

REPORT ON EXAMINATION
OF
FIRST COMMUNITY INSURANCE
COMPANY

ST. PETERSBURG, FLORIDA

AS OF
DECEMBER 31, 2012

BY THE
FLORIDA OFFICE OF INSURANCE REGULATION

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January 24, 2014

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, 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, 2012, of the financial condition and corporate affairs of:

**FIRST COMMUNITY INSURANCE COMPANY
11101 ROOSEVELT BOULEVARD N.
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, 2009, through December 31, 2012. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2008. This examination commenced with planning at the Office on August 12, 2013, to August 16, 2013. The fieldwork commenced on August 19, 2013, and concluded as of January 24, 2014.

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

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

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

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

SUMMARY OF SIGNIFICANT FINDINGS

Current Exam Findings

There were no material findings or exceptions noted during the examination as of December 31, 2012.

Prior Exam Findings

There were no findings, exceptions or corrective action to be taken by the Company for the examination as of December 31, 2008.

SUBSEQUENT EVENTS

Navdeep Kumar Arora resigned as Chief Operating Officer in August, 2013. Per the Company, his position will not be filled at this time. His responsibilities were assumed by Wilbur Lincoln Martin IV, President.

In connection with the restructuring of the organization which is discussed later in this report, the Company consolidated and reduced the number of Board committees as of January 1, 2013.

HISTORY

General

The Company was incorporated in Florida on November 18, 1993, as a stock property and casualty insurance company and commenced business on December 1, 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 1, 1993, and continued to be authorized as of December 31, 2012:

Fire	Bail Bonds
Allied Lines	Surety
Commercial Multi-peril	Fidelity
Homeowner's Multi-peril	Inland Marine
Other Liability	Miscellaneous Casualty

The Company is also licensed to underwrite similar insurance coverages in Louisiana, North Carolina, South Carolina, and Texas.

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

Dividends to Stockholders

The Company did not declare or pay any dividends during the period of this examination.

Capital Stock and Capital Contributions

As of December 31, 2012, 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	\$3,000,000
Par value per share	\$4.00

The Company was wholly owned by its parent, Bankers Specialty Insurance Company (Bankers Specialty), a privately held corporation incorporated in the State of Louisiana. Bankers Specialty in turn was 100% owned by Bankers Insurance Company (Bankers Insurance) which was 100% owned by Bankers Insurance Group, Inc. (Bankers Group). The ultimate parent was Bankers International Financial Corporation (Bankers International), which in turn, owns 100% of Bankers Financial Corporation (Bankers Financial) which ultimately controls the Company. Bankers International executed a disclaimer of control by which the officers and directors of Bankers International agree that they will not exercise control over the activities of Bankers Financial or its subsidiaries.

Surplus Notes

The Company did not have any surplus notes during the period of this examination.

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

On April 30, 2012, the Florida Office of Insurance Regulation and the State of Louisiana Department of Insurance approved the following series of transactions that occurred culminating in Bankers Insurance owning 100% of the common stock of Bankers Specialty and Bankers Specialty owning 100% of the common stock of the Company. Bankers Insurance purchased 20% of Bankers Specialty common stock previously held by the Company, giving Bankers Insurance 100% ownership of Bankers Specialty common voting stock. Bankers Group contributed its 50% ownership of the Company's common stock to Bankers Insurance. Further, Bankers Insurance contributed its 100% ownership of the Company's common stock to Bankers Specialty. As a result of Bankers Insurance's 100% ownership of Bankers Specialty common stock, Bankers Insurance which previously owned directly 50% of the Company's common stock now indirectly owns 100%.

The Company was approved for the assumption of approximately 3,000 homeowner's policies from Citizens Property Insurance Corporation. The assumption transaction was completed with approximately 3,000 policies assumed on October 8, 2012. No further assumptions from Citizens Property Insurance Corporation are planned.

