the POWER of PURPOSE

2012 Annual Report

FCCI®

Introduction

FCCI Insurance Group provides commercial property and casualty insurance. We protect business, property and people, and we provide partnerships that allow businesses to grow and succeed, knowing risks are managed and claims will be resolved fairly.

Knowing our purpose gives us a guide for every action and decision we make. It guides us as we resolve claims appropriately and efficiently, as we achieve new milestones in customer service and in financial performance, as we expand our business both geographically and by offering new products, and as we continually strengthen our agency partnerships.

By working together and sharing the power of purpose, we remain financially strong, focused on the future and committed to serving our policyholders and agents.

The Power of Purpose
2012 FCCI Annual Report

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From Craig Johnson, President & CEO

“ ”

I’m honored to be leading FCCI during this period, and I’m grateful to have every one of our agency partners, producers, policyholders, directors and employees as part of the team.

FCCI has been in a period of modest growth for 54 years.

From the moment the first policy was signed, FCCI started on a path that would lead us to where we are now and into the future. It was a humble beginning, based on strong principles and