

# CERTIFICATION

June 29, 2012

I, Bruce R. Ramage, Director of Insurance of the State of Nebraska, do hereby certify that the attached is a full and correct copy of

Report of Examination of Financial Condition

**FirstComp Insurance Company**  
as of

December 31, 2010

and is now on file and forming a part of the records of this Department.

I hereto subscribe my name under the seal of my office at Lincoln, Nebraska.



*Bruce R. Ramage*  
\_\_\_\_\_  
DIRECTOR OF INSURANCE

**FIRSTCOMP INSURANCE COMPANY**

**222 South 15<sup>th</sup> Street, Suite 1500 N**

**Omaha, Nebraska 68102**

**Report of Association**

**Financial Condition Examination**

**as of**

**December 31, 2010**

**States Participating**

**Delaware  
Illinois  
Nebraska  
Virginia**

**STATE OF NEBRASKA  
DEPARTMENT OF INSURANCE**

**JUN 29 2012**

**FILED**

## TABLE OF CONTENTS

| <u>Item</u>  | <u>Page</u> |
|--|-------------|
| Salutation .....   | 1           |
| Introduction.....  | 2           |
| Scope of Examination.....                                  | 3           |
| Description of Company:                                    |             |
| History .....  | 5           |
| Management and Control:                                    |             |
| Holding Company .....                                      | 6           |
| Shareholder.....   | 7           |
| Board of Directors .....                                   | 8           |
| Officers .....   | 9           |
| Committees of the Board.....                               | 9           |
| Transactions with Affiliates:                              |             |
| Managing General Agent Agreement .....                     | 10          |
| Revolving Credit Agreement .....                           | 11          |
| Investment Advisory Agreement .....                        | 11          |
| Consolidated Tax Allocation Agreement.....                 | 11          |
| Territory and Plan of Operation.....                       | 12          |
| Reinsurance:   |             |
| Assumed .....  | 13          |
| Ceded.....   | 14          |
| General .....  | 16          |
| Body of Report:  |             |
| Growth.....  | 16          |
| Financial Statements .....                                 | 16          |
| Examination Changes in Financial Statements .....          | 20          |
| Compliance with Previous Examination Recommendations ..... | 20          |
| Commentary on Current Examination Findings:                |             |
| Investments – Custodial Agreement .....                    | 21          |
| Summary of Comments and Recommendations.....               | 21          |
| Acknowledgement .....                                      | 22          |

Omaha, Nebraska  
June 5, 2012

Honorable Joseph Torti, III  
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Superintendent of Insurance & Banking  
Rhode Island Division of Insurance  
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Cranston, Rhode Island 02920

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Chair, Northeastern Zone, NAIC  
Commissioner of Insurance  
Massachusetts Division of Insurance  
1000 Washington Street, 8<sup>th</sup> Floor  
Boston, Massachusetts 02118

Honorable Jim L. Ridling  
Chair, Southeastern Zone, NAIC  
Commissioner of Insurance  
Alabama Department of Insurance  
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Montgomery, Alabama 36130

Honorable John M. Huff  
Chair, Midwestern Zone, NAIC  
Director of Insurance  
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Honorable Andrew Boron  
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Commissioner of Insurance  
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Bureau of Insurance  
1300 East Main Street  
Richmond, Virginia 23219

Honorable Bruce R. Range  
Director of Insurance  
Nebraska Department of Insurance  
941 "O" Street, Suite 400  
Lincoln, Nebraska 68508

Madams and Sirs:

Pursuant to your instructions and authorizations, pursuant to Neb. Rev. Stat. §44-5904 (1), an Association Examination has been conducted of the financial condition and business affairs of the

**FIRSTCOMP INSURANCE COMPANY**  
222 South 15th Street, Suite 1500 N  
Omaha, Nebraska 68102

(hereinafter also referred to as the "Company") and the report of such examination is respectfully presented herein.

### **INTRODUCTION**

The Company was last examined as of December 31, 2007, by the State of Nebraska, representing the Midwestern Zone, NAIC. The current financial condition examination covered the intervening period to and including the close of business on December 31, 2010, and incorporated such subsequent events and transactions as were deemed pertinent to this report. The State of Nebraska, representing the Midwestern Zone, NAIC, participated in the examination and the preparation of this report.

This examination was completed under coordination of the holding company group examination approach. Representatives from the Illinois Department of Insurance, the Delaware Insurance Department, and the Virginia Bureau of Insurance participated in the examination of Evanston Insurance Company and its affiliated insurance companies, including FirstComp Insurance Company. These companies benefit to a large degree from common management, systems and processes, and internal control and risk management functions that are administered at the consolidated or business unit level.

The actuarial and IT portions of the examination were performed by independent firms as contracted by the Illinois Department of Insurance. Merlino and Associates performed the actuarial review, and INS Services, Inc. performed the IT review. The results of these independent reviews were reviewed and deemed appropriate for the purposes of this examination.

### **SCOPE OF EXAMINATION**

This examination was conducted pursuant to and in accordance with both the NAIC Financial Condition Examiners Handbook and §44-5904(1) of the Nebraska Insurance Statutes. The Handbook requires that examiners plan and perform the examination 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. The 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.

