REPORT ON EXAMINATION

OF

EMPLOYERS PREFERRED INSURANCE COMPANY

MAITLAND, FLORIDA

AS OF

DECEMBER 31, 2010

BY THE
FLORIDA OFFICE OF INSURANCE REGULATION

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December 5, 2011

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Commissioners:

Pursuant to your instructions, in compliance with Section 624.316, Florida Statutes, Rule 69O-138.005, Florida Administrative Code 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, 2010, of the financial condition and corporate affairs of:

EMPLOYERS PREFERRED INSURANCE COMPANY
851 TRAFALGAR COURT, SUITE 400E
MAITLAND, FLORIDA, 32751

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, 2010. The Company was last examined by representatives of the Florida Office of Insurance Regulation (the "Office") as of December 31, 2005. This examination commenced with planning at the Office on May 2, 2011, to May 5, 2011. The fieldwork commenced on May 9, 2011, and concluded as of December 5, 2011.

This examination coincided with the association examination of certain affiliated insurance companies which are members of an intercompany reinsurance pool described under the caption "Retention and Reinsurance: Intercompany Pooling Agreement". In order to ascertain the financial condition of any company in the Group, it is necessary to examine the combined insurance operations of the Group. The States of Nevada and California conducted concurrent examinations on Employers Insurance Company of Nevada and Employers Compensation Insurance Company, respectively, and coordinated their examinations with Florida. The participating states were responsible for certain portions of the examination, which were leveraged by the other respective states.

The examination was an association 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 including, but not limited to: a review of corporate minutes and records, verification and valuation of assets, determination of liabilities and the resulting unassigned (surplus) funds, a review of income and disbursement items, and review other records to the extent deemed necessary.

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. Events subsequent to the December 31, 2010 examination date are included where relevant and appropriate.

SUMMARY OF SIGNIFICANT FINDINGS

Current Exam Findings

There were no material findings or exceptions noted during the examination as of December 31, 2010.

Prior Exam Findings

There were no findings, exceptions or corrective actions to be taken by the Company for the examination as of December 31, 2005.

SUBSEQUENT EVENTS

Turnover in Key Management

On January 19, 2011, Employers Holdings, Inc. announced that the Company and Martin J. Welch mutually agreed to the separation of his employment as the Chief Operating Officer and President of the Company and its affiliates, effective February 1, 2011. Upon his deparutre, there were no plans to fill Welch's position. The business operations reporting to Mr. Welch will report to Douglas D. Dirks, President and CEO. Additionally, Mr. Welch has resigned as a member of the Company's Board of Directors (Board) and the Board of Directors of all the Company's affiliates on which he serves, in each case effective Feb. 1, 2011. As a result, the Board took the following actions to replace him:

- Effective February 1, 2011, the Board appointed Mr. Dirks, the Company's Chief Executive Officer, to become the Company's President until the Company's senior management is reorganized. It is noted that the Company's bylaws require the Board to appoint a President;

- Effective February 1, 2011, the Board appointed Mr. Stephen Festa, the Company's Chief Claims Officer, to replace Mr. Welch as a member of the Company's Board.

On May 13, 2011, the Company announced that Cynthia Morrison tendered her resignation as Chief Accountant and Corporate Controller, effective May 13, 2011. She will remain with the Company as Senior Vice President to complete several significant finance-related initiatives. Ms. Morrison has been replaced by Gretchen Hofeling, who will serve as Vice President, Corporate Controller.

Dividend from Subsidiary

On April 6, 2011, the Board of Directors of Employers Assurance Corporation (EAC) approved an ordinary dividend in the amount of $9,217,109, to be paid to the Company. The cash dividend was paid on April 29, 2011.

HISTORY

General

The Company was incorporated on January 1, 1982, as a self-insurers fund, operating under the name of “Florida Air Conditioning Contractors Association SIF”. On April 5, 1995, the Company converted to an assessable mutual and changed its name to Pinnacle Assurance Corporation in accordance with the Office’s approval and under the applicable provisions of the Florida Statutes. On January 25, 1996, the Company converted to a stock property and casualty insurance company, wholly owned by AmCOMP, Inc. in accordance with the Office's approval and under the applicable provisions of the Florida Statutes.

On October 31, 1997, the Company purchased Thomas Jefferson Insurance Company, a property and casualty insurance company, which was domiciled in Florida and licensed in twenty-one states and changed the Company's name to AmCOMP Assurance Corporation. The Company owned 100% of the outstanding stock of AmCOMP Assurance Corporation. In January of 1998, the Company changed its name to AmCOMP Preferred Insurance Company.

