



**EXAMINATION REPORT
OF
FIRST COMMUNITY INSURANCE COMPANY**

NAIC Company Code: 13990

**St. Petersburg, Florida
as of
December 31, 2017**

**BY THE
FLORIDA
OFFICE OF INSURANCE REGULATION**

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January 24, 2019

David Altmaier
Commissioner
Office of Insurance Regulation
State of Florida
Tallahassee, Florida 32399-0326

Dear Commissioner:

Pursuant to your instructions, in compliance with Section 624.316, Florida Statutes, Rule 690-138.005, 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, 2017, of the financial condition and corporate affairs of

First Community Insurance Company
11101 Roosevelt Blvd. 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, 2013 through December 31, 2017 and commenced with planning at the Florida Office of Insurance Regulation ("Office") on May 28, 2018 to June 1, 2018. The fieldwork commenced on May 28, 2018, and concluded as of January 24, 2019. The Company's last full scope exam by representatives of the Office covered the period of January 1, 2009 through December 31, 2012.

The examination was a multi-state/coordinated examination conducted in accordance with the NAIC Financial Condition Examiners Handbook ("Handbook"). The Handbook requires that the examination be planned and performed to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company, and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively. The lead state for this exam was Florida. Other states that participated in this exam are as follows: Louisiana.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statements of Statutory Accounting Principles ("SSAP").

This examination report includes significant findings of fact, as mentioned in Section 624.319, Florida Statutes, and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (for example, subjective conclusions or proprietary information), are not included within the examination report but separately communicated to other regulators and/or the Company.

SUMMARY OF SIGNIFICANT FINDINGS

Current Examination Findings

There were no material findings or exceptions noted during the examination as of December 31, 2017.

Previous Examination Findings

There were no findings, exceptions or corrective action to be taken by the Company for the examination as of December 31, 2012.

COMPANY HISTORY

General

The Company was incorporated on November 18, 1993, as a stock property and casualty insurance company under the applicable provisions of the Florida Statutes. The Company commenced writing 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 is currently authorized to write in the following lines of business:

Bail bonds	Surety *
Allied Lines *	Homeowners Multi Peril *
Fire	Inland Marine *
Commercial Multi Peril *	Other Liability

* denotes current year premiums written.

Dividends

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

Capital Stock and Capital Contributions

As of December 31, 2017, the Company's capitalization was as follows:

Number of authorized common issued and outstanding 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

Surplus Notes

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

Acquisitions, Mergers, Disposals, Dissolutions

The Company had no acquisitions, mergers, disposals, or dissolutions during the period of this examination.

MANAGEMENT AND CONTROL

Corporate Governance

The annual shareholder meeting for the election of the Board of Directors ("Board") members was held in accordance with Section 628.231, Florida Statutes. Directors serving as of December 31, 2017, are shown below:

Directors

Name	City, State	Principal Occupation, Company Name
John Arthur Strong ¹	St. Petersburg, Florida	Chief Executive Officer, Bankers Financial Corporation
Connie Simmons Parker	Annapolis, Maryland	Chief Executive Officer, CSPARKERGROUP
Ted Taylor Devine	Glencoe, Illinois	Chief Executive Officer, Insureon
Brian Jay Kesneck	St. Petersburg, Florida	President, Bankers Surety Services, Inc.
Brett Miller Menke	St. Petersburg, Florida	Vice President of Corporate Culture, Bankers Financial Corporation

David Hamilton Reed	Tampa, Florida	Principal, Shepard Capital Partners
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¹ Chairman

In accordance with the Company's Bylaws, the Board appointed the following Senior Officers:

Senior Officers

Name	City, State	Title
John Arthur Strong	St. Petersburg, Florida	President
Richard Gerard Torra	St. Petersburg, Florida	Corporate Secretary/General Counsel
Lydia Oforiwah Boakye	St. Petersburg, Florida	Chief Financial Officer/Controller

The Company's Board appointed several internal committees. The following were the principal internal board committees and their members as of December 31, 2017:

Audit, Compliance, & ERM Committee

Name	City, State	Title, Company Name
David Hamilton Reed ¹	Tampa, Florida	Principal, Shepard Capital Partners
Ted Taylor Devine	Glencoe, Illinois	Chief Executive Officer, Insureon
Toan Cam Huynh	New York, New York	Venture Partner, Information Venture Partners
John Arthur Strong ²	St. Petersburg, Florida	Chief Executive Officer, Bankers Financial Corporation

¹ Chairman

² Non- Voting Member

The Company maintained an audit committee, as required by Section 624.424(8)(c), Florida Statutes.

