REPORT ON EXAMINATION

OF

# FIRST COMMUNITY INSURANCE COMPANY

ST. PETERSBURG, FLORIDA

AS OF

DECEMBER 31, 2008

BY THE

OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida

January 19, 2010

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

**FIRST COMMUNITY INSURANCE COMPANY**
**1101 ROOSEVELT ROAD NORTH**
**ST. PETERSBURG, FLORIDA 33716**

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

## SCOPE OF EXAMINATION

This examination covered the period of January 1, 2006, through December 31, 2008. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2005. This examination commenced with planning at the Office from August 24, 2009 to August 31, 2009. The fieldwork commenced on August 24, 2009, and concluded as of January 19, 2010.

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

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

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

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

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

The examination included a review of the corporate records and other selected records deemed pertinent to the Company's operations and practices. In addition, the NAIC IRIS ratio reports, the A.M. Best Report, the Company's independent audit reports and certain work papers prepared by the Company's independent certified public accountant (CPA) and other reports as considered necessary were reviewed and utilized where applicable within the scope of this examination.

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

## Status of Adverse Findings from Prior Examination

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

### Information Technology Issues

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

# 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.

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

| | |
|---|---|
| Homeowners Multi Peril | Fire |
| Commercial Multi Peril | Allied Lines |
| Other Liability | Fidelity |
| Surety | Bail Bonds |
| Miscellaneous Casualty | Inland Marine |

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

Fidelity
Miscellaneous Casualty

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

**Subsequent Event:** Per the response to the 2009 Annual Review, the Company requested retaining the Fidelity and Miscellaneous lines of business to meet the licensing requirements of other states which require the Company to have the lines in their state of domicile. The Company stated that if that expansion was not completed within an acceptable timeframe, they would initiate the process to remove the lines.

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

## Capital Stock

As of December 31, 2008, 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 (BIC) and 50% owned by Bankers Insurance Group, Inc. (BIG). Bankers International Financial Corporation (BIFC), a Florida corporation, was the ultimate controlling United States corporation in the consolidated group. Bankers International Financial Corporation, LTD (BIFCLTD) a corporation organized and existing under the Cayman Islands, British West Indies, owned all of the common capital stock of BIFC. Bankers International Financial Corporation II Trust (the Trust) owned all the stock of BIFCLTD. The three trustees of the Trust are listed in the organizational chart included within this report.

## Profitability of Company

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

| | 2008 | 2007 | 2006 |
|---|---|---|---|
| Premiums Earned | 19,336,122 | 21,092,983 | 16,689,761 |
| Net Underwriting Gain/(Loss) | 3,330,174 | 7,334,987 | 1,465,940 |
| Net Income | 3,278,917 | 6,837,315 | 1,544,973 |
| Total Assets | 55,590,712 | 51,512,804 | 39,387,589 |
| Total Liabilities | 37,321,241 | 33,295,374 | 26,315,976 |
| Surplus As Regards Policyholders | 18,269,471 | 18,217,430 | 13,071,613 |

### Dividends to Stockholders

In accordance with Section 628.371, Florida Statutes, the Company declared and paid dividends to its stockholder in 2008 and 2007 in the amounts of $1,000,000 and $500,000, respectively.

### Management

The annual shareholder meeting for the election of directors was held in accordance with Sections 607.1601 and 628.231, Florida Statutes. Directors serving as of December 31, 2008, were:

**Directors**

| Name and Location | Principal Occupation |
|---|---|
| William Dawson Gunter, Jr.<br>Tallahassee, Florida | Director, Chairman, CEO, Sr. Vice President<br>Rogers, Gunter, Vaughn Insurance, Inc. |
| Edwin Clarence Hussemann (a)<br>St. Petersburg Beach, Florida | Director and Treasurer<br>Bankers Insurance Company |
| David Kevin Meehan [1]<br>St. Petersburg, Florida | President and Board Chairman<br>Bankers Insurance Company |
| John Arthur Strong [2]<br>Greensboro, North Carolina | Physician<br>Moses Cone Hospital |
| Robert Miller Menke<br>Tierra Verde, Florida | Founder and Director<br>Bankers Insurance Company |