A general review was made of the Company's operations and the manner in which its business has been conducted in order to determine compliance with statutory and charter provisions. Its history was traced and has been set out in this report under the caption, "Description of Company". All items pertaining to management and control were reviewed, including provisions for disclosures of conflicts of interest to the Board of Directors and the departmental organization of the Company. The Articles of Incorporation and By-Laws were reviewed, including appropriate filings of any changes or amendments thereto. The minutes of the meetings of the stockholders, Board of Directors, and committees held during the examination period were read and noted. Attendance at meetings, proxy information, elections of Directors and Officers, and approval of investment transactions were also noted.

The fidelity bond and other insurance coverages protecting the Company's property and interests were reviewed. Certificates of Authority to conduct the business of insurance in the various states were inspected and a survey was made of the Company's general plan of operation.

Data reflecting the Company's growth during the period under review is reflected in the financial section of this report under the caption "Body of Report".

The Company's reinsurance facilities were ascertained and noted, and have been commented upon in this report under the caption "Description of Company". Accounting records and procedures were tested to the extent deemed necessary through the risk-focused examination process. Additionally, NAIC IRIS test results were reviewed for all years covered by this examination.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. The examination included a review of work papers prepared by KPMG, LLP, the Company's independent auditors, in their examination of the Company's accounts for the year ended December 31, 2010. The auditors' work papers were utilized to assist in determining the scope and areas of emphasis in conducting the examination. The aforementioned utilization of the auditors' work papers was performed pursuant to Title 210 (Rules of Nebraska Department of Insurance), Chapter 56, Section 013.

## **DESCRIPTION OF COMPANY**

### **HISTORY**

Financial American Insurance Company was incorporated under the laws of the State of Missouri on December 17, 1986, as a joint stock casualty insurance company. The Company commenced business on December 31 of that same year.

Financial American Insurance Company applied to the Director of Insurance of the State of Nebraska for approval to redomesticate to the state of Nebraska and simultaneously change its name to FirstComp Insurance Company. The Director approved said application on March 11, 1997. On March 13, 1997, the Nebraska Department of Insurance approved the Form A application of Aspen Holdings, Inc., to acquire control of the Company from First American Financial Corporation, a Missouri Corporation and sole shareholder of the Company.

On October 15, 2010, Markel Corporation, an insurance holding company based in Richmond, Virginia, acquired 100% of the issued and outstanding stock of Aspen Holdings, Inc., the parent of the Company. Aspen Holdings, Inc. has been renamed Markel Aspen, Inc. and remains the Company's sole shareholder.

## **MANAGEMENT AND CONTROL**

### **Holding Company**

The Company is a member of an insurance holding company system as defined by Nebraska Statute. An organizational listing, flowing from the ‘Ultimate Controlling Person’, as reported in the 2010 Annual Statement, is represented by the following (subsidiaries are denoted through the use of indentations, and unless otherwise indicated, all subsidiaries are 100% owned):

#### **Markel Corporation**

- Markel Service, Incorporated
- Markel Ventures, Inc.
- Essex Insurance Company
- Markel West, Inc.
- Associated International Insurance Company
- Markel Insurance Company
  - Deerfield Insurance Company
- Markel American Insurance Company
- Shand/Evanston Group, Inc.
  - Markel Midwest, Inc.
  - Evanston Insurance Company
- American Underwriting Managers Agency, Inc.
- Markel-Gayner Asset Management Corp.
- Markel Southeast, Inc.
- Markel Global Marine & Energy, Inc.
- Black/White & Associates Insurance Brokers
- Markel Aspen , Inc.
  - FirstComp Insurance Company
  - FirstComp Underwriters Group, Inc.
  - FirstComp Insurance Agency, Inc.
  - REX, Inc.
    - Risk Exchange Insurance Services, Inc.
  - Banyan Re, Inc.
  - Pinebrook Insurance Group, Inc.
  - Employer Pipeline, Inc.
- Markel Capital Holdings Limited
  - Terra Nova (Bermuda) Holdings Ltd.
  - Markel International Limited (81%)
  - Markel International Insurance Company Limited
- Terra Nova (Bermuda) Insurance Company Ltd.

Markel Capital Limited  
Lloyd's Syndicate #3000  
Markel International Insurance Company Limited (19%)

**Shareholder**

The Second Amended and Restated Articles of Incorporation, approved by the Nebraska Department of Insurance and filed with the Secretary of State of the State of Nebraska on May 15, 1997, provide that, "the aggregate number of shares which the Company shall have authority to issue shall be Fifteen Thousand (15,000) shares of a par value of One Hundred Dollars (\$100) each, amounting in the aggregate to One Million Five Hundred Thousand Dollars (\$1,500,000)."

By written consent of the members of the Company's Board of Directors and the sole shareholder, on June 5, 1998, Article V was amended to reduce the par value of the Company's stock to Sixty-six Dollars and Sixty-seven cents (\$66.67). The aggregate amount of capital was thereby reduced to One Million Fifty Dollars (\$1,000,050). This amendment was approved by the Nebraska Department of Insurance and filed with the Secretary of State of the State of Nebraska on June 8, 1998.

By written consent of the members of the Company's Board of Directors and the sole shareholder, on July 14, 2003, Article V was amended to restore the par value of the Company's stock to One Hundred Dollars (\$100.00). The aggregate amount of capital was thereby restored to One Million Five Hundred Thousand Dollars (\$1,500,000). This amendment was approved by the Nebraska Department of Insurance and filed with the Secretary of State of Nebraska on August 7, 2003.

