORGANIZATIONAL CHART

DECEMBER 31, 2005



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 Company maintained other insurance policies with adequate coverage in force covering the hazards to which the company was exposed.

PENSION PLANS

Bankers Financial Corporation parent company to Bankers Insurance Group (parent company) to First Community Insurance Company sponsored a defined contributions savings plan covering substantially all employees of the Company.

STATUTORY DEPOSITS

The following securities were deposited with the State of Florida as required by Section 624.411, Florida Statutes:

STATE	DESCRIPTION	RATE	MATURITY DATE	PAR VALUE	MARKET VALUE
FL	Corporate Bond	7.4%	05/01/28	$ 800,000	$ 931,720
FL	Corporate Bond	7.5%	03/15/26	850,000	903,712
FL	FNMA	6.5%	11/25/25	525,000	525,000
TOTAL FL DEPOSITS				$ 2,175,000	$ 2,360,432
LA	US TNote	6.0%	08/15/09	$ 20,000	$ 21,297
TOTAL OTHER DEPOSITS				$ 20,000	$ 21,297
TOTAL SPECIAL DEPOSITS				$ 2,195,000	$ 2,381,729

INSURANCE PRODUCTS

Territory

The Company was authorized to transact insurance only in Florida. The Company had not written insurance coverage in the last year in the lines of business of fidelity, surety, bail bonds and miscellaneous casualty. The Office approved the Company to write business in these lines as of January 5, 2005. The Company was working to appoint agents to write in these lines of business.

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 626.954(1)(i)3,a, Florida Statutes.

REINSURANCE

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

Assumed

The Company did not assume any insurance risk during the period of this examination.

Ceded

The Company had a combination of catastrophe treaties, excess of loss treaties and quota share treaties. The Company was covered by the Florida Hurricane CAT Fund (FHCF), at 90% of $19.2 million with an excess of $5.2 million. Together with Bankers Insurance Company, the Company was also covered by an open market catastrophe treaty at $25 million in excess of $2 million for an aggregate of $50 million. The Company indicated that in the event of a storm, the retention of $2 million would be split between Bankers Insurance Company and the Company based on the pro rata share of the total loss incurred. In order to protect the Company's surplus in the event of a hurricane, there was an inter-company treaty between the Company and Bankers Insurance Company whereby Bankers Insurance Company insured the Company for any losses that the Company might retain. This coverage was $2 million per loss occurrence, and $4 million aggregate.

In addition to the above, the Company had a reinstatement treaty with open market reinsurers that covered the Company and Bankers Insurance Company if they had to reinstate coverage after incurring catastrophic losses.

The Company had several quota share treaties, but were all in run off with the exception of one quota share agreement that was currently in force. The inter company quota share treaty between Bankers Insurance Company and the Company covered, Fire, Allied Lines and Homeowners business all of which excluded Wind. Prior to December 31, 2005, the quota share percentage was 50% but on December 31, 2005, the treaty was amended to increase the percentage to 75% for the in force and new and renewal business.

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's accounting records were maintained on a computerized system. 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 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 2003, 2004 and 2005, 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 and non-affiliates had the following agreements:

Custodial Agreement

The Company had a custodial agreement with The Bank of New York dated April 7, 1997. The agreement was in accordance with Rule 69O-143.042, Florida Administrative Code.

Independent Auditor Agreement

The Company had an agreement with Gregory, Sharer & Stuart, PA to perform an audit of the statutory financial statements for the years 2002, 2003, 2004 and 2005.

Risk-Based Capital

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

Information Technology (IT)

The independent IT report performed by Solutions @MBA, LLC as of March 2005 had significant findings regarding internal controls as follows:

In March of 2005, Solutions @ MBA, LLC identified that the Company needed to improve its process of validating backup data files. This process would include testing of the backup files for transaction, transaction history, software and master file both quarterly and immediately after backup media is created. Upon completion of the backup, reports created by the backup hardware/software should be reviewed to assure accuracy of the backup. To date, the Company has stated that file restorations from it backup library has occurred without incident.

There was no evidence that a disaster recovery plan (DRP) was tested; however, pursuant to the Company's May 8, 2006 IT Internal Audit Review, disaster recovery testing was scheduled to be completed in July 2006. The Company stated that disaster recovery testing will be scheduled and performed annually.

The IT report recommended that the Company implement and continue monitoring internal controls.

Subsequent event:

An Internal Audit Committee Report dated January 25, 2006, referenced that an IT Audit Report would be issued by early February 2006. An Internal Audit Report issued on July 26, 2006 regarding the IT review did not mention any steps taken to resolve the findings noted in the March 2005 IT report; however, the findings from the IT audit were addressed in a report issued May 8, 2006.

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2005, 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."