| | |
|---|---|
| John Wayne Mixon<br>Tallahassee, Florida | Director and Chairman<br>Bayside Federal Savings & Loan Association |
| Brian Lee Keefer (b)<br>Tampa, Florida | Director and Chief Risk Officer<br>Bankers Insurance Company |
| Bennett Bradford Martz<br>Tampa, Florida | Senior Vice President and Chief Financial Officer<br>Bankers Financial Corporation |
| Connie Simmons Parker<br>Annapolis, Maryland | Managing Director<br>JE Robert Company |
| Alejandro Modesto Sanchez<br>Tallahassee, Florida | President and Chief Executive Officer<br>Florida Bankers Association |
| Matthew Bernard Connolly Jr.<br>Germantown, Tennessee | President<br>Bonefish and Tarpon Unlimited Inc. |

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

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

**Senior Officers**

| Name | Title |
|---|---|
| David Kevin Meehan | President and Board Chairman |
| Wayne Spencer Matthews | Chief Financial Officer |
| Gregory Lee Hoffman | Secretary |
| Edwin Clarence Hussemann (a) | Treasurer |
| Brian Jay Kesneck | Senior Vice President |
| Cathleen MaCready Batson | Senior Vice President |
| Barry Wayne Gates | Vice President |
| Judy Marie Copechal | Vice President |
| William Mitchell Gray II | Vice President |
| Joseph William Kinker | Vice President |
| Robert Grant Southey, Jr. | Vice President |
| Janet Hewlett Till | Vice President |
| Timothy James Fallabaum | Vice President |
| Barbara Ann Peat | Vice President |
| Donald Barnetts Roberts | Vice President |
| Steven Harold Struss | Vice President |

| | |
|---|---|
| Brian Lee Keefer | Chief Risk Officer |

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

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

**Executive Committee**

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

**Audit Committee**

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

**Investment Committee**

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

**Claims Committee**

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

**Reinsurance Committee**

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

**Compliance Committee**

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

**Risk Management Committee**

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

[1] - Chairman
[2] - Co-chairman

## Conflict of Interest Procedure

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

## Corporate Records

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

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

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

## Surplus Debentures

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

# AFFILIATED COMPANIES

The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code. The latest holding company registration statement was filed with the State of Florida on December 19, 2008, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code. The Company did not file an updated holding company registration statement to report affiliated transactions, as required by Rule 69O-143.046 (2) (e), Florida Administrative Code.

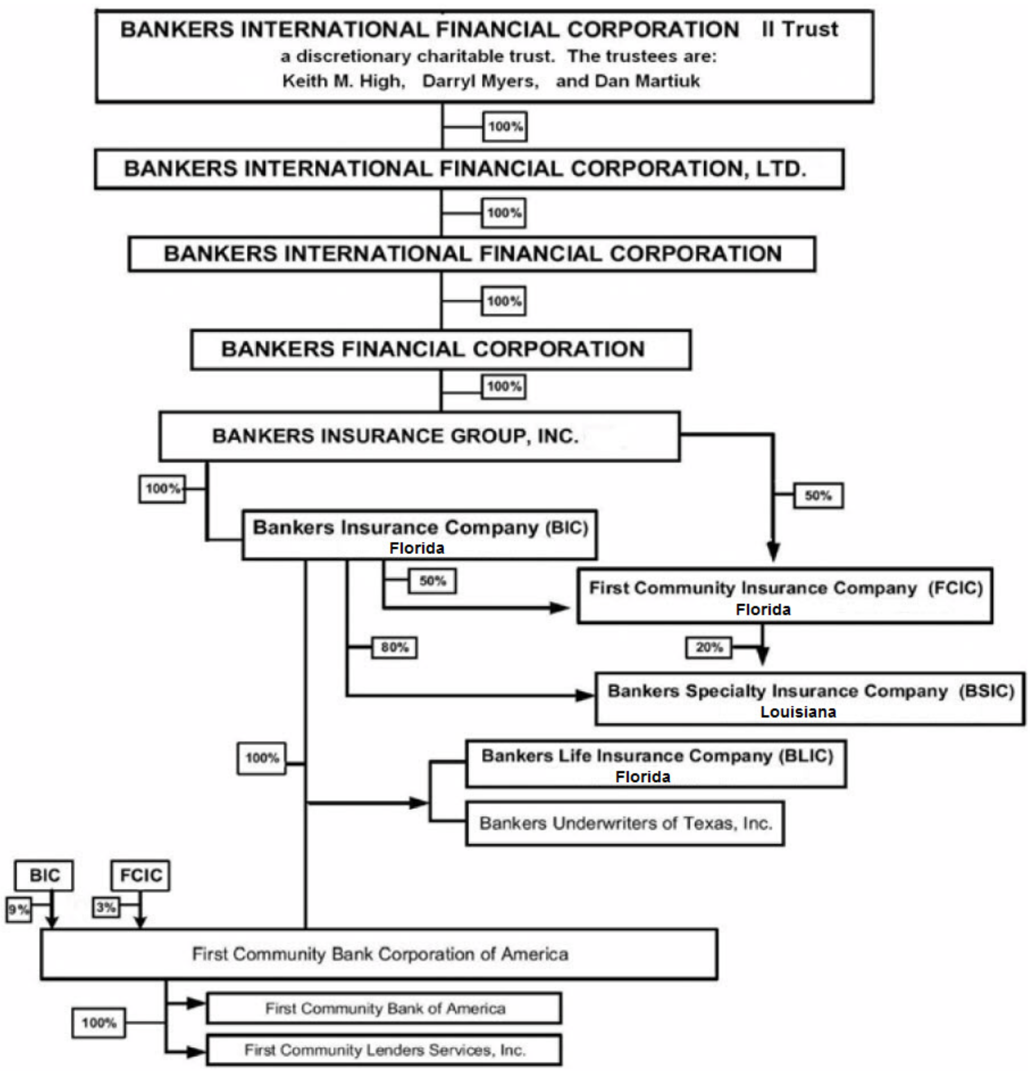
A 2008 amendment to a reinsurance agreement between the Company and Bankers Insurance Company was not disclosed in the Holding Company Registration Statement as required by Rule 69O-143.046, Florida Administrative Code.