A cash dividend of \$13,700,000 was paid to Aspen Holding, Inc., the parent of the Company, on December 30, 2009. No other dividends have been paid during the period under examination.

On December 23, 2010, Markel Corporation, the ultimate controlling person, completed a capital contribution to the Company in the amount of \$31,493,550 in the form of equities and bonds. This capital contribution brought the total of paid-in surplus to \$65,297,956.

The Second Amended and Restated Articles of Incorporation and the Amended and Restated By-Laws provide that, “annual meetings of shareholders of the Company shall be held at the Home Office of the Company on or before the 30<sup>th</sup> day of June in each and every calendar year for the election of the required members of the Board of Directors and the transaction of any other business as may properly come before the shareholders for their action.”

### **Board of Directors**

The Company’s Amended and Restated By-Laws provide that, “the Board of Directors shall consist of no fewer than five persons and shall be elected at the annual meeting of the shareholders.”

The following persons were serving as Directors at December 31, 2010:

| <b><u>Name and Residence</u></b>             | <b><u>Principal Occupation</u></b>   |
|--|--|
| Robert N. Phaneuf<br>Lutz, Florida           | Chairman of the Company, Vice President and Chief Risk Officer of Markel Aspen, Inc. |
| Gerard Albanese Jr.<br>Richmond, Virginia    | Executive Vice President of Markel Corporation                                       |
| Francis M. Crowley<br>Richmond, Virginia     | President and Co-Chief Operating Officer of Markel Corporation                       |
| Britton L. Glisson<br>Doswell, Virginia      | Chief Administrative Officer of Markel Corporation                                   |
| Stephen P. Letak<br>Waterloo, Nebraska       | Treasurer of the Company and Chief Financial Officer of Markel Aspen, Inc.           |
| Steven A. Markel<br>Richmond, Virginia       | Vice Chairman of Markel Corporation  |
| Richard R. Whitt III<br>Glen Allen, Virginia | President and Co-Chief Operating Officer of Markel Corporation                       |

**Name and Residence****Principal Occupation**

Luke W. Yeransian  
Coconut Creek, Florida

President of the Company and Markel Aspen, Inc.

Luke Yeransian and Robert Phaneuf subsequently resigned as Directors in February 2012.

**Officers**

The Company's Second Amended and Restated Articles of Incorporation states that, "Officers of the Company shall consist of a President, a Vice President, a Secretary/Treasurer, who shall be elected by the Board of Directors by and from their number at its annual stated meeting."

The following is a partial listing of Senior Officers elected and serving the Company at December 31, 2010:

**Name****Office**

Luke W. Yeransian  
Robert N. Phaneuf

President  
Chairman of the Board, Vice President & Chief Risk Officer

Chad C. Bertucci  
D. Michael Jones  
Christopher J. Reichert  
Anne G. Waleski

Vice President  
Vice President & Assistant Secretary  
Vice President  
Vice President & Assistant Treasurer

Linda S. Rotz  
Stephen P. Letak

Secretary  
Treasurer

Deidre D. Balbuena  
Robin Russo

Assistant Vice President  
Assistant Vice President

James P. Arnold  
Leigh Snow

Assistant Secretary & Chief Administrative Officer  
Assistant Secretary

Kathleen A. Sturgeon  
April L. Duff

Assistant Secretary  
Assistant Treasurer

Richard T. Magsam

Assistant Treasurer

**Committees of the Board**

The Company's Amended and Restated By-Laws provide that, "the Board may appoint such committees as may in its judgment be necessary." Since the purchase by Markel Corporation,

the Markel Investment Committee will serve as the Investment Committee for the Company and all affiliated companies. Members serving on the Investment Committee at December 31, 2010 were:

|                        |               |                      |
|------------------------|---------------|----------------------|
| Steve Markel, Chairman | Richie Whitt  | Betty Goldstein      |
| Tom Gayner             | Britt Glisson | Joanne Cichon-Feeney |
| Andy Davies            |               |                      |

## **TRANSACTIONS WITH AFFILIATES**

### **Managing General Agent Agreement**

The Company entered into a Managing General Agent Agreement with FirstComp Underwriters Group, Inc. (FCUG), effective August 1, 2006 and amended and restated effective March 17, 2009. Under terms of the agreement, the Company agrees to purchase, from FCUG, services required to operate. Services include, but are not limited to: program set-up, pricing, customized underwriting, policy issuance, policy maintenance, loss control, billings and collections, claims management, marketing and agency production services, and other administrative or management services deemed appropriate.

This agreement serves to appoint FCUG as the Company's exclusive insurance services representative, managing general agent, and claims manager. The Company shall reimburse FCUG for direct and indirect services including, but not limited to: claim administration and adjudication, loss prevention and control, anti-fraud reporting, statistical reporting, and supervisory and management services. For the services of solicitation, placement, renewal, and servicing of insurance policies and contracts, FCUG shall withhold a commission of 12.5 percent of gross premium collected. This commission may be adjusted annually and shall include expenses paid for overhead such as rent, utilities, and normal operating expenses.

### **Revolving Credit Agreement**

The Company entered into a Revolving Credit Agreement with its parent, Markel Corporation, on September 13, 2010, whereby Markel Corporation will lend the Company, from time to time, up to 25% of its policyholder surplus as of the preceding December 31. Any borrowings will bear interest at a prime rate announced by SunTrust Bank. It is anticipated that any loans under the agreement will not remain outstanding for more than 90 days. The agreement may be terminated by either party upon 30 days written notice.