CORPORATE RECORDS

The recorded minutes of the Shareholder, Board of Directors (Board) and certain internal committees were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions and events, in compliance with the NAIC Financial Condition Examiners Handbook adopted by Rule 690-

138.001, Florida Administrative Code including the authorization of investments as required by Section 625.304, Florida Statutes.

Conflict of Interest

The Company adopted a policy statement requiring periodic disclosure of conflicts of interest in accordance with the NAIC Financial Condition Examiners Handbook adopted by Rule 690-138.001, Florida Administrative Code.

MANAGEMENT AND CONTROL

Management

The annual shareholder meeting for the election of directors was not held in accordance with Section 628.231, Florida Statutes. A review of the corporate minutes found that the election of the board of directors had been occurring at the annual board of directors meeting rather than at the annual meeting of stockholders as required by Section 628.231, Florida Statutes. Furthermore, there was no evidence that an annual stockholders meeting occurred during the period under examination.

Directors serving as of December 31, 2012, were:

Directors

Name and Location

Principal Occupation

John Arthur Strong
Greensboro, North Carolina

Chairman
Bankers Financial Corporation

Ted Taylor Devine Glencoe, Illinois	President, Business Insurance Network/TechInsurance
William Dawson Gunter Jr. Tallahassee, Florida	Chairman of the Board Rogers, Gunter, Vaughn Insurance, Inc.
Brian Jay Kesneck St. Petersburg, Florida	President Bankers Surety Group
Wilbur Lincoln Martin IV La Canada, California	President Bankers Insurance Company
Brett Miller Menke Dunedin, Florida	Vice President Bankers Warranty Group
William Virden Nutt Jr. Greensboro, North Carolina	President Bankers Business Group
Connie Simmons Parker Annapolis, Maryland	President The CS Parker Group, LLC
David Hamilton Reed Tampa, Florida	Principal Shepard Capital Partners
Donald Barnett Roberts Bradenton, Florida	Vice President Bankers Life Insurance Company

In accordance with the Company's bylaws, the Board appointed the following senior officers:

Senior Officers

Name	Title
Wilbur Lincoln Martin IV	President
John Stuart Platter (a)	Senior Vice President
Brian Jay Kesneck	Senior Vice President
Preston Breckenridge Kavanaugh III (a)	Treasurer
Richard Gerard Torra	Secretary
James Dennis Albert	Chief Information Officer
Navdeep Kumar Arora (a)	Chief Operating Officer
William Alfred Lafontaine	Chief Marketing Officer
Svetlana Vyacheslavovna Townsend	Chief Financial Officer
Lisa Ann Basta	Vice President
Ian Brazie Barber	Vice President
Judy Marie Copechal	Vice President
Donald Barnett Roberts	Vice President
Robert Grant Southey Jr.	Vice President
Timothy Scott Stroble	Vice President

(a) Navdeep Kumar Arora resigned as Chief Operating Officer in August, 2013. Per the Company, his position will not be filled at this time. Preston Breckenridge Kavanaugh III and John Stuart Platter resigned as officers of the Company in May, 2013 and February 19, 2013, respectively. Their positions were not replaced.

The Company's Board appointed several internal committees. Following were the principal internal board committees and their members as of December 31, 2012:

Executive Committee

Brian Jay Kesneck
 Wilbur Lincoln Martin, IV
 William Virden Nutt, Jr.
 John Arthur Strong¹

Audit Committee

Ted Taylor Devine
 William Dawson Gunter Jr.
 Connie Simmons Parker¹
 David Robert Punzak
 David Hamilton Reed
 John Arthur Strong

Compliance Committee

William Dawson Gunter Jr.¹
 Wilbur Lincoln Martin, IV
 Robert M. Menke
 Connie Simmons Parker
 David Robert Punzak
 Donald Barnett Roberts
 John Arthur Strong

Claims Committee

William Dawson Gunter Jr.
 Wilbur Lincoln Martin, IV
 Brett Miller Menke
 William Virden Nutt, Jr.
 David Robert Punzak¹
 Donald Barnett Roberts
 John Arthur Strong