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

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

**FIRST COMMUNITY INSURANCE COMPANY**
**ORGANIZATIONAL CHART**

**DECEMBER 31, 2008**



In 2007, the Company and BIC formed Bankers Specialty Insurance Company (BSIC), a Louisiana domiciled property and casualty insurer. In the formation of BSIC, the Company directly acquired a 20% ownership stake for $1,000,000. In November 2008, the Company contributed an additional $150,000 to BSIC.

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

**Tax Allocation Agreement**

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

**Cost Allocation Agreements**

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

**Managing General Agent Agreement**

Since 2005, the Company has used Bankers Underwriters Inc. (BUI) as a managing general agent to produce and administer its casualty and liability business lines to independent agents. The written agreement between the two affiliates specified the lines of business to be marketed and administered, maximum coverage limits, and the States BUI was allowed to operate in on the Company's behalf. Compensation to BUI by the Company was specified in the contract. The agreement also allowed BUI to negotiate facultative reinsurance with General Reinsurance Inc. The agreement could be terminated by either party upon 90 days written notice. BUI was a licensed managing general agent in the State of Florida.

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

**Cooperative Agreement**

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

**Payment of Balances Agreement**

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

## FIDELITY BOND AND OTHER INSURANCE

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

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

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

## PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

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

## STATUTORY DEPOSITS

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

| STATE | Description | Par Value | Market Value |
|---|---|---|---|
| FL | Canadian Occidental Pertroleum 7.4% 5/1/2028 | $ 1,000,000 | $ 1,309,850 |
| FL | Brinker International 5/75% 6/1/2014 | 760,000 | 599,032 |
| FL | US Treasury Note 4.875% 1/31/2009 | 100,000 | 100,355 |
| FL | Tx Wtr Development Board Rev-B 5% 7/15/2033 | 500,000 | 474,270 |
| TOTAL FLORIDA DEPOSITS | | $ 2,360,000 | $ 2,483,507 |
| SC | US Treasury Note 6% 8/15/2009 | 20,000 | 20,784 |
| TOTAL OTHER DEPOSITS | | $ 20,000 | $ 20,784 |
| TOTAL SPECIAL DEPOSITS | | $ 2,380,000 | $ 2,504,291 |

## INSURANCE PRODUCTS

### Territory

The Company was authorized to transact business in the States of Florida and South Carolina as of December 31, 2008.

### 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.

## REINSURANCE

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

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

### Assumed

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

### Ceded

The Company's reinsurance program included both affiliated and unaffiliated reinsurance arrangements.