Compensation Committee

Name	City, State	Title, Company Name
Connie Simmons Parker ^(a)	Annapolis, Maryland	Chief Executive Officer, CSPARKERGROUP
Toan Cam Huynh ¹	New York, New York	Venture Partner, Information Venture Partners
John Arthur Strong	St. Petersburg, Florida	Chief Executive Officer, Bankers Financial Corporation

¹ Chairman

^(a) Resigned from the board and all committees April 24, 2018.

Corporate Records Review

The recorded minutes of the Shareholder(s), Board, and certain internal committees were reviewed for the period under examination. The recorded minutes of the Board documented its meetings and approval of Company transactions and events, in compliance with the Handbook adopted by Rule 69O-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 Handbook adopted by Rule 69O-138.001, Florida Administrative Code.

Holding Company System

The Company was wholly owned by its parent, Bankers Insurance Group ("Bankers Group"), a Florida corporation. The ultimate parent was Bankers International Financial Corporation ("Bankers International"), which in turn owned 100% of Bankers Financial Corporation ("Bankers Financial"), which owned 100% of Bankers Group and ultimately controlled the Company. The Company is 100% owned by Bankers Specialty Insurance Company, domiciled in Louisiana. 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.

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

Tax Allocation Agreement

The Company, under an amended and restated Tax Allocation Agreement effective January 1, 2007, filed a consolidated federal income tax return with Bankers International and affiliates. 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. The amount paid by the Company during 2017 was \$762,148.

Intercompany Affiliated Service Provider and Cost Allocation Agreement

The Company participated in an Intercompany Affiliated Service Provider and Cost Allocation Agreement with Bankers Group, Bankers Underwriters, Inc. ("Bankers Underwriters"), Bankers Financial, Bintech Partners Inc., Bankers Specialty Insurance Company, Bankers Insurance Company, 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 Partners Inc. arrangement which became effective in 2008. An amendment occurred on July 8, 2016, to remove Bankers Life Insurance Company. 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 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 were to be billed each quarter within 30 days after quarter end. Balances payable were to be paid within 30 days after receipt of such billing. The amount paid by the Company for services during 2017 was \$816,727.

Master Agency Agreement

Under a Master Agency 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 was also specified in the contract. The agreement could be terminated by either party upon 60 days written notice. The amount paid by the Company for services in 2017 was 192,579.

Managing General Agent Agreement

Under an amended and restated Managing General Agent Agreement effective August 27, 2010, the Company used 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 in on the Company's behalf. Compensation to Bankers Underwriters by the Company was 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. The amount paid by the Company for services in 2017 was \$4,855,530.

General Agency Agreement

Under an amended and restated General Agency 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 was 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. The amounts paid by the Company for services in 2017 was \$1,210,014.

Marketing Agreement

Under a Marketing Agreement effective January 1, 2010, the Company used Bankers Surety as a marketing agent to assist the Company in enlisting independent insurance agents and to engage in direct marketing. This agreement was initially effective for one year with automatic one-year renewals thereafter. The agreement could be terminated by either party upon 30 days written notice prior to the expiration of any one-year term. The amounts paid by the Company for services in 2017 is included in the General Agency agreement amounts paid above.

Administrative Service Agreement

Under an Administrative Service Agreement effective September 1, 2009, the Company named Bankers Employer Administrative Services, Inc. as administrator of the following types of insurance policies: major medical, limited benefit medical plan, short term medical, excess of loss insurance, group term life insurance, and any other products mutually agreed upon. The Company did not incur or pay any fees as part of the agreement in 2017.