FIRST COMMUNITY INSURANCE COMPANY
Assets

DECEMBER 31, 2005

	Per Company	Examination Adjustments	Per Examination
Bonds	$23,343,767		$23,343,767
Common Stock	3,178,813		3,178,813
Cash and short-term investments	1,249,766		1,249,766
Interest and dividend income due & accrued	205,723		205,723
Agents' Balances:			
Uncollected premium	5,847		5,847
Deferred premium	1,426,117		1,426,117
Reinsurance recoverable	2,040,669		2,040,669
Net deferred tax asset	347,719		347,719
EDP Equipment	3,644		3,644
Receivable from parents, subsidiaries and affiliates	824		824
Aggregate write-in for other than invested assets	450,197		450,197
Totals	$32,253,086	$0	$32,253,086

FIRST COMMUNITY INSURANCE COMPANY
Liabilities, Surplus and Other Funds
DECEMBER 31, 2005

Liabilities	Per Company	Examination Adjustments	Per Examination
Losses	$4,919,000		$4,919,000
Loss adjustment expenses	1,258,705		1,258,705
Commissions payable	592,277		592,277
Other expenses	320,232		320,232
Taxes, licenses and fees	243,787		243,787
Current federal income tax payable	222,745		222,745
Unearned premium	10,797,986		10,797,986
Ceded reinsurance premiums payable	1,406,857		1,406,857
Funds held under reinsurance treaties	63,138		63,138
Amounts withheld	418,538		418,538
Remittamces and items not allocated	984,916		984,916
Payable to parent, subsidiaries and affiliates	68,004		68,004
Aggregate write-ins for liabilities	52,466		52,466
Total Liabilities	$21,348,651		$21,348,651
Aggregate write-ins for special surplus funds	5,192,222		5,192,222
Common capital stock	1,500,000		1,500,000
Gross paid in and contributed surplus	6,000,000		6,000,000
Unassigned funds (surplus)	(1,787,785)		(1,787,785)
Surplus as regards policyholders	$10,904,437		$10,904,437
Total liabilities, surplus and other funds	$32,253,088	$0	$32,253,088

FIRST COMMUNITY INSURANCE COMPANY
Statement of Income

DECEMBER 31, 2005

Underwriting Income	
Premiums earned	$16,529,881
DEDUCTIONS:	
Losses incurred	5,876,998
Loss expenses incurred	1,102,015
Other underwriting expenses incurred	7,364,956
Aggregate write-ins for underwriting deductions	0
Total underwriting deductions	$14,343,969
Net underwriting gain or (loss)	$2,185,912
Investment Income	
Net investment income earned	$1,273,213
Net realized capital gains or (losses)	(90,473)
Net investment gain or (loss)	$1,182,740
Other Income	
Net gain or (loss) from agents' or premium balances charged off	($8,666)
Finance and service charges not included in premiums	402,820
Aggregate write-ins for miscellaneous income	(272,532)
Total other income	$121,622
Net income before dividends to policyholders and before federal & foreign income taxes	$3,490,274
Dividends to policyholders	0
Net Income, after dividends to policyholders, but before federal & foreign income taxes	$3,490,274
Federal & foreign income taxes	1,543,159
Net Income	$1,947,115
Capital and Surplus Account	
Surplus as regards policyholders, December 31 prior year	$7,067,250
Gains and (Losses) in Surplus	
Net Income	$1,947,115
Net unrealized capital gains or losses	1,164,843
Change in non-admitted assets	482,490
Change in provision for reinsurance	2,773
Change in net deferred income tax	239,966
Capital changes: Paid in	1,000,000
Surplus adjustments: Paid in	(1,000,000)
Aggregate write-ins for gains and losses in surplus	0
Examination Adjustment	0
Change in surplus as regards policyholders for the year	$3,837,187
Surplus as regards policyholders, December 31 current year	$10,904,437

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses $6,177,705

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, 2005, make a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

The Office actuary reviewed work papers provided by the Company and was in concurrence with this opinion.

FIRST COMMUNITY INSURANCE COMPANY
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS

DECEMBER 31, 2005

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, 2005, per Annual Statement				$10,904,437
	PER COMPANY	**PER EXAM**	**INCREASE (DECREASE) IN SURPLUS**	
ASSETS:				
No adjustment.				
LIABILITIES:				
No adjustment.				
Net Change in Surplus:				0
Surplus as Regards Policyholders December 31, 2005, Per Examination				$10,904,437

SUMMARY OF FINDINGS

Compliance with previous directives

The Company has taken the necessary actions to comply with the comments made in the 2002 examination report issued by the Office.

Current examination comments and corrective action

The following is a brief summary of items of interest and the corrective action to be taken by the Company regarding findings in the examination as of December 31, 2005:

The IT Report issued by Solutions @MBA, LLC as of March 2005 had significant findings regarding internal controls such as the need to improve its process of validating backup data files. This process would include testing of the backup files for transaction history, software and master file both quarterly and immediately after backup media is created. Recommendations were made to the Company by Solutions @MBA, LLC to implement and monitor internal controls. **We recommend that the Company continue its follow up process and comply and resolve the IT issues to reduce the risk of losing valuable financial and management information. We further recommend the Office conduct a follow-up target examination as of June 30, 2007 to verify compliance with this recommendation.**

CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **First Community Insurance Company** as of December 31, 2005, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was $10,904,437, which was in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned, Michael F. Hampton, CPA, CFE, DABFA, CFE, CPM, Financial Examiner/Analyst Supervisor and Joe Boor, FCAS, Office Actuary, participated in the examination.

Respectfully submitted,

____
Jerry T. Golden
Financial Examiner/Analyst II
Florida Office of Insurance Regulation