On October 31, 2008, Employers Holdings, Inc. acquired 100% of the outstanding common stock of AmCOMP, Inc. and its subsidiaries. This acquisition was funded using cash on hand, extraordinary dividends from the operating companies, and a short-term credit facility. On December 16, 2008, the Office approved the name change of the Company and its subsidiary from AmCOMP Preferred Insurance Company and AmCOMP Assurance Company to Employers Preferred Insurance Company and EAC, respectively.

The Company, along with EAC and AmCOMP, Inc., were collectively defendants in an action commenced in Florida by the Insurance Commissioner of Pennsylvania (Plaintiff) acting in the capacity as liquidator of Reliance Insurance Company. The Plaintiff in this action alleged that preferential payments were made by Reliance Insurance Company under the formerly existing reinsurance agreement with the Company and its subsidiary, Employers Assurance Company. The Plaintiff sought damages in the amount of approximately $2.3 million.

Based upon the advice of counsel, the Company asserted a variety of factual and legal defenses in its written response to the lawsuit. However, as a result of settlement discussions and negotiations between the Company and the plaintiff liquidator, it was agreed that the lawsuit would amicably be settled and resolved. Under the terms of the settlement, the Company paid to the plaintiff liquidator the sum of $0.9 million without admitting any liability, and without admitting that the payments made by Reliance to the Company were, in fact, preferential.

Also, as part of the settlement, the plaintiff liquidator agreed to accept the Company's previously filed proof of claim in the Reliance liquidation proceeding as a valid Class E claim in the amount of $8.4 million as "general creditor" claim. The plaintiff liquidator made no representation regarding the amount of this claim which may ultimately be received by the Company in payment of this Class E claim. Additionally, as part of the settlement, the parties released and discharged each other from any and all additional claims and causes of action. Further, as a result of the settlement, the plaintiff liquidator has dismissed the Florida lawsuit against the Company and EAC with prejudice.

In accordance with Section 624.401(1), Florida Statutes, the Company was authorized to transact workers' compensation insurance coverage in Florida as of December 31, 2010.

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

Dividends to Stockholders

In accordance with Section 628.371, Florida Statues, the Company declared and paid dividends to its stockholder in 2010 and 2009 in the amounts of $14,958,015 and $17,700,000, respectively.

Subsequent Event: On April 6, 2011, the Company's Board of Directors approved an ordinary dividend in the amount of $15,500,917, to be paid to the Company's parent, Employers Group, Inc. The cash dividend was paid on April 29, 2011.

Capital Stock and Capital Contributions

As of December 31, 2010, the Company's capitalization was as follows:

Number of authorized common capital shares	15,000
Number of shares issued and outstanding	15,000
Total common capital stock	$1,500,000
Par value per share	$100.00

Subsequent Event: On January 12, 2011, the Office approved Restated and Amended Articles of Incorporation for the Company. The Amended Articles of Incorporation are effective retroactively to December 30, 2010 and increase the number of authorized shares to 10 million and reduce the par value per share to $1. On April 22, 2011, the Office approved Restated and Amended Articles of Incorporation for the Company. The Amended Articles of Incorporation are effective retroactively to December 30, 2010 and increase the par value per share to $100. On April 29, 2011, Employers Group, Inc. purchased and additional 10,000 shares of the Company for $1.0 million, which increased the total issued and outstanding shares to 25,000.

Surplus Debentures

On December 30, 1996, the Company issued a $10 million surplus note to Employers Group, Inc., formally AmCOMP, Inc., its parent company in return for $10 million in cash. The terms of the note provide for quarterly interest payments at the rate of 100 basis points in excess of the prime rate, and repayment of the principal on September 15, 2009. Both payment of principal and interest were subject to prior approval of the Office and may be paid only out of the Company's surplus. Approved interest paid through December 31, 2009, totaled $9.6 million of which $0.4 million was paid in 2009. This surplus note was repaid in full on September 16, 2009.