#### Ceded Affiliated

The Company ceded incurred losses (exclusive of wind, fire, allied lines and homeowners business) to BIC under a quota share and two separate catastrophe excess of loss arrangements. The quota share contract has been in effect since 2003. The contract allowed the Company to cede on a quota share basis 50% of all net incurred losses to BIC since April 2007. Prior to April 1, 2007, the Company ceded 75% of all net losses to BIC on a quota share basis. The Company's aggregate exposure under this contract throughout the period under examination was $125.0 million per contract period. The catastrophe contracts have been in effect since June 2008. Under the terms of one of these contracts the Company was allowed to cede the first $2 million of its catastrophic loss exposure with an aggregate limit of $4 million for all losses. Under the terms of the other contract, the Company was allowed to cede $17.7 million of incurred losses in excess of $73.3 million with an aggregate loss exposure of $17.7 million per occurrence. In tandem, the arrangement essentially wrapped the catastrophic loss protection afforded by the Florida Hurricane Catastrophe Fund and achieves statutory compliance.

**Ceded Unaffiliated**

The property catastrophe reinsurance program described below was administered through Willis Re, Incorporated, a globally recognized reinsurance intermediary. The other reinsurance arrangements described below were placed and are being administered directly by the Company.

**Property Catastrophe Exposure**

The Company's reinsurance protection in place at December 31, 2008, pertaining to property catastrophe exposure provided coverage for up to four events occurring within a single underwriting period. First and second catastrophic events were covered under a contract that protects the Company for up to $51.0 million per event and up to $66.0 million in aggregate above a $2.0 million initial per event Company retention limit. The following table outlines the three tiered structure of the coverage outlined in the contract.

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

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

**Other Business Lines**

The Company's reinsurance protection in place at December 31, 2008, pertaining to other lines of business (exclusive of the peril of wind) was provided by a quota share contract the Company had with Western International Insurance Company (WIIC) and an excess of loss contract in place with General Reinsurance Corporation (Gen Re). Per the current amended terms of the contract with WIIC, an unauthorized reinsurer, the Company was allowed to cede a quota share 50% on $500,000 of incurred losses with aggregate loss limits to WIIC of up to $250,000 per risk on property exposures, up to $250,000 per occurrence on casualty exposures and $250,000 on each combination of property and casualty loss exposures. Between October 2006 and April 2007, the quota share cession percentage on property and casualty exposures was 25% on $500,000 of incurred losses with aggregate limits to WIIC at $125,000 per category. Prior to October 2006, the quota share cession percentage on property and casualty exposures was 50% on $250,000 of incurred losses with aggregate loss limits to WIIC of $125,000 per risk, $500,000 per occurrence on property exposures, and $125,000 each occurrence on casualty and combination incurred losses. In addition, this period of time included 50% quota share coverage on surety losses up to $150,000 per principal with loss limits to WIIC of $75,000 per principal. The contract required WIIC to maintain collateral consisting of bank deposits and fixed income securities to ensure that it could meet its obligations under the reinsurance arrangement. The Company was authorized to make deposits and withdrawals from these accounts as premiums or losses were ceded to Western. At December 31, 2008 and 2007, the funds held in trust approximated $1,995,000 and $700,000, respectively.

The multi-line contract with Gen Re pertained only to property and casualty exposures and attached above a $500,000 per risk property and $500,000 per occurrence casualty loss retention limits. Coverage was provided in three tiers. For property risks, the first layer of the contract then provided additional per risk coverage of up to $500,000, with Gen Re's per occurrence losses capped at $1.5 million. The second layer of coverage provided an additional per risk coverage of up to $1.0 million, with Gen Re's per occurrence losses capped at $2.0 million. The third layer provided additional per risk coverage of up to $1.0 million, with Gen Re's per occurrence losses limited to $2.0 million. Additionally, Gen Re's total net property losses caused by acts of terrorism were limited in total to $2.0 million per contract period. For casualty risks the first layer of the contract provided additional per risk coverage of up to $500,000 and the second layer provided an additional $2.0 million of per risk coverage. The third layer provides additional per occurrence coverage of up to $1.0 million. Gen Re's total casualty per occurrence losses was capped at $3.5 million. Gen Re's combined property and casualty losses arising from bacteria, wet or dry rot, or fungus were limited to $2.0 million for all occurrences per contract year.