### **Investment Advisory Agreement**

The Company entered into an Investment Advisory Agreement with its affiliate, Markel-Gayner Asset Management Corporation (Markel-Gayner), on November 1, 2010, effective October 15, 2010. Under terms of the agreement, the Company agrees to purchase, from Markel-Gayner, investment services. These services include the continuous review of the Company's entire debt and equity investment portfolio, determination of securities to be transacted, and what portion of the Company's portfolio should be maintained in a cash position. Markel-Gayner shall adhere to the Company's investment policies and guidelines. For the investment services provided, Markel-Gayner shall withhold a commission of 1 percent of the portfolio's market value.

### **Consolidated Tax Allocation Agreement**

The Company entered into a Consolidated Tax Allocation Agreement with its parent, Aspen Holdings, Inc., on December 1, 2004, providing for the filing of a consolidated income tax return for the tax year 2004 and subsequent years. The agreement establishes the method for calculating payment by both the subsidiary and the parent equal to the payment ratio each would have been obligated to pay to the Internal Revenue Service had separate returns been filed. A tax

allocation report is to be distributed within 15 days following completion of the allocation of taxes for each calendar quarter.

Subsequent to the purchase of Aspen Holdings, Inc. by Markel Corporation on October 15, 2010, a new tax sharing agreement was entered; however, the provisions of the agreement remained unchanged from the previous agreement. Each Company continues to calculate their tax payment as an individual entity.

### **TERRITORY AND PLAN OF OPERATION**

As evidenced by current or continuous Certificates of Authority, as of December 31, 2010, the Company was authorized to conduct the business of insurance in the following states:

|               |                |                |
|---------------|----------------|----------------|
| Arizona       | Arkansas       | Colorado       |
| Connecticut   | Georgia        | Hawaii         |
| Idaho         | Indiana        | Iowa           |
| Kansas        | Minnesota      | Mississippi    |
| Missouri      | Nebraska       | Nevada         |
| New Hampshire | New Mexico     | North Carolina |
| Oklahoma      | Oregon         | Pennsylvania   |
| Rhode Island  | South Carolina | South Dakota   |
| Tennessee     | Virginia       | West Virginia  |

The Company is a direct writer of workers' compensation and employers' liability insurance, with all underwriting and marketing performed by employees of affiliated companies.

In several other states where the Company is not authorized, FirstComp Underwriters Group, Inc. sells policies through other insurers as part of a managing general agent agreement, which the Company then assumes back a portion of via quota share reinsurance agreements. The Company also uses this arrangement in the states where policyholders would require an A.M. Best "A level" rating. Effective July 1, 2011, the Company and its affiliates are no longer engaged in any active agreements with non-affiliated insurance companies for premium production.

The Company's strategy is to market workers' compensation and employers' liability insurance primarily to employers that, because of their small size or other non-experience related characteristics, find themselves without viable voluntary market options. Without these options, the employers typically find themselves in the "involuntary" or "residual" market.

The Company's marketing and distribution strategy is intended to result in the distribution of its product through a large net of independent agents that, by virtue of their size (small) and location (rural) are grossly underserved by larger multi-line insurance carriers. The Company's experience has demonstrated the ability to successfully market through this segment of the independent agent community for several reasons. First, the Company offers small agencies a new market for workers' compensation insurance that understands and embraces the needs of the small agency. Second, the Company does not impose minimum volume requirements on its producers. Last, the Company focuses largely on providing workers' compensation products to underserved rural agents who lack viable voluntary workers' compensation markets.

The agency force is under the direction of the Vice President of Sales, Greg Donsbach. At year-end, 2010, the Company's distribution network contained 8,052 independent agencies nationwide. The Company has satellite claims offices in Henderson, Nevada, Tampa, Florida, and Cranston, Rhode Island.

## **REINSURANCE**

### **Assumed**

The Company entered into a quota share arrangement with Republic Underwriters Insurance Company (Republic) to assume 20% of California business placed with a Republic

Group company, Southern Insurance Company, by FirstComp Insurance Agency, Inc. effective May 1, 2009 and to assume 30% of the same business effective July 1, 2010.

The Company entered into a quota share arrangement with Republic to assume 30% of business outside of California placed with Republic Group companies (Southern Insurance Company, Southern Vanguard Insurance Company, Republic Underwriters Insurance Company, and Republic Fire and Casualty Insurance Company) by FirstComp Underwriters Group (FCUG). Separate contracts were entered into under these general terms effective July 1, 2007; July 1, 2008; July 1, 2009; and July 1, 2010.

The Company assumes business through a mandatory insurance pool established by member states of the National Council on Compensation Insurance (NCCI) along with separate mandatory insurance pools established in the states of Indiana and Mississippi which are not members of the NCCI.

### **Ceded**

The Company had three layers of Excess of Loss Reinsurance in effect at December 31, 2010 covering its business. These agreements indemnify the Company for ultimate net losses, including adjustment and legal expenses, in excess of its \$1,000,000 retention as follows:

The First Layer provided \$9,000,000 in excess of \$1,000,000 each occurrence, with a \$9,000,000 annual terrorism limit. The Second Layer provided \$10,000,000 in excess of \$10,000,000 each occurrence, with a \$20,000,000 annual terrorism limit. The Third Layer provided \$30,000,000 in excess of \$20,000,000 each occurrence. This contract provides for reinstatement of such limits, not to exceed \$30,000,000 in respect to any one occurrence nor \$60,000,000 during any one agreement year.