On April 30, 2004, the Company issued a $10.0 million surplus note in return for $10.0 million in cash to Dekania CDO II, Ltd., as part of a pooled transaction. The note matures in 30 years and is callable by the Company after five years. The terms of this note provide for quarterly interest payments beginning on August 15, 2004 with an interest rate of 425 basis points in excess of the 90-day London Interbank Offered Rate. Both the payment of interest and repayment of the principal are subject to the prior approval of the Office and may be paid only out of the Company's surplus. Approved interest paid through December 31, 2010, totaled $4.7 million of which $0.5 million and $0.6 million were paid in 2010 and 2009 respectively. Unpaid and unapproved interest as of December 31, 2010 was $0.1 million.

On May 26, 2004, the Company issued a $12.0 million surplus note in return for $12.0 million in cash, to ICONS, Inc., as part of a pooled transaction. The note matures in 30 years and is callable by the Company after five years. The terms of the noted provide for quarterly interest payments beginning on August 24, 2004 with a rate of 425 basis points in excess of the 90-day

London Interbank Offered Rate. Both the payment of interest and repayment of the principal are subject to the prior approval of the Office and may be paid only out of the Company's surplus. Approved interest paid through December 31, 2010, totaled $5.7 million of which $0.6 million and $0.7 million were paid in 2010 and 2009 respectively. Unpaid and unapproved interest as of December 31, 2010, was $0.1 million.

On September 14, 2004, the Company issued a $10.0 million surplus note, in return for $10.0 million in cash, to Alesco Preferred Funding V, LTD., as part of a pooled transaction. The note matures in approximately 30 years and is callable by the Company after approximately five years. The terms of the note provide for quarterly interest payments beginning on December 15, 2004, with a rate of 405 basis points in excess of the 90-day London Interbank Offered Rate. Both the payment of interest and repayment of the principal are subject to the prior approval of the Office and may be paid only out of the Company's surplus. Approved interest paid through December 31, 2010, totaled $4.5 million of which $0.4 million and $0.5 million were paid in 2010 and 2009 respectively. Unpaid and unapproved interest as of December 31, 2010, was less than $0.1 million.

At December 31, 2010, the Company's outstanding surplus notes amounted to $32,000,000.

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

The Company had no acquisitions, mergers, disposals, and purchase or sales through reinsurance during the period of this examination.

CORPORATE RECORDS

The recorded minutes of the shareholder, 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, 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 shareholder meeting for the election of directors was held in accordance with Section 628.231, Florida Statutes. Directors serving as of December 31, 2010, were:

Directors

Name and Location	Principal Occupation
Robert J. Kolesar Las Vegas, Nevada	Chairman of the Board, Partner and Owner of Kolesar & Leatham Chtd.
Douglas D. Dirks Reno, Nevada	Director, Chief Executive Officer of Employers Holdings, Inc.
William E. "Ric" Yocke Reno, Nevada	Director, Treasurer, Executive Vice President and Chief Financial Officer of Employers Holdings, Inc.

Lenard T. Ormsby Reno, Nevada	Director, Assistant Secretary and Chief Legal Officer of Employers Holdings, Inc.
Martin J. Welch* Reno, Nevada	Director, President and Chief Operating Officer of Employers Holdings, Inc.

* Resigned on February 1, 2011 and was replaced by Douglas D. Dirks as President effective February 1, 2011. The Board also appointed Stephen V. Festa to the Board of Directors effective February 1, 2011.

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

Senior Officers

Name	**Title**
Douglas D. Dirks	Chief Executive Officer
Martin J. Welch*	President & Chief Operating Officer
William E. "Ric" Yocke	Treasurer
Donald C. Smith**	General Counsel and Secretary

*Resigned on February 1, 2011 and was replaced by Douglas D. Dirks as President effective February 1, 2011.

**Resigned on February 28, 2011 and was replaced by Lori A. Brown as Secretary effective February 28, 2011.

The Board of Directors of Employers Holdings, Inc., the Company's ultimate parent, had appointed several internal committees to act on behalf of the Company. The Company also maintained an audit committee, as required by Section 624.424(8) (c), Florida Statutes. Following are the principal internal board committees and their members as of December 31, 2010:

Governance Committee	Compensation Committee	Audit Committee	Finance Committee
Rose E. McKinney-James*	Michael D. Rumbolz*	Ronald F. Mosher*	Katherine W. Ong*
Robert J. Kolesar	Katherine W. Ong	Michael D. Rumbolz	Douglas D. Dirks
Richard W. Blakey	John P. Sande III	John P. Sande III	Rose E. McKinney-James
			Richard W. Blakey
			Valerie R. Glenn