ERM Committee²

Wilbur Lincoln Martin, IV
 Brett Miller Menke
 Robert M. Menke
 William Virden Nutt, Jr.
 Connie Simmons Parker
 John Stuart Platter
 David Robert Punzak
 David Hamilton Reed
 Donald Barnett Roberts
 John Arthur Strong

Finance Committee

Ted Taylor Devine
 William Dawson Gunter Jr.
 Wilbur Lincoln Martin, IV
 David Kevin Meehan
 Brett Miller Menke
 Robert M. Menke
 William Virden Nutt, Jr.
 Connie Simmons Parker
 John Stuart Platter
 David Robert Punzak
 David Hamilton Reed¹
 Donald Barnett Roberts
 John Arthur Strong

Investment Committee²

Wilbur Lincoln Martin, IV
 Robert M. Menke
 John Stuart Platter
 David Hamilton Reed
 Donald Barnett Roberts

John Arthur Strong

¹Chairman

²No Chairman Designated

Subsequently and in connection with the restructuring of the organization, the Company consolidated and reduced the number of Board committees. As of January 1, 2013, the principal internal board committees and their members were as follows:

Executive Committee

Brian Jay Kesneck
Wilbur Lincoln Martin, IV
William Virden Nutt, Jr.
John Arthur Strong¹

**Audit, Compliance &
ERM (ACE) Committee**

Ted Taylor Devine
William Dawson Gunter Jr.
Connie Simmons Parker¹
David Robert Punzak
David Hamilton Reed
John Arthur Strong

Finance Committee

Ted Taylor Devine
William Dawson Gunter Jr.
Wilbur Lincoln Martin, IV
David Kevin Meehan
Brett Miller Menke
Robert M. Menke
William Virden Nutt, Jr.
Connie Simmons Parker
John Stuart Platter
David Robert Punzak
David Hamilton Reed¹
Donald Barnett Roberts
John Arthur Strong