The Company entered into separate agreements titled Residual Market Workers Compensation Facility Contracts to cede 100% of the business assumed from the National Worker's Compensation Reinsurance Pool. Contracts were entered into effective January 1, 2008; January 1, 2009; and January 1, 2010 to cede all of this business to third party reinsurers. Beginning January 1, 2011 these contracts were not renewed.

The Company entered into a quota share reinsurance agreement with Banyan Re Ltd., an affiliated Bermuda company, effective September 1, 2006. Under this contract, the Company ceded 30% of the net liabilities and obligations for losses under the Company's workers' compensation policies, contracts and binders of insurance or reinsurance produced, issued, assumed, underwritten and administered by the Company. This contract was amended several times in order to adjust the quota share percentage as follows: the original 30% from September 1, 2006 to May 31, 2007; 15% from June 1, 2007 to September 30, 2007; 5% from October 1, 2007 to December 31, 2007; 20% from January 1, 2008 to July 31, 2009; 35% from August 1, 2009 to January 31, 2010; and 10% from February 1, 2010 to November 1, 2010. The Company was the beneficiary under a trust agreement providing pledged assets, held under such agreement by First National Bank of Omaha, Nebraska, to cover the liabilities ceded to Banyan Re Ltd.

Subsequent to the exam period, this agreement and all related amendments was novated to Evanston Insurance Company (Evanston) effective April 1, 2011.

The Company entered into a quota share agreement with Evanston, an affiliate, effective November 1, 2010. Under this contract, Evanston will assume 50% of the Company's original net retention or original assumed participation on business underwritten or managed by FCUG. The Company will receive no ceding commission and all costs incidental to the writing of the ceded business will be shared proportionately.

## **General**

All contracts reviewed were, among other items, inspected for insolvency, arbitration, and errors and omissions clauses where applicable, and such clauses were deemed acceptable by the Nebraska Department of Insurance.

## **BODY OF REPORT**

### **GROWTH**

The following comparative data reflects the growth of the Company during the period covered by this examination:

|  | <b><u>2008</u></b> | <b><u>2009</u></b> | <b><u>2010</u></b> |
|--|--------------------|--------------------|--------------------|
| Admitted assets                              | \$243,376,132      | \$243,718,383      | \$299,239,681      |
| Losses                                       | 97,222,249         | 93,931,075         | 127,795,460        |
| Loss adjustment expenses                     | 23,225,969         | 24,448,715         | 33,429,980         |
| Unearned premiums                            | 43,179,774         | 47,919,348         | 50,899,629         |
| Total liabilities                            | 183,588,699        | 190,709,409        | 231,561,336        |
| Common capital stock                         | 1,500,000          | 1,500,000          | 1,500,000          |
| Paid in surplus                              | 33,804,406         | 33,804,406         | 65,297,956         |
| Unassigned surplus                           | 24,483,027         | 17,704,568         | (1,255,617)        |
| Premiums earned                              | 107,555,697        | 93,459,073         | 114,872,298        |
| Losses and loss adjustment expenses incurred | 79,640,024         | 69,882,184         | 108,370,253        |
| Net underwriting gain (loss)                 | (3,400,221)        | (7,088,088)        | (31,455,487)       |
| Net investment gain                          | 6,611,170          | 7,124,624          | 6,084,279          |
| Net income (loss)                            | 367,400            | (946,282)          | (17,945,938)       |

### **FINANCIAL STATEMENTS**

The following statement of admitted assets and liabilities, together with the accompanying summary of operations, reflects the financial condition of the Company at December 31, 2010 and its transactions for the year 2010 as determined through this examination. A reconciliation of the capital and surplus account for the period under review is

also included. Any failure of items to add to the totals shown in schedules and exhibits appearing throughout this report is due to rounding.

**FINANCIAL STATEMENT**  
**DECEMBER 31, 2010**

**Assets**

|   | <b><u>Assets</u></b> | <b>Nonadmitted<br/><u>Assets</u></b> | <b>Net Admitted<br/><u>Assets</u></b> |
|---|----------------------|--------------------------------------|---------------------------------------|
| Bonds   | \$118,506,255        |                                      | \$118,506,255                         |
| Common stocks                                       | 43,278,096           |                                      | 43,278,096                            |
| Cash and short-term investments                     | <u>66,768,214</u>    | <u>                    </u>          | <u>66,768,214</u>                     |
| Subtotals, cash and invested assets                 | \$228,552,565        |                                      | \$228,552,565                         |
| Investment income due and accrued                   | 1,489,045            |                                      | 1,489,045                             |
| Uncollected premiums                                | 15,373,312           | \$ 890,391                           | 14,482,921                            |
| Deferred premiums                                   | 37,849,043           | 331,540                              | 37,517,503                            |
| Amounts recoverable from reinsurers                 | 891,181              |                                      | 891,181                               |
| Funds held by reinsured companies                   | 1,043,005            |                                      | 1,043,005                             |
| Federal income tax recoverable                      | 7,128,614            |                                      | 7,128,614                             |
| Net deferred tax asset                              | 11,672,121           | 5,264,102                            | 6,408,019                             |
| Guaranty funds receivable or on deposit             | 175,386              |                                      | 175,386                               |
| Receivable from parent, subsidiaries and affiliates | 367,825              |                                      | 367,825                               |
| Claims clearing                                     | 1,183,617            |                                      | 1,183,617                             |
| Prepaid fees and deposits                           | <u>5,600</u>         | <u>5,600</u>                         | <u>                    </u>           |
| Total   | <u>\$305,731,314</u> | <u>\$6,491,633</u>                   | <u>\$299,239,681</u>                  |