*Chairman

Affiliated Companies

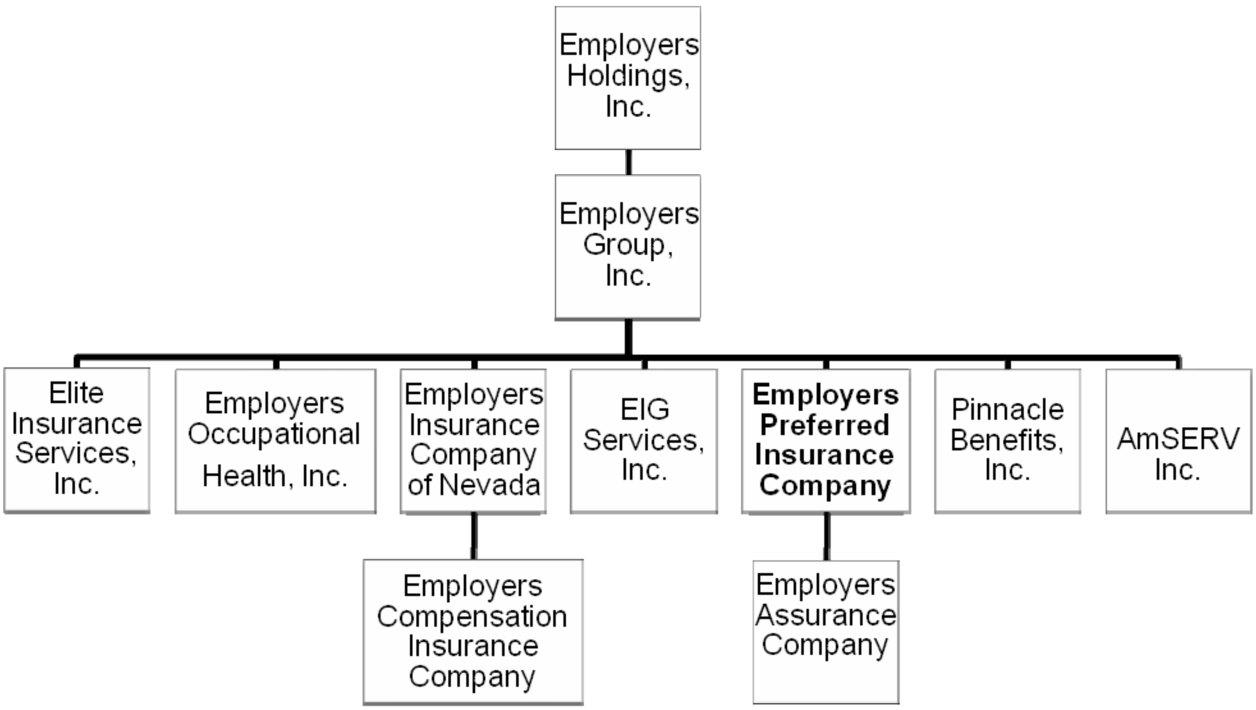
The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code. The latest holding company registration statement was filed with the State of Florida on March 1, 2011, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code. All intercompany management and service agreements, including amendments, have been appropriately disclosed.

As mentioned previously, the Company is part of a holding Company system with the ultimate controlling entity being Employers Holdings, Inc., a publicly traded company. The Company itself is wholly owned by Employers Group, Inc., which in turn is wholly owned by Employers

Holdings, Inc. An organizational chart as of December 31, 2010, reflecting the holding company system, is shown below.

EMPLOYERS PREFERRED INSURANCE COMPANY
Organizational Chart

DECEMBER 31, 2010



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

Tax Allocation Agreement

The Company had a Tax Sharing Agreement with its subsidiary and the other affiliates to file a consolidated federal income tax return. Under the agreement, the consolidated federal tax liability was allocated to consolidating companies based on separate return calculations with credit given for any net operating losses or other items utilized in the consolidated tax return. Pursuant to this agreement, the Company had the enforceable right to recoup federal income taxes paid in prior years in the event of future net losses which it may incur, or to recoup its net losses carried forward as an offset to future net income subject to federal income taxes. Intercompany tax balances were settled on a quarterly basis.

Cost Allocation Agreement

The Company, along with its affiliates, entered into an Administrative Services Agreement as the companies desired to achieve certain operating economies and improved service levels to the mutual benefit of all the companies. The Agreement also identified services that each company may provide to each other including accounting, tax and auditing, functional support, claims, investment, and underwriting services and assured that all charges were reasonable. Statements were prepared quarterly and settlements were made within 30 days. Total pooled administrative fee expense was $2.7 million and $4.1 million for the years ended December 31, 2010 and 2009, respectively.