¹Chairman

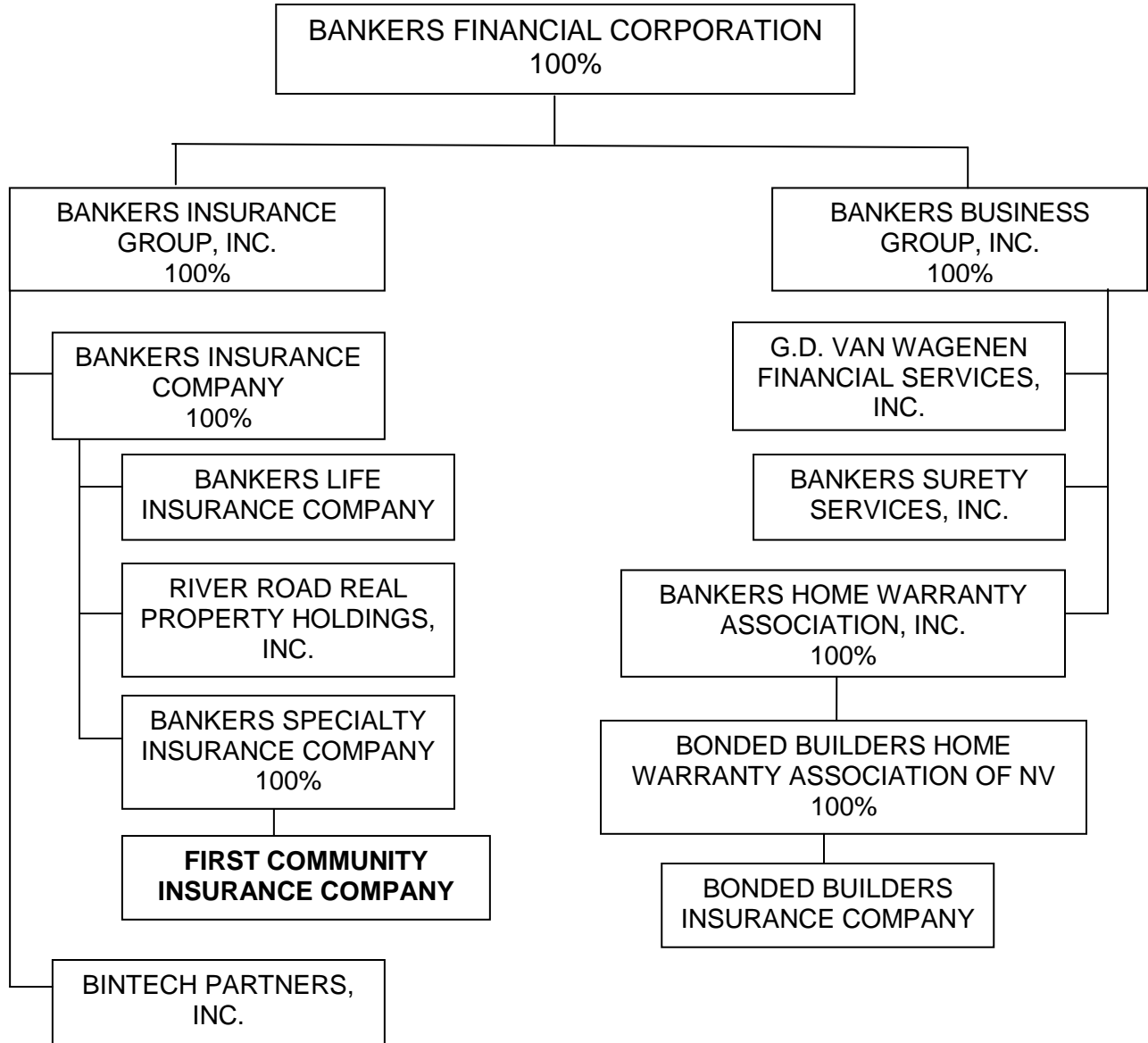
Affiliated Companies

The most recent holding company registration statement was filed with the State of Florida on March 20, 2013, as required by Section 628.801, Florida Statutes.

A simplified organizational chart as of December 31, 2012, reflecting the holding company system, is shown on the following page. Schedule Y of the Company's 2012 annual statement provided a list of all related companies of the holding company group.

**FIRST COMMUNITY INSURANCE COMPANY
ORGANIZATIONAL CHART**

DECEMBER 31, 2012



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

Tax Allocation Agreement

Under an amended and restated agreement effective January 1, 2007, the Company, along with Bankers International filed a consolidated federal income tax return. The original tax allocation agreement was effective December 3, 1982. The method of allocation between the various companies was based as if each participant filed its tax return separately.

Intercompany Affiliated Service Provider and Cost Allocation Agreement

Under an amended and restated cost sharing agreement effective April 1, 2011, the Company participated in a cost allocation agreement with Bankers Group, Bankers Underwriters, Inc., Bankers Financial; Bintech Partners Inc., Bankers Life Insurance Company, Bankers Specialty and “any other affiliated commonly owned company which has executed a subscription addendum.” The original contract became effective in 2004 with the exception of the Bintech arrangement which became effective in 2008. The contract provided that:

- Each member agreed to the extent requested by another member to perform such services requested by the requesting member as the recipient member may determine to be reasonably necessary in the conduct of its operations.
- Each member agreed to the extent requested by another member to make available its facilities to the recipient member as the recipient member may determine to be reasonably necessary in the conduct of its operations.
- Charges for services and facilities shall include all direct and directly allocable expenses determined to be attributable to the recipient member by the performing member.

- The members agreed that the compensation for providing the services shall be based on actual cost without a profit factor being built into that cost. The indirect and shared expenses shall be allocated in accordance with a method of cost allocation in conformity with SSAP No. 70.

Amounts due under this agreement will be billed each quarter within 30 days after quarter end. Balances payable are to be paid within 30 days after receipt of such billing. Fees incurred under this agreement during 2012 amounted to \$4,688,804.