**Liabilities, Surplus and Other Funds**

|   |                      |
|---|----------------------|
| Losses  | \$127,795,460        |
| Reinsurance payable on loss and loss adjustment expenses              | 1,839,977            |
| Loss adjustment expenses  | 33,429,980           |
| Commissions payable, contingent commissions and other similar charges | 4,137,174            |
| Other expenses  | 3,003,970            |
| Taxes, licenses and fees  | 2,436,193            |
| Unearned premiums   | 50,899,629           |
| Advance premiums  | 829,508              |
| Ceded reinsurance premiums payable                                    | 5,972,447            |
| Amounts withheld or retained by company for account of others         | 47,753               |
| Refunds and overpayments  | <u>1,169,245</u>     |
| <br>  |                      |
| Total liabilities   | <u>\$231,561,336</u> |
| <br>  |                      |
| Common capital stock  | \$ 1,500,000         |
| Gross paid in and contributed surplus                                 | 65,297,956           |
| SSAP 10R additional DTA   | 2,136,006            |
| Unassigned funds  | <u>(1,255,617)</u>   |
| <br>  |                      |
| Total surplus   | <u>\$ 67,678,345</u> |
| <br>  |                      |
| Total liabilities, surplus and other funds                            | <u>\$299,239,681</u> |

## STATEMENT OF INCOME - 2010

### Underwriting Income

|                                      |                        |
|--------------------------------------|------------------------|
| Premiums earned                      | <u>\$114,872,298</u>   |
| Deductions:                          |                        |
| Losses incurred                      | \$ 85,305,753          |
| Loss expenses incurred               | 23,064,500             |
| Other underwriting expenses incurred | <u>37,957,532</u>      |
| Total underwriting deductions        | <u>\$146,327,785</u>   |
| Net underwriting gain or (loss)      | <u>\$ (31,455,487)</u> |

### Investment Income

|                                     |                     |
|-------------------------------------|---------------------|
| Net investment income earned        | \$ 4,469,076        |
| Net realized capital gains (losses) | <u>1,615,203</u>    |
| Net investment gain or (loss)       | <u>\$ 6,084,279</u> |

### Other Income

|   |                        |
|---|------------------------|
| Net gain or (loss) from agents' or premium balances charged off | \$ (2,162,181)         |
| Finance and service charges not included in premiums            | 877,207                |
| Late fees and NSF charges                                       | <u>738,494</u>         |
| Total other income  | <u>\$ (546,480)</u>    |
| Net income before federal income taxes                          | \$ (25,917,688)        |
| Federal income taxes incurred                                   | <u>(7,971,750)</u>     |
| Net income  | <u>\$ (17,945,938)</u> |

## CAPITAL AND SURPLUS ACCOUNT

|  | <u>2008</u>         | <u>2009</u>          | <u>2010</u>          |
|--|---------------------|----------------------|----------------------|
| Capital and surplus, beginning                     | <u>\$60,536,240</u> | <u>\$59,787,433</u>  | <u>\$ 53,008,974</u> |
| Net income   | \$ 367,400          | \$ (946,282)         | \$(17,945,938)       |
| Change in net unrealized capital gains or (losses) | (2,367,848)         | 1,497,564            | 611,662              |
| Change in net deferred income tax                  | 97,829              | 383,498              | 2,914,363            |
| Change in nonadmitted assets                       | 604,290             | 6,597,640            | (3,848,199)          |
| Change in provision for reinsurance                | 82,460              | (1,380)              | 1,964                |
| Dividends to stockholders                          |                     | (13,700,000)         |                      |
| Paid in surplus                                    |                     |                      | 31,493,550           |
| Prior year federal income tax                      | 467,062             |                      |                      |
| Prior period adjustment                            |                     |                      | 1,471,970            |
| Correction of error                                | _____               | (609,499)            | _____                |
| Net change for the year                            | <u>\$ (748,807)</u> | <u>\$(6,778,459)</u> | <u>\$ 14,669,371</u> |
| Surplus as regards policyholders, ending           | <u>\$59,787,433</u> | <u>\$53,008,974</u>  | <u>\$ 67,678,345</u> |

### EXAMINATION CHANGES IN FINANCIAL STATEMENTS

Unassigned funds (surplus) in the amount of \$(1,255,617), as reported in the Company's 2010 Annual Statement, has been accepted for purposes of this report.

### COMPLIANCE WITH PREVIOUS EXAMINATION RECOMMENDATIONS

Recommendations contained in the last previous report of examination are reflected below together with the remedial actions taken by the Company:

**Mandatory Workers Compensation Pools** – It is recommended that since these pools are “deemed settled” quarterly when statements are received, the Company should net the balance sheet amounts in Schedule F, Part 1 under column 12 and the corresponding asset caption, “Funds held by or deposited with reinsured companies.”