FIDELITY BOND AND OTHER INSURANCE

At December 31, 2010, the Company was afforded coverage by a fidelity bond issued in the name of Employers Holdings, Inc. and all of its subsidiaries. The policy covers several risks including dishonesty, forgery and information systems. Per occurrence loss coverage is $5,000,000 per risk, and aggregate coverage for a one-year period is $10,000,000. This coverage was more than sufficient to meet minimum computed coverage amounts suggested by the NAIC.

The Company was sufficiently insured for other property and liability hazards that may occur from daily business operations. Insured risks noted included Director and Officers Liability and Errors and Omissions Coverage.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

There were no pension, stock ownership or insurance plans in place at the Company during the period of this examination.

TERRITORY AND PLAN OF OPERATIONS

The Company and its affiliates provide workers' compensation insurance and are licensed to do business in 37 states and the District of Columbia. A significant portion of the pooled business of the Company and its affiliates was concentrated in California, with approximately 52% of 2010 direct earned premiums of the pooled group being from this state. Any economic change or change in the insurance laws in any of these states could have a significant impact on the Company's future financial position and results of operations.

The only product marketed by the Company and its affiliates was workers' compensation insurance. The Company and affiliates specifically target small sized companies engaged in low to medium hazard industries. Information reflected in the 10K report of Employers Holdings, Inc. indicated that in 2010 about 89.9% of premium income was generated from employers with operating risks classified in the four lowest defined workers' compensation industry hazard groups.

The Company and its affiliates market their insurance product to targeted prospective employers through traditional means, strategic partnerships and through other available advertising media. Traditional marketing channels used were independent agents and brokers. The Company and its affiliates market and sell its insurance products through approximately 2,610 independent insurance agencies as of December 31, 2010.

The Company and its affiliates have developed strategic relationships with companies that have established sales forces and common markets to expand their reach to alternative distribution channels. The Company and its affiliates jointly marketed workers' compensation insurance products with ADP's payroll services and with Anthem's group health insurance plans. In 2010, the Company and its affiliates expanded their relationship with ADP to offer its products in 30 states and expanded its relationship with Anthem beyond California into Colorado. Additionally, the Company and its affiliates have entered into other strategic partnerships and alliances with payroll service providers and insurance brokerages, including the launch of a new program in conjunction with Hiscox USA to deliver workers' compensation insurance direct to small businesses online in 17 states. These relationships have allowed the Company and its affiliates to access new customers and they are actively pursuing additional strategic partnership and alliance opportunities.

Other more direct advertising media channels utilized were the internet, television and radio, newspapers, direct mail, event presentations, sponsorships, and through public relation means such as press releases and special events.

The Company was authorized to transact insurance in the following states as of December 31, 2010:

Alabama	Arizona	Arkansas
Colorado	District of Columbia	Florida
Georgia	Illinois	Indiana
Idaho	Iowa	Kansas
Kentucky	Maryland	Minnesota
Mississippi	Missouri	Montana
Nevada	New Jersey	New Mexico
North Carolina	Oklahoma	Oregon
Pennsylvania	South Carolina	South Dakota
Tennessee	Texas	Utah
Virginia	Wisconsin	

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 significant fluctuation in the Company's earned premiums was due to the Company being acquired by Employers Holding, Inc. and the respective intercompany reinsurance pooling arrangement that went into effect on October 1, 2008.

The Company and its affiliates experienced a decline in premiums and net underwriting (loss) due to the general economic downtown and hard market conditions. However, the Company maintained a strong balance sheet with positive contributions to surplus as of the valuation date.

Profitability of Company

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

	2010	2009	2008	2007	2006
Premiums Earned	$ 32,178,550	$ 40,424,743	$ 105,854,049	$ 144,489,610	$ 167,867,465
Net Underwriting Gain/(Loss)	(2,205,205)	1,079,227	8,368,932	20,596,562	13,810,931
Net Income	3,733,954	17,682,885	12,089,217	12,712,040	8,596,001
Total Assets	415,896,329	413,912,245	448,888,712	423,654,658	410,183,275
Total Liabilities	260,887,164	264,688,178	271,532,623	247,191,498	254,674,176
Surplus As Regards Policyholders	155,009,166	149,224,067	177,356,089	176,463,160	155,509,099

LOSS EXPERIENCE

The Company did not experience significant changes to its loss development. The Company's estimates for unpaid losses and loss adjustment expenses at December 31, 2010, were estimated by the Company's consulting actuaries based on accepted actuarial practices. The estimates were determined to be adequate based on an analysis performed and the resulting report generated by RSM McGladrey, LLC's independent consulting actuaries utilized during this examination.