Managing General Agent Agreement

Under an amended and restated agreement effective August 27, 2010, the Company used Bankers Underwriters Inc. (Bankers Underwriters) as a managing general agent to produce and administer its casualty and liability business lines to independent agents. The original agreement was effective in 2005.

The written agreement between the two affiliates specified the lines of business to be marketed and administered, maximum coverage limits, and the states Bankers Underwriters was allowed to operate on the Company's behalf. Compensation to Bankers Underwriters by the Company is specified in the contract. The agreement also allowed Bankers Underwriters to appoint agents, provide policy and claims administration services, and negotiate facultative reinsurance. The agreement could be terminated by either party upon 90 days written notice. Fees incurred under this agreement during 2012 amounted to \$941,963.

General Agency Agreements

Under an agreement effective July 31, 2000, the Company used Bankers Insurance Services Inc. (Bankers Services) 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 states Bankers Services was allowed to operate on the Company's behalf. Compensation to Bankers Services by the Company is also specified in the contract. The agreement could be terminated by either party upon 60 days written notice. Fees incurred under this agreement during 2012 amounted to \$3,645,705.

Under an amended and restated agreement dated January 1, 2009, the Company used Bankers Surety Services Inc. (Bankers Surety) as a general agent to produce and administer its bail bonds and immigration bonds. The original agreement was effective in 2001. The written agreement between the two affiliates specified that the Company is the final authority on all matters pertaining to these policies. Bankers Surety may not allow its agents to issue policies without the Company's prior consent. The contract also requires Bankers Surety to adhere to specific policy underwriting and issuing standards and guidelines. The agreement could be terminated by either party upon 90 days written notice. Fees incurred under this agreement during 2012 amounted to \$435,043.

Administrative Services Agreement

Under an agreement effective April 2, 2012, the Company named BinTech Partners, Inc. as administrator for the following types of insurance policies: homeowners/DFI, excess flood, flood, business owners' policies, vector, and builder/building contractor general liability in all

states in which the Company writes. Fees incurred under this agreement during 2012 amounted to \$209,206.

FIDELITY BOND AND OTHER INSURANCE

The Company did not maintain fidelity bond coverage as recommended by the NAIC.

Subsequent Event: On November 19, 2013, the Company provided evidence of a rider to the fidelity bond policy of the parent, Bankers International, which specifically identified the Company as a covered entity, providing coverage up to \$5,000,000 with a deductible of \$100,000 which reached the suggested minimum of \$1,250,000.

The Company also maintained professional liability coverages, which included directors and officers (D&O), with an aggregate limit of \$10,000,000 as well as workers' compensation, general liability and umbrella coverage.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

Company employees participate in a defined contribution savings plan sponsored by Bankers Financial. This plan covers substantially all employees of the Company. The plan provides that the Company may, but is not required to, make a contribution each year. Employees may contribute up to the government maximum allowed for a given year to the plan which is subject to a discretionary match from Bankers Financial. The Company has no legal obligations under this plan.

TERRITORY AND PLAN OF OPERATIONS

The Company was authorized to transact insurance in the following states:

Florida	Louisiana	North Carolina
South Carolina	Texas	

The Company is a multi-line carrier, underwriting commercial and personal lines through independent agents. As of year-end 2012 the Company's major product lines covered the following areas of exposure:

Homeowner's multiple peril
Commercial multiple peril

The following table from the Company's 2012 management's discussion and analysis further reflects the concentration of the Company's exposure as of December 31, 2012:

Line of Business	Percent	Net Premium Earned
Fire	2%	\$ 807,966
Allied Lines	-1%	(483,011)
Homeowner's Multiple Peril	54%	18,225,174
Commercial Multiple Peril	41%	13,881,669
Inland Marine	2%	526,181
Other Liability – Occurrence	2%	572,185
Surety	1%	321,213
Total	100%	\$ <u>33,851,377</u>

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

Assets of the Company increased \$3.5 million (5%) in 2012, primarily comprised of an increase of \$6 million (36.8%) in cash and short term investments, a decrease of \$2.4 million investment in common stock of an affiliated company, a decrease in receivable from parent, subsidiary or affiliate of \$949 thousand and a decrease in other invested assets of \$971 thousand. In addition, preferred stock decreased \$500 thousand (66.7%).