**Action:** The Company has complied.

**Affiliate Balances Reported in the Financial Statements** – It is recommended that the Company reclass the balances reported under the “Receivable from parent, subsidiaries,

and affiliates” caption in the financial statements to the appropriate balance sheet accounts to more accurately report these transactions.

**Action:** The Company has complied.

**Managing General Agent Agreement** – It is recommended that the Company 1) create an account in its own name from which claims will be paid and 2) obtain monthly statements from FCUG providing the information necessary to support all commissions, charges, and other fees received by, or owing to, FCUG in order to comply with its Managing General Agent Agreement.

**Action:** The Company has complied

## **COMMENTARY ON CURRENT EXAMINATION FINDINGS**

### **Investments – Custodial Agreement**

During review of the custodial agreements, it was noted that the Company’s agreement with The Northern Trust Company was not in compliance with all of the provisions of Title 210, Chapter 81 of the Nebraska Department of Insurance Rules and Regulations, in particular 003.02(e) and (j). It is recommended that the Company revise its custodial agreement to include all provisions related to safeguards and controls of securities pursuant to Title 210 (Nebraska Department of Insurance Rules and Regulations), Chapter 81.

## **SUMMARY OF COMMENTS AND RECOMMENDATIONS**

- 1. Investments – Custodial Agreements** – It is recommended that the Company revise its custodial agreement with the custodian holding securities on its behalf to include all provisions related to safeguards and controls of securities pursuant to Title 210 (Nebraska Department of Insurance Rules and Regulations), Chapter 81.

## ACKNOWLEDGEMENT

The courtesy and cooperation extended by the Officers and employees of the Company is hereby acknowledged.

In addition to the undersigned, Brian J. Davis, Wake B. Fleischacker, Elizabeth I. Hofker, Erin E. Marsh, Kim L. Shannon, and Kevin L. Stubbs, Financial Examiners, and Bill R. Schmid, Information Systems Specialist, all with the Nebraska Department of Insurance, and Financial Examiners, Information Systems Specialists, and Actuarial Examiners with or contracted by the Illinois Department of Insurance, the Delaware Insurance Department, and the Virginia Bureau of Insurance, participated in this examination and assisted in the preparation of this report.

Respectfully submitted,



---

Isaak J. Russell, CFE  
Supervisory Examiner  
Department of Insurance  
State of Nebraska

State of Nebraska,

County of Lancaster,

ISAAC RUSSELL, being duly sworn, states as follows:

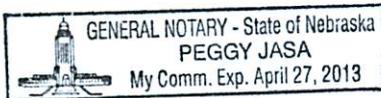
1. I have authority to represent the Department of Insurance of the State of Nebraska in the examination of FirstComp Insurance Company.
2. The Department of Insurance of the State of Nebraska is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
3. I have reviewed the examination work papers and examination report, and the examination of FirstComp Insurance Company was performed in a manner consistent with the standards and procedures required by the Department of Insurance of the State of Nebraska.

The affiant says nothing further.

[Signature]  
Examiner-in-Charge's Signature

Subscribed and sworn before me by ISAAC RUSSELL on this 29 day of JUNE, 2012.

(SEAL)



[Signature]  
Notary Public

My commission expires 4-27-2013 [date].

Mr. Justin C. Schrader, CFE  
Deputy Chief Examiner  
State of Nebraska  
Department of Insurance  
941 "O" Street  
Suite 400  
Lincoln, NE 68501

RE: Director Affidavit on Receipt of Examination Report of

Firstcomp Insurance Company

as of December 31, 2010.

I, Britton Lee Glisson, a Director of

Firstcomp Insurance Company

hereby state that I have received a copy of the filed Report of Examination, the Finalized Management Letter, and the Company Response to Management Letter for the Report of Examination as of December 31, 2010.



Britton Lee Glisson

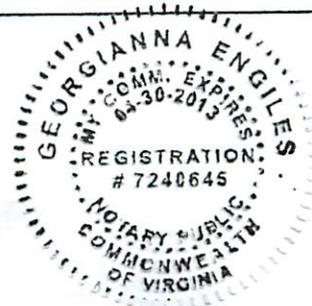
Signature

Subscribed and sworn to before me on this 22 day of  
August, 20 12.



Georgianna Engles

Notary Public



Board of Directors Affidavit

Mr. Justin C. Schrader, CFE  
Deputy Chief Examiner  
State of Nebraska  
Department of Insurance  
941 "O" Street  
Suite 400  
Lincoln, NE 68501

RE: Director Affidavit on Receipt of Examination Report of

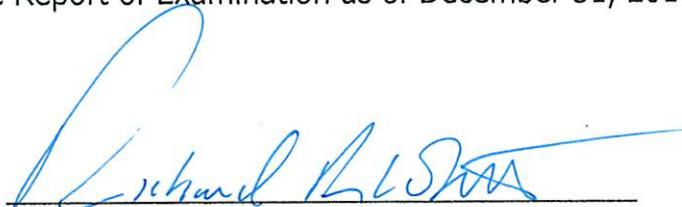
Firstcomp Insurance Company

as of December 31, 2010.

I, Richard Reeves Whitt, III, a Director of

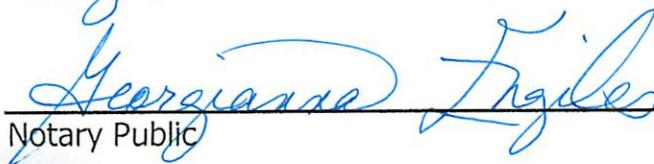
Firstcomp Insurance Company

hereby state that I have received a copy of the filed Report of Examination, the Finalized Management Letter, and the Company Response to Management Letter for the Report of Examination as of December 31, 2010.