REINSURANCE

Intercompany Reinsurance Pooling Agreement

Effective October 1, 2008, the Company entered into a reinsurance pooling agreement with its subsidiary, EAC, and its affiliates, Employers Insurance Company of Nevada (EICN), and Employers Compensation Insurance Company (ECIC). Under the terms of the agreement the entities pooled all business on a retrospective and prospective basis. EICN was the lead company of the pool, which resulted in the Company and its affiliates ceding all their business, net of incurred reinsurance. EICN then retroceded to the Company and its affiliates their share of the pool. The pooling percentages as of October 1, 2008, were as follows:

Company	Participation Percentage
EICN	53%
ECIC	27%
EPIC	10%
EAC	10%

The agreement requires each company to withhold funds for net losses, net expenses and net unearned premiums, as well as non-investment assets related to ceded business. At December 31, 2010, the Company held funds of $106,399,000 under this requirement.

Assumed

The Company has not and currently does not intend to actively assume insurance risks from outside sources.

Throughout the entire five-year period under review the Company participated in the Indiana Workers' Compensation Assigned Risk Reinsurance Pool. The largest amount of premium assumed during this period was $2,141,000 in 2006. For 2010, the Company reported assumed premiums of $179,000 from this arrangement.

Ceded

During the current period under examination, the Company's reinsurance program consisted of a multi-layer workers compensation excess of loss coverage with various authorized and unauthorized reinsurers and a number of Lloyd's syndicates. Under the arrangement in effect at December 31, 2010, the Company protected itself from per occurrence losses of up to $195,000,000 above an initial retention of $5,000,000 per occurrence.

These contracts are normally written with a term of one year. Thus, with the exception of those that have been commuted, the Company had a number of excess of loss reinsurance agreements in runoff at December 31, 2010, from previous years, including a facultative excess of loss agreement.

The catastrophe contract provided coverage for the $195,000,000 of per occurrence loss in five layers as follows:

	Coverage Limits			
Layer	Per Occurrence	Terrorism	Aggregate	Excess Retention of
1	$ 5,000,000	$ 5,000,000	$ 20,000,000	$ 5,000,000
2	10,000,000	10,000,000	20,000,000	10,000,000
3	30,000,000	30,000,000	60,000,000	20,000,000
4	50,000,000	50,000,000	100,000,000	50,000,000
5	100,000,000	100,000,000	200,000,000	100,000,000

The contracts were underwritten by various authorized and unauthorized reinsurers and a number of Lloyd's syndicates. As of December 31, 2010, the Company had reinsurance recoverables of $5,622,000 from the unauthorized reinsurers under the current or previous excess of loss contracts.

On September 15, 2010, the Company and its subsidiary, EAC, commuted treaties with Continental Casualty Company for $18.5 million for all past, present, and future obligations and liabilities related to all outstanding reinsurance agreements between the parties from 1996 to 2001.

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.

ACCOUNTS AND RECORDS

The Company maintained its statutory home office in Maitland, Florida; however, the main administrative office was located in Reno, Nevada. The examination field work was coordinated and performed in Reno, Nevada.

The Company's general ledger was maintained on an accrual basis. Appropriate adjustments were made to produce financial reports acceptable under statutory accounting practices.

The Company maintains its own separate data processing systems to produce appropriate financial reports, to maintain accounting records, to handle policy issuance and administration, and to process claims. The Company's primary processing was performed in a distributed environment. The main data center was located in Reno, Nevada; close to, but separate from the Company's corporate headquarters. Full replication was conducted at a secondary data center located in Henderson, Nevada.

Separate outside entities were used to handle all functional and reporting requirements pertaining to payroll, and to maintain and manage the Company's investment portfolio. Actions taken by these entities on behalf of the Company must have the Company's prior approval. The reliability of information produced by these entities was determined by the controls each of these entities had in place. Specific required written reports are produced annually by these entities to report on the operational effectiveness of controls in place. These reports were reviewed by appropriate Company personnel on a regular basis.