Administrator Agreement

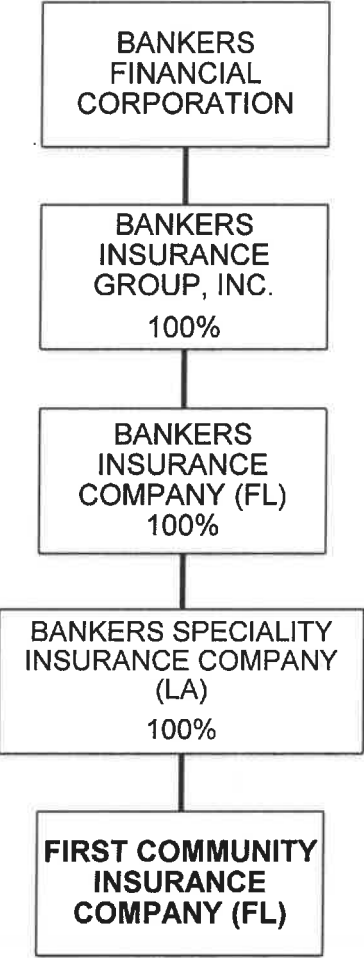
Under an Administrator Agreement effective April 2, 2012, the Company named BinTech Partners, Inc. as administrator for the following types of insurance policies: homeowners/dwelling and fire, excess flood, flood, business owners' policies, Vector, and builder/building contractor general liability in all states in which the Company writes. The amount paid by the Company for services in 2017 was \$2,190,890.

A simplified organizational chart as of December 31, 2017, reflecting the holding company system, is shown on the following page. Schedule Y of the Company's 2017 annual statement provided a list of all related companies of the holding company group.

First Community Insurance Company

Simplified Organizational Chart

December 31, 2017



ACCOUNTS AND RECORDS

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

The Company and non-affiliates had the following agreements:

Custodial Agreement

The Company maintained a custodial agreement with Northern Trust Company executed on June 5, 2007. The agreement did not comply with specific clauses of Rule 69O-143.042, Florida Administrative Code. **Subsequent Event:** The Company provided an updated agreement, effective September 13, 2018, that complied with Rule 69O-143.042, Florida Administrative Code.

Reinsurance Intermediary Agreement

The Company provided a compensation agreement dated April 26, 2012, and an engagement letter dated January 28, 2013, with reinsurance intermediary Aon Benfield.

Independent Auditor Agreement

BDO USA, LLP ("BDO"), an independent CPA, audited the Company's statutory basis financial statements annually for the years 2016 and 2017 in accordance with Section 624.424(8), Florida Statutes. Deloitte, LLP, an independent CPA, audited the Company's statutory basis financial statements annually for the years 2013, 2014, and 2015, in accordance with Section 624.424(8), Florida Statutes. Supporting work papers were prepared by the CPA firm as required by Rule 69O-137.002, Florida Administrative Code.

BDO's engagement letter contained an indemnification clause for the Company's GAAP and Statutory audits for the year ended December 31, 2017. This was not in compliance with Rule

69O-137.002(7)(a)2., Florida Administrative Code. **Subsequent Event:** BDO USA, LLP amended their 2017 Engagement letter to remove the indemnification clause.

TERRITORY AND PLAN OF OPERATIONS

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

Arizona	Nevada
Colorado	North Carolina
Connecticut	Ohio
Florida	South Carolina
Louisiana	Texas
Maryland	Virginia
Mississippi	Washington

The Company became authorized to transact insurance business in Florida on June 4, 1976, and was authorized for the following coverage(s) as of December 31, 2017:

Bail bonds	Surety
Allied Lines	Homeowners Multi Peril
Fire	Inland Marine
Commercial Multiple Peril	Other Liability

Treatment of Policyholders

The Company established procedures for handling written complaints in accordance with Section 626.9541(1)(i)3.a., 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)(j), Florida Statutes.

REINSURANCE

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

Reinsurance Assumed

The Company is not party to any assumed reinsurance during the examination period.

Reinsurance Ceded

The Company's reinsurance program consisted of quota share, excess of loss, catastrophe, reinstatement premium protection and facultative treaties placed with the private market. The Florida Hurricane Catastrophe Fund treaty affords for losses sustained in Florida and represents only a portion of the reinsurance coverage in Florida. Retention levels and features vary by line of business and accident period.

The Company participated in writing flood insurance administered by the Federal Emergency Management Agency ("FEMA"). The Write Your Own ("WYO") program follows guidelines from the National Flood Insurance Program. Premiums for flood insurance are one hundred percent (100%) ceded and have no income statement effect.