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

## ACCOUNTS AND RECORDS

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

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

The Company's accounting records were maintained on electronic data processing systems. The Company's balance sheet accounts, with the exception of two accounts, were verified with the line items of the annual statement submitted to the Office.

The Company and non-affiliates had the following agreements:

### Custodial Agreement

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

- That Northern secure and maintain insurance protection in an adequate amount covering its duties and activities as custodian for the Company's assets; such insurance protection to be compliant with the requirements, if any, of its banking regulators.

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

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

### Independent Auditor Agreement

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

### Actuarial Services Agreement

The Company contracted with the Madison Consulting Group to provide the necessary consulting actuarial services.

## Information Technology Report

Tracy Gates from Highland Clark, LLC performed an evaluation of the information technology and computer systems of the Company. Results of the evaluation were noted in the Information Technology Report provided to the Company.

## FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2008, and the results of its operations for the year then ended as determined by this examination. Adjustments made as a result of the examination are noted in the section of this report captioned, "Comparative Analysis of Changes in Surplus."

## FIRST COMMUNITY INSURANCE COMPANY
## Assets

### DECEMBER 31, 2008

| | Per Company | Examination Adjustments | Per Examination |
|---|---|---|---|
| Bonds | $36,405,547 | | $36,405,547 |
| Stocks: | | | |
| Preferred | 250,000 | | 250,000 |
| Common | 2,289,383 | | 2,289,383 |
| Cash on Hand and on Deposit | 5,136,184 | | 5,136,184 |
| Other Invested Assets | 434,600 | | 434,600 |
| Interest and dividend | | | |
| income due & accrued | 315,678 | | 315,678 |
| Agents' Balances: | | | |
| Uncollected premium | 9,207 | | 9,207 |
| Deferred premium | 7,284,285 | | 7,284,285 |
| Reinsurance recoverable | 1,141,199 | | 1,141,199 |
| Federal Income Taxes Recoverable | 275,530 | | 275,530 |
| Net Deferred Tax Asset | 1,847,782 | | 1,847,782 |
| FIGA Recoupment | 201,317 | | 201,317 |
| Accounts Receivable Other | 0 | | 0 |
| Pre-paid Expenses | 0 | | 0 |
| Totals | $55,590,712 | $0 | $55,590,712 |

## FIRST COMMUNITY INSURANCE COMPANY
## Liabilities, Surplus and Other Funds

### DECEMBER 31, 2008

| | Per Company | Examination Adjustments | Per Examination |
|---|---|---|---|
| Losses | $4,724,227 | | $4,724,227 |
| Loss adjustment expenses | 923,329 | | 923,329 |
| Commissions Payable Contingent or Otherwise | 194,472 | | 194,472 |
| Other expenses | 661,157 | | 661,157 |
| Taxes, licenses and fees | 402,053 | | 402,053 |
| Unearned premium | 23,213,395 | | 23,213,395 |
| Dividends Declared and Unpaid to Stockholders | 1,000,000 | | 1,000,000 |
| Ceded Reinsurance Premiums Payable | 2,253,360 | | 2,253,360 |
| Funds Held by Company under Reinsurance Treaties | 1,995,406 | | 1,995,406 |
| Amounts withheld by Company for Account of Others | 615,870 | | 615,870 |
| Remittance and Items Not Allocated | 1,256,801 | | 1,256,801 |
| Payable to parent, subsidiaries and affiliates | 81,171 | | 81,171 |
| Total Liabilities | $37,321,241 | $0 | $37,321,241 |
| FRPCJUA Takeout Bonus as it Applies to Section 627.3511 Subparagraph 5a | $5,192,223 | | $5,192,223 |
| Common capital stock | 1,500,000 | | 1,500,000 |
| Gross paid in and contributed surplus | 6,000,000 | | 6,000,000 |
| Unassigned funds (surplus) | 5,577,249 | | 5,577,249 |
| Surplus as regards policyholders | $18,269,472 | $0 | $18,269,472 |
| Total liabilities, surplus and other funds | $55,590,713 | $0 | $55,590,713 |