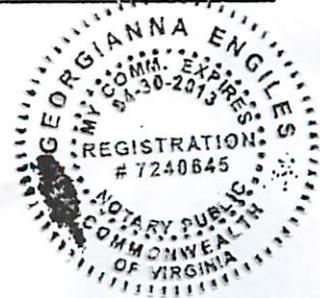


Richard Reeves Whitt, III                      Signature

Subscribed and sworn to before me on this 22 day of  
August, 20 12.



Notary Public



Mr. Justin C. Schrader, CFE  
Deputy Chief Examiner  
State of Nebraska  
Department of Insurance  
941 "O" Street  
Suite 400  
Lincoln, NE 68501

RE: Director Affidavit on Receipt of Examination Report of

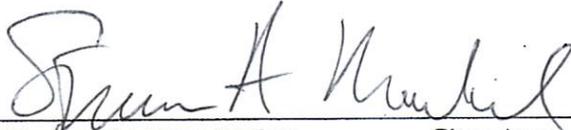
Firstcomp Insurance Company

as of December 31, 2010.

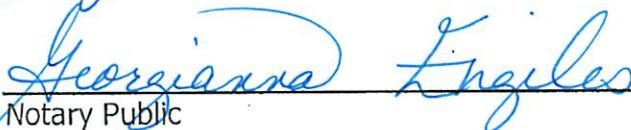
I, Steven Andrew Markel, a Director of

Firstcomp Insurance Company

hereby state that I have received a copy of the filed Report of Examination, the Finalized Management Letter, and the Company Response to Management Letter for the Report of Examination as of December 31, 2010.

  
Steven Andrew Markel Signature

Subscribed and sworn to before me on this 22 day of  
August, 20 12.

  
Georgianna Engiles  
Notary Public

Board of Directors Affidavit



Mr. Justin C. Schrader, CFE  
Deputy Chief Examiner  
State of Nebraska  
Department of Insurance  
941 "O" Street  
Suite 400  
Lincoln, NE 68501

RE: Director Affidavit on Receipt of Examination Report of

Firstcomp Insurance Company

as of December 31, 2010.

I, Stephen Paul Letak, a Director of

Firstcomp Insurance Company

hereby state that I have received a copy of the filed Report of Examination, the Finalized Management Letter, and the Company Response to Management Letter for the Report of Examination as of December 31, 2010.

  
Stephen Paul Letak Signature

Subscribed and sworn to before me on this 22<sup>nd</sup> day of August, 20 12.

Michaela A. Piller  
Notary Public



Board of Directors Affidavit

Mr. Justin C. Schrader, CFE  
Deputy Chief Examiner  
State of Nebraska  
Department of Insurance  
941 "O" Street  
Suite 400  
Lincoln, NE 68501

RE: Director Affidavit on Receipt of Examination Report of

Firstcomp Insurance Company

as of December 31, 2010.

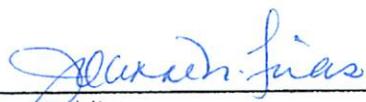
I, Gerard Albanese, Jr., a Director of

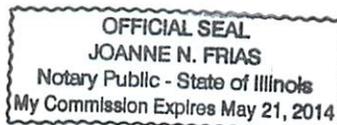
Firstcomp Insurance Company

hereby state that I have received a copy of the filed Report of Examination, the Finalized Management Letter, and the Company Response to Management Letter for the Report of Examination as of December 31, 2010.

  
Gerard Albanese, Jr. Signature

Subscribed and sworn to before me on this 21<sup>st</sup> day of  
August, 20 12.

  
Joanne N. Frias  
Notary Public



Board of Directors Affidavit

Mr. Justin C. Schrader, CFE  
Deputy Chief Examiner  
State of Nebraska  
Department of Insurance  
941 "O" Street  
Suite 400  
Lincoln, NE 68501

RE: Director Affidavit on Receipt of Examination Report of

Firstcomp Insurance Company

as of December 31, 2010.

I, Matthew Holmes Parker, a Director of

Firstcomp Insurance Company

hereby state that I have received a copy of the filed Report of Examination, the  
Finalized Management Letter, and the Company Response to Management Letter  
for the Report of Examination as of December 31, 2010.

  
Matthew Holmes Parker      Signature

Subscribed and sworn to before me on this 24<sup>th</sup> day of  
August, 2012.

  
Notary Public

My Commission Expires April 04, 2015

Board of Directors Affidavit

Mr. Justin C. Schrader, CFE  
Deputy Chief Examiner  
State of Nebraska  
Department of Insurance  
941 "O" Street  
Suite 400  
Lincoln, NE 68501

RE: Director Affidavit on Receipt of Examination Report of

Firstcomp Insurance Company

as of December 31, 2010.

I, Francis Michael Crowley, a Director of

Firstcomp Insurance Company

hereby state that I have received a copy of the filed Report of Examination, the Finalized Management Letter, and the Company Response to Management Letter for the Report of Examination as of December 31, 2010.

  
Francis Michael Crowley Signature

Subscribed and sworn to before me on this 28 day of  
August, 20 12.

  
Notary Public

Board of Directors Affidavit