Overall, the Company provided information requested during the examination within a reasonable period of time in accordance with Section 624.318(2), Florida Statutes.

The Company and non-affiliates had the following agreements:

Investment Management Agreement

The Company has a contract with Conning Asset Management (Conning) to manage the Company's investment portfolio and provide investment advice and any other necessary investment services. The requirements of the contract required Conning to maintain the Company's portfolio according to specific written investment guidelines. Within the confines of the Company's guidelines, Conning may execute investment transactions without prior approval of the Company's management. Conning was compensated for its services quarterly based on specific fixed annual percentages of the asset value of the Company's portfolio for the billing period. Conning must also present a report to the Company on a quarterly basis outlining the results of investment activity for the billing period.

Claims Administration Agreement

The Company and its other affiliates, have a one year, automatically renewing, contract with Broadspire Services, Inc. (Broadspire) to administer Workers Compensation claims in the United States. The services provided include claims administration, medical management services, loss adjustment and settlement and litigation assistance. Broadspire's compensation for services provided was based on 1) a service fee based on a flat fee per claimant, 2) a system data access fee based on the number of users and licenses and 3) a medical management fee based on usage.

Custodial Agreement

The Company maintained a custodial agreement with the Bank of New York Mellon executed on December 8, 2008. The agreement was in compliance with Rule 69O-143.042, Florida Administrative Code.

Independent Auditor Agreement

The Company contracted with an external independent CPA firm to perform an annual audit of its financial statements as required by Rule 69O-137.002 (7) (c), Florida Administrative Code.

INFORMATION TECHNOLOGY REPORT

Michael Morrissey, CISA, IT Manager of RSM McGladrey, 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.

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	Rate	Maturity Date	Par Value	Market Value
FL	USTN/B	6.000%	02/15/26	$ 2,000,000	$ 2,472,812
FL	USTN/B	5.250%	02/15/29	1,300,000	1,490,938
Total Florida Deposits				$ 3,300,000	$ 3,963,750
AZ	USTN/B	4.375	08/15/12	$ 100,000	106,328
GA	USTN/B	4.375	08/15/12	85,000	90,379
ID	USTN/B	3.250	03/31/17	270,000	281,983
NV	USTN/B	3.250	03/31/17	325,000	339,422
NM	USTN/B	4.375	08/15/12	100,000	106,343
NC	USTN/B	4.375	08/15/12	600,000	637,968
OR	USTN/B	2.250	01/31/15	110,000	112,921
VA	USTN/B	4.375	08/15/12	550,000	594,804
Arrowood	USTN/B	1.000	03/31/12	1,400,000	1,410,719
Arrowood	Cash	0.100		316,399	316,399
Total Other Deposits				$ 3,856,399	$ 3,997,266
Total Special Deposits				$ 7,157,399	$ 7,961,016

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2010, 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."

EMPLOYERS PREFERRED INSURANCE COMPANY

Assets

DECEMBER 31, 2010

	Per Company	Examination Adjustments	Per Examination
Bonds	$142,878,750	$0	$142,878,750
Stocks:			
Common	92,171,093		92,171,093
Cash and Short-Term Investments	20,227,924		20,227,924
Investment Income due, accrued	1,158,585		1,158,585
Agents' Balances:			
Uncollected premium	907,314		907,314
Deferred premium	9,140,625		9,140,625
Accrued retrospective premium	713		713
Reinsurance recoverable	2,669,363		2,669,363
Funds held by reinsured companies	139,649,867		139,649,867
Net deferred tax asset	4,518,462		4,518,462
Receivable from parents, subsidiaries and affiliates	1,159,273		1,159,273
Guarantee funds receivable or on deposit	677,106		677,106
Aggregate write-in for other than invested assets	737,254		737,254
Totals	$415,896,329	$0	$415,896,329