INFORMATION TECHNOLOGY REPORT

Phil Schmoyer, CISA, AES, CFE, of Baker Tilly Virchow Krause, LLP, 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	BANK NEW YORK MTN BK ENT	500,000	501,304
FL	BEMIS INC	500,000	533,419
FL	FEDERAL FARM CR BKS	500,000	488,015
FL	FIFTH THIRD BK CIN OHIO MTN BE	500,000	501,447
TOTAL FLORIDA DEPOSITS		<u>\$ 2,000,000</u>	<u>\$ 2,024,185</u>
All Other Special Deposits			
FL	3 Certificates of Deposits with branches of different banks , Varying rates	900,008	900,008
NV	JPMORGAN CHASE & CO	200,000	212,123
NC	UNITED STATES TREAS NTS	1,300,000	1,298,375
TX	UNITED STATES TREAS NTS	1,000,000	991,875
TX	10 Certificates of Deposits with branches of different ba	1,351,183	1,351,183
VA	FEDERAL FARM CR BKS	250,000	244,008
TOTAL OTHER DEPOSITS		<u>\$ 5,001,192</u>	<u>\$ 4,997,573</u>
TOTAL SPECIAL DEPOSITS		<u><u>\$ 7,001,192</u></u>	<u><u>\$ 7,021,758</u></u>

FINANCIAL STATEMENTS

The examination does not attest to the fair presentation of the financial statements included herein. If an adjustment was identified during course of the examination, the impact of such adjustment will be documented separately following the Company's financial statements. Financial statements, as reported and filed by the Company with the Office, are reflected on the following pages.

First Community Insurance Company

Assets

December 31, 2017

	Per Company	Examination Adjustments	Per Examination
Bonds	\$65,604,607		\$65,604,607
Stocks:			
Common	450,300		450,300
Cash and Short-Term Investments	15,967,926		15,967,926
Investment income due and accrued	552,633		552,633
Premiums and considerations			
Uncollected premiums and agents' balances in the course of collection	501,150		501,150
Deferred premiums, agents' balances and installments booked but deferred and not yet due	9,064,521		9,064,521
Reinsurance			
Amounts recoverable from reinsurers	3,717,295		3,717,295
Current federal and foreign income tax recoverable	1,561,239		1,561,239
Net deferred tax asset	1,577,483		1,577,483
Receivable from parents, subsidiaries and affiliates	194,388		194,388
Aggregate write-in for other than invested assets	250,301		250,301
Totals	\$99,441,843	\$ -	\$99,441,843

First Community Insurance Company
Liabilities, Surplus and Other Funds
December 31, 2017

	Per Company	Examination Adjustments	Per Examination
Losses	\$14,817,176		\$14,817,176
Loss adjustment expenses	4,481,261		4,481,261
Commissions payable	(503,222)		(503,222)
Other expenses	822,622		822,622
Taxes, licenses and fees	428,107		428,107
Unearned premium	32,427,509		32,427,509
Advance Premium	2,104,953		2,104,953
Ceded reinsurance premiums payable	2,698,135		2,698,135
Funds held by company under reinsurance	2,618,165		2,618,165
Amounts withheld or retained by company for	906,040		906,040
Remittances and items not allocated	265,412		265,412
Payable to parent, subsidiaries and affiliates	368,133		368,133
Provision for resinsurance	8,000		8,000
Total Liabilities	\$61,442,292	\$ -	\$61,442,292
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	9,922,576		9,922,576
Unassigned funds (surplus)	19,884,754		19,884,754
Surplus as regards policyholders	\$37,999,551	\$ -	\$37,999,551
Total liabilities, surplus and other funds	\$99,441,843	\$ -	\$99,441,843

First Community Insurance Company

Statement of Income

December 31, 2017

Deductions:

Losses incurred	\$23,087,179
Loss expenses incurred	7,131,473
Other underwriting expenses incurred	19,450,221
Total underwriting deductions	<u>\$49,668,873</u>
Net underwriting gain or (loss)	(\$5,064,776)

Investment Income

Net investment income earned	\$1,903,294
Net realized capital gains or (losses)	185,740
Net investment gain or (loss)	<u>\$2,089,034</u>

Other Income

Net gain or (loss) from agents' or premium balances charged off	(\$87,504)
Finance and service charges not included in premiums	179,032
Aggregate write-ins for miscellaneous income	83,702
Total other income	<u>\$175,230</u>