* Failure to foot is due to rounding

## FIRST COMMUNITY INSURANCE COMPANY
## Statement of Income

### DECEMBER 31, 2008

| | |
|---|---|
| **Underwriting Income** | |
| Premiums earned | $19,336,122 |
| **Deductions:** | |
| Losses incurred | 6,777,136 |
| Loss expenses incurred | 669,289 |
| Other underwriting expenses incurred | 8,559,523 |
| Total underwriting deductions | $16,005,948 |
| Net underwriting gain or (loss) | $3,330,174 |
| **Investment Income** | |
| Net investment income earned | $3,016,941 |
| Net realized capital gains or (losses) | (935,600) |
| Net investment gain or (loss) | $2,081,341 |
| **Other Income** | |
| Net gain or (loss) from agents' or premium balances charged off | (121,233) |
| Finance and service charges not included in premiums | $108,652 |
| Aggregate write-ins for miscellaneous income | 10,618 |
| Total other income | ($1,963) |
| Net income before dividends to policyholders and before federal & foreign income taxes | $5,409,552 |
| Dividends to policyholders | 0 |
| Net Income, after dividends to policyholders, but before federal & foreign income taxes | $5,409,552 |
| Federal & foreign income taxes | 2,130,635 |
| Net Income | $3,278,917 |

| | |
|---|---|
| **Capital and Surplus Account** | |
| Surplus as regards policyholders, December 31, 2007 | $18,217,433 |
| Net Income | $3,278,917 |
| Change in Net unrealized capital gains or losses | (1,386,076) |
| Change in net deferred income tax | 555,540 |
| Change in non-admitted assets | (1,396,339) |
| Dividends to Stockholders | (1,000,000) |
| Change in surplus as regards policyholders for the year | $52,042 |
| Surplus as regards policyholders, December 31, 2008 | $18,269,475 |

## COMMENTS ON FINANCIAL STATEMENTS

**Assets**

**Other Invested Assets** $434,600

This amount represented the net admitted market value of the Company's investment in other types of assets as of December 31, 2008, reflected by the Company in its annual statement. During 2008, the Company recognized and wrote off around $250,000 of investment value in these assets as Other Than Temporarily Impaired.

This amount included investment valuations of limited partnerships and joint ventures at cost. This was contrary to the requirements of SSAP #48 which requires investments in limited partnerships to be valued using an applicable equity method described in SSAP #97. The valuation of these investments using the equity method would reduce the asset value of the Company's investment in these other types of assets by about $127,000 at December 31, 2008.

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

### Liabilities

**Losses and Loss Adjustment Expenses** $5,647,556

An outside actuarial firm appointed by the Board of Directors, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2008, made a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

The consulting actuary for this examination reviewed the work papers provided by the Company's consulting actuary and was in concurrence with the opinion.

## Capital and Surplus

The amount reported by the Company of $18,269,472, exceeded the minimum of $4,000,000 required by Section 624.408, Florida Statutes.

A comparative analysis of changes in surplus is shown below.

**FIRST COMMUNITY INSURANCE COMPANY**
**COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS**

**DECEMBER 31, 2008**

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

| | | | | |
|---|---|---|---|---|
| Surplus as Regards Policyholders<br>December 31, 2008, per Annual Statement | | | | $18,269,472 |
| | PER<br>COMPANY | PER<br>EXAM | INCREASE<br>(DECREASE)<br>IN SURPLUS | |
| ASSETS: | | | | |
| No Adjustments | | | | |
| LIABILITIES: | | | | |
| No Adjustments | | | | |
| Net Change in Surplus: | | | | 0 |
| Surplus as Regards Policyholders<br>December 31, 2008, Per Examination | | | | $18,269,472 |

## SUMMARY OF FINDINGS

**Compliance with previous directives**

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

**Current examination comments and corrective action**

There were no exceptions or findings in the examination as of December 31, 2008.

## SUBSEQUENT EVENTS

In the first quarter of 2009 the Company acquired some bonds at a fair market of around $791,000 from Bankers Life Insurance Company, an affiliate. In accordance with the designation assigned to these investments by the Valuation of Securities Office of the NAIC, the Company listed them at fair market value and applied valuations based upon the NAIC approved PIMCO model in their 2009 yearend financial reports.

## CONCLUSION

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

Per examination findings, the Company's Surplus as regards policyholders' was $18,269,472, in compliance with Section 628.903, Florida Statutes.

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

Respectfully submitted,

______________________________________
Kethessa Carpenter, CPA
Financial Examiner/Analyst Supervisor
Florida Office of Insurance Regulation