EMPLOYERS PREFERRED INSURANCE COMPANY
Liabilities, Surplus and Other Funds

DECEMBER 31, 2010

	Per Company	Examination Adjustments	Per Examination
Losses	$109,160,200		$109,160,200
Loss adjustment expenses	23,208,428		23,208,428
Commissions payable	1,361,329		1,361,329
Other expenses	1,251,431		1,251,431
Taxes, licenses and fees	641,508		641,508
Federal and foreign income taxes	1,851,493		1,851,493
Unearned premium	14,224,590		14,224,590
Advance premium	141,108		141,108
Dividends declared and unpaid, policyholders	72,259		72,259
Ceded reinsurance premiums payable	1,473,601		1,473,601
Funds held under reinsurance treaties	106,399,195		106,399,195
Remittances and items not allocated	213,027		213,027
Provision for reinsurance	55,079		55,079
Payable to parent, subsidiaries and affiliates	600,090		600,090
Aggregate write-ins for liabilities	233,826		233,826
Total Liabilities	$260,887,164	$0	$260,887,164
Aggregate write-ins for special surplus funds	$1,641,405		$1,641,405
Common capital stock	1,500,000		1,500,000
Surplus Notes	32,000,000		32,000,000
Gross paid in and contributed surplus	64,900,000		64,900,000
Unassigned funds (surplus)	54,967,761		54,967,761
Surplus as regards policyholders	$155,009,166	$0	$155,009,166
Total liabilities, surplus and other funds	$415,896,330	$0	$415,896,330

EMPLOYERS PREFERRED INSURANCE COMPANY
Statement of Income

DECEMBER 31, 2010

Underwriting Income

Premiums earned	$32,178,550
Deductions:	
Losses incurred	$16,896,608
Loss expenses incurred	4,409,673
Other underwriting expenses incurred	13,077,473
Total underwriting deductions	$34,383,754
Net underwriting gain or (loss)	($2,205,204)

Investment Income

Net investment income earned	$5,764,419
Net investment gain or (loss)	$5,764,419

Other Income

Net gain or (loss) from agents' or premium balances charged off	($323,968)
Aggregate write-ins for miscellaneous income	1,822,957
Total other income	$1,498,989
Net income before dividends to policyholders and before federal & foreign income taxes	$5,058,203
Dividends to policyholders	664,120
Net Income, after dividends to policyholders, but before federal & foreign income taxes	$4,394,083
Federal & foreign income taxes	660,129
Net Income	$3,733,954

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year	$149,224,066
Net Income	$3,733,954
Net unrealized capital gains or losses	12,552,521
Change in deferred income tax	(1,919,105)
Change in non-admitted assets	2,801,218
Change in provision for reinsurance	5,961,044
Dividend to stockholders	(14,958,015)
Aggregate write-ins for gains and losses in surplus	(2,386,519)
Change in surplus as regards policyholders for the year	$5,785,098
Surplus as regards policyholders, December 31 current year	$155,009,165

EMPLOYERS PREFERRED INSURANCE COMPANY
Comparative Analysis of Changes in Surplus

DECEMBER 31, 2010

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, 2010, per Annual Statement				$155,009,165
	PER COMPANY	PER EXAM	INCREASE (DECREASE) IN SURPLUS	
ASSETS: No Adjustments				
LIABILITIES: No Adjustments				
Net Change in Surplus:				$ -
Surplus as Regards Policyholders December 31, 2010, Per Examination				$155,009,165

COMMENTS ON FINANCIAL STATEMENTS

Assets

Subordinated Surplus Notes $12,000,000

The Company did not disclose its ownership of subordinated surplus notes in Schedule BA – Other Invested Assets. There were no implications to surplus as result of this finding as the Company included the value of the subordinated surplus notes in its investment of its subsidiary (i.e. "Common Stock", Line 2.2).

Liabilities

Losses and Loss Adjustment Expenses $132,368,628

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, 2010, made a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

The examination consulting actuary, Deborah Rosenberg, FCAS, MAAA of RSM McGladrey, LLC, reviewed the loss and loss adjustment expense work papers provided by the Company and was in concurrence with this opinion.

Capital and Surplus

The amount of Capital and Surplus reported by the Company of $155,009,165 exceeded the minimum of $25,489,603 required by Section 624.408, Florida Statutes.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Employers Preferred Insurance Company,** as of December 31, 2010, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's surplus as regards policyholders was $155,009,165, which exceed the minimum of $25,489,603 required by Section 624.408, Florida Statutes.

In addition to the undersigned, Gary Farmer, Financial Examiner/Analyst Supervisor of the Office, Joshua Johnson, CFE, Examiner-in-Charge, Mary Hartell, Participating Examiner, Deborah Rosenberg, FCAS, MAAA, consulting actuary, Michael Morrissey, CISA, IT Manager, all of RSM McGladrey, LLC participated in the examination.

Respectfully submitted,

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Mary M. James, CFE, CPM
Chief Examiner
Florida Office of Insurance Regulation