Unpaid losses and loss adjustment expenses decreased by \$1.4 million (12.1%) primarily due to the decreased loss frequency and severity in the homeowners' line. Unearned premiums decreased \$1.8 million (5.5%). The decrease is attributable to a reduction in net written premiums in the dwelling/fire book of business.

Direct written premiums increased \$3.1 million (3.4%) from \$89.8 million in 2011 to \$92.9 million in 2012. This was largely driven by an increase of \$1.5 million (7.1%) in the Company's federal flood product and \$3.9 million (13.9%) in commercial multiple peril.

As of December 31, 2012, the Company reported a policyholders' surplus of \$20,348,891, which represents a 75% increase from prior year end, when the Company reported \$11,640,625. 80% of the increase can be attributed to a reported net income of \$6,896,226 compared to the reported net loss of (\$2,890,222) at prior year end. Net income has been increased due to increased premiums and decreased losses, which are all favorable trends for the Company.

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.

	2012	2011	2010	2009
Premiums Earned	33,851,377	28,405,158	24,334,279	22,241,438
Net Underwriting Gain/(Loss)	3,413,682	(5,002,809)	(7,773,878)	(613,709)
Net Income	6,896,226	(2,890,222)	(8,979,469)	864,993
Total Assets	72,308,060	68,760,435	73,460,254	67,488,925
Total Liabilities	51,959,169	57,119,811	56,650,363	47,519,392
Surplus As Regards Policyholders	20,348,891	11,640,625	16,809,890	19,969,533

LOSS EXPERIENCE

During the current examination period, the Company showed favorable development overall. This was a result of fewer claims being reported for prior accident years than management had anticipated. The two-year net loss development at the end of the current examination period was unfavorable at \$1.14 million and the one-year net loss development was favorable at \$547 thousand.

REINSURANCE

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

Assumed

As disclosed earlier in this report, the Company was approved for the assumption of approximately 3,000 homeowner's policies from Citizens Property Insurance Corporation.

Other than the business from Citizens Property Insurance Corporation, the Company assumed risk only from mandatory pools.

Ceded

The Company ceded business under a property catastrophe excess of loss agreement. The Company retained the first \$3,000,000 and ceded to a maximum of \$2,000,000 per occurrence and \$2,000,000 for all occurrences. The lines of business covered are property perils only for fire, allied lines, homeowner's multi-peril, private passenger and commercial auto physical damage, commercial multi-peril, and business owner's policies.

The Company ceded business under a property catastrophe excess of loss agreement. The Company retained the first \$5,000,000 and ceded under four layers to a maximum of \$90,000,000 per occurrence and \$180,000,000 for all occurrences. This coverage has one reinstatement. The lines of business covered are fire, allied lines, homeowner's multi-peril,

private passenger and commercial auto physical damage, commercial multi-peril, and business owner's policies.

The Company also maintained property catastrophe excess of loss reinstatement premium protection under four layers to cover reinstatement of the above coverage.

The Company ceded business under excess of loss per risk coverage. The Company retained the first \$500,000 per risk and ceded under three layers to a maximum of \$3,000,000 per risk. The lines of business covered are fire, allied lines, inland marine, homeowner's multi-peril, commercial multi-peril, and general liability.

The Company ceded business under a 90% quota share and excess of loss per risk agreement covering personal umbrella liability. For animal liability, the Company retained the first \$25,000 plus 10% of the next \$975,000 per occurrence. As respects all other liability, the Company retained 10% of the first \$1,000,000 per occurrence.

As required by Section 215.555, Florida Statutes, the Company participates in the Florida Hurricane Catastrophe Fund. The Company participated at the 90% reimbursement level.