Net income before dividends to policyholders and before federal & foreign income taxes	(\$2,800,513)
Dividends to policyholders	0
Net Income, after dividends to policyholders, but before federal & foreign income taxes	(\$2,800,513)
Federal & foreign income taxes	<u>(683,221)</u>
Net Income	<u>(\$2,117,292)</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year	\$40,818,972
Net Income	(\$2,117,292)
Change in net unrealized capital gains or losses	16,293
Change in net deferred income tax	(677,401)
Change in non-admitted assets	(50,022)
Change in provision for reinsurance	9,000
Change in surplus as regards policyholders for the year	<u>(\$2,819,420)</u>
Surplus as regards policyholders, December 31 current year	<u>\$37,999,551</u>

First Community Insurance Company
Reconciliation of Capital and Surplus
December 31, 2017

No adjustments were made to surplus as regards policyholders as a result of the examination.

Capital/Surplus Changes During Examination Period

Surplus as regards policyholders December 31, 2012 per Examination			\$20,348,891
	Gain in Surplus	Loss in Surplus	
Net Income (loss)	\$18,589,760		
Change in net unrealized capital gain (loss)	\$28,046		
Change in net deferred income tax		\$1,066,409	
Change in non-admitted assets		\$8,577	
Change in provision for reinsurance	\$107,841		
 Total Gains and Losses	 <u>\$18,725,647</u>	 <u>\$1,074,986</u>	
 Net Increase/(Decrease) in surplus as regards policyholders			 <u>\$17,650,661</u>
 Surplus as regards policyholders December 31, 2017 per Examination			 <u><u>\$37,999,551</u></u>

COMMENTS ON FINANCIAL STATEMENT ITEMS

Liabilities

Losses and Loss Adjustment Expenses

Leslie Marlo, FCAS MAAA, Consulting Actuary of Madison Consulting Group, appointed by the Board, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2017, 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, Michael C. Dubin, FCAS, FSA, MAAA, FCA, of Baker Tilly Virchow Krause, LLP, reviewed the loss and loss adjustment expense work papers provided by the Company and he was in concurrence with this opinion.

Capital and Surplus

The amount of capital and surplus reported by the Company of \$37,999,551, exceeded the minimum of \$5,645,706 required by Section 624.408, Florida Statutes.

SUBSEQUENT EVENTS

Custodial Agreement

The Company maintained a custodial agreement with Northern Trust Company executed on June 5, 2007. The agreement did not comply with Rule 69O-143.042, Florida Administrative Code specifically clauses of Rule 69O-143.042, Florida Administrative Code. **Subsequent Event:** The Company provided an updated agreement effective September 13, 2018 that complied with Rule 69O-143.042, Florida Administrative Code.

Independent Auditor Engagement Letter

BDO's engagement letter contained an indemnification clause for the Company's GAAP and Statutory audits for the year ended December 31, 2017. This was not in compliance with Rule 69O-137.002(7)(a)2., Florida Administrative Code. **Subsequent Event:** BDO USA, LLP amended their 2017 engagement letter to remove the indemnification clause.

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, 2017, consistent with the insurance laws of the State of Florida.

Per examination annual financial statements, the Company's surplus as regards to policyholders was \$37,999,551 which exceeded the minimum of \$5,645,706 required by Section 624.408, Florida Statutes.

The following participated in the examination:

John Romano, CFE, CPA, CITP, CIA	Examiner-in-Charge	Baker Tilly Virchow Krause, LLP
Megan Jirsa	Participating Examiner	Baker Tilly Virchow Krause, LLP
Chris Prendergast	Participating Examiner	Baker Tilly Virchow Krause, LLP
Phil Schmoyer, CFE, CISA, AES	IT Specialist	Baker Tilly Virchow Krause, LLP
Michael Dubin, FCAS, FSA, MAAA, FCA	Actuarial Specialist	Baker Tilly Virchow Krause, LLP
Douglas Dee, ACAS, MAAA, ACA	Actuarial Specialist	Baker Tilly Virchow Krause, LLP
Dennis Schaefer, CISA	IT Specialist	Baker Tilly Virchow Krause, LLP
Jeff Rockwell	Examination Manager	Office
Paula Bowyer, APIR	Participating Examiner	Office
Chris Brown	Participating Examiner	Office

Respectfully submitted,



Brian Sewell, CFE, MCM
Chief Examiner
Florida Office of Insurance Regulation