The Company ceded business under a 50% quota share agreement. For property coverage, the Company retained the first \$500,000 each risk and the reinsurer's limit was \$250,000 for each risk. For casualty coverage, the Company retained the first \$500,000 per occurrence and the reinsurer's limit was \$250,000 per occurrence. For a combination of property and casualty loss, the Company retained the first \$500,000 for each combination loss and the reinsurer's limit was \$250,000 for each combination loss.

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

ACCOUNTS AND RECORDS

The Company maintained its principal operational offices in St. Petersburg, Florida.

An independent CPA audited the Company's statutory basis financial statements annually for the years under examination 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 maintained a custodial agreement with The Northern Trust Company dated June 5, 2007. 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 the annual audit of its financial statements as required by Rule 69O-137.002 (7) (c), Florida Administrative Code.

INFORMATION TECHNOLOGY REPORT

Paul L. Berkebile, CISA, of INS Services, Inc. performed an evaluation of the information technology and computer systems of the Company. Results of the evaluation were noted in the Information Technology Report provided to the Company.

STATUTORY DEPOSITS

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

STATE	Description	Par Value	Market Value
FL	Cash Deposit	\$ 100,000	\$ 100,000
FL	Cash Interest	\$ 9,136	\$ 9,136
FL	Tx Wtr St Revolv - B, 5.00%, 07/15/2033	500,000	588,050
FL	Nexen Inc, 7.40%, 05/01/2028	1,000,000	1,291,490
FL	Conocophillips, 4.60%, 01/15/2015	260,000	281,034
FL	Allergan Inc, 5.75%, 04/01/2016	500,000	575,100
TOTAL FLORIDA DEPOSITS		<u>\$ 2,369,136</u>	<u>\$ 2,844,810</u>
NC	First Amer Treas Oblig FD Inv CL	\$ 12,188	\$ 12,188
NC	US Treasury Note, 1.875%, 04/30/2014	1,300,000	1,300,000
TX	4 Certificates of Deposits with branches of 2 different banks, varying rates	3,900,001	3,900,001
TOTAL OTHER DEPOSITS		<u>\$ 5,212,189</u>	<u>\$ 5,212,189</u>
TOTAL SPECIAL DEPOSITS		<u>\$ 7,581,325</u>	<u>\$ 8,056,999</u>

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2012, 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, 2012

	Per Company	Examination Adjustments		Per Examination
Bonds	\$35,523,135		\$0	\$35,523,135
Stocks:				
Preferred	250,000			250,000
Real Estate:				
Properties				
occupied by Company	0			0
Other properties	0			0
Cash and Short-Term Investments	22,412,592			22,412,592
Other invested assets	297,622			297,622
Receivables for securities	16,150			16,150
Interest and dividend				
income due & accrued	288,451			288,451
Agents' Balances:				
Uncollected premium	0			0
Deferred premiums, agents' balance	9,226,640			9,226,640
Amounts recoverable from reinsurers	923,441			923,441
Net deferred tax asset	2,446,386			2,446,386
Receivable from parents, subsidiaries				
and affiliates	0			0
Equities and deposits				
in pools and associations	0			0
Aggregate write-in for				
other than invested assets	923,643			923,643
Totals	\$72,308,060		\$0	\$72,308,060

FIRST COMMUNITY INSURANCE COMPANY
Liabilities, Surplus and Other Funds

DECEMBER 31, 2012

	Per Company	Examination Adjustments	Per Examination
Losses	\$8,246,485		\$8,246,485
Loss adjustment expenses	2,068,164		2,068,164
Commissions payable	274,354		274,354
Other expenses	398,813		398,813
Taxes, licenses and fees	702,847		702,847
Current federal and foreign income taxes	184,150		184,150
Unearned premium	30,668,166		30,668,166
Advance premium	2,198,197		2,198,197
Ceded reinsurance premiums payable	420,902		420,902
Funds held by Company	4,447,095		4,447,095
Amounts withheld	661,237		661,237
Remittances and items not allocated	1,341,821		1,341,821
Provision for reinsurance	115,841		115,841
Payable to parent, subsidiaries and affiliates	231,097		231,097
Total Liabilities	\$51,959,169	\$0	\$51,959,169
Aggregate write-ins for special surplus funds	5,192,222		5,192,222
Common capital stock	3,000,000		3,000,000
Gross paid in and contributed surplus	9,922,575		9,922,575
Unassigned funds (surplus)	2,234,094		2,234,094
Surplus as regards policyholders	\$20,348,891	\$0	\$20,348,891
Total liabilities, surplus and other funds	\$72,308,060	\$0	\$72,308,060

FIRST COMMUNITY INSURANCE COMPANY
Statement of Income

DECEMBER 31, 2012

Underwriting Income

Premiums earned		\$33,851,377
	Deductions:	
Losses incurred		\$11,856,314
Loss expenses incurred		2,321,735
Other underwriting expenses incurred		16,259,646
Aggregate write-ins for underwriting deductions		0
Total underwriting deductions		\$30,437,695
Net underwriting gain or (loss)		\$3,413,682

Investment Income

Net investment income earned		\$1,778,092
Net realized capital gains or (losses)		1,507,394
Net investment gain or (loss)		\$3,285,486

Other Income

Net gain or (loss) from agents' or premium balances charged off		(\$8,032)
Finance and service charges not included in premiums		172,355
Aggregate write-ins for miscellaneous income		(21,407)
Total other income		\$142,916
Net income before dividends to policyholders and before federal & foreign income taxes		\$6,842,084
Dividends to policyholders		0
Net Income, after dividends to policyholders, but before federal & foreign income taxes		\$6,842,084
Federal & foreign income taxes		(54,142)
Net Income		\$6,896,226

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year		\$11,640,625
Net Income		\$6,896,226
Net unrealized capital gains or losses		165,901
Change in net deferred income tax		(2,299,737)
Change in non-admitted assets		3,639,138
Change in provision for reinsurance		(115,841)
Change in excess statutory over statement reserves		0
Surplus adjustments: Paid in		422,575
Aggregate write-ins for gains and losses in surplus		0
Change in surplus as regards policyholders for the year		\$8,708,262
Surplus as regards policyholders, December 31 current year		\$20,348,887

A comparative analysis of changes in surplus is shown below.

FIRST COMMUNITY INSURANCE COMPANY
Comparative Analysis of Changes in Surplus

DECEMBER 31, 2012

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, 2012, per Annual Statement	\$20,348,891
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	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:			\$0
No Adjustment			
LIABILITIES:			0
No Adjustment			
Net Change in Surplus:			<u>0</u>
Surplus as Regards Policyholders December 31, 2012, Per Examination			<u><u>\$20,348,891</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses \$ 10,314,649

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, 2012, made a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

The Office consulting actuary, Jacqueline M. Lewis, FCAS, MAAA of INS Consultants, Inc., reviewed the loss and loss adjustment expense work papers provided by the Company and she was in concurrence with this opinion.

Capital and Surplus

The amount of capital and surplus reported by the Company of \$20,348,891, exceeded the minimum of \$5,000,000 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 **First Community Insurance Company** as of December 31, 2012, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's surplus as regards policyholders was \$20,348,891, which exceeded the minimum of \$5,000,000 required by Section 624.408, Florida Statutes.

In addition to the undersigned, John V. Normile, CFE, Examiner-In-Charge, and Patricia Casey Davis, CFE, CPA, Participating Examiner, of INS Regulatory Insurance Services, Inc. participated in the examination. Additionally, Jacqueline M. Lewis, FCAS MAAA, and David Macesic, ACAS, MAAA, consulting actuaries of INS Consultants, Inc. and Paul L. Berkebile, CISA, of INS Services, Inc. and Connie Hare, Financial Examiner/Analyst Supervisor, Kyra Brown, Financial Specialist, and Jonathan Frisard, Financial Examiner/Analyst Supervisor, of the Office participated in the examination.

Respectfully submitted,

Robin Brown, CFE
Chief Examiner
Florida Office of Insurance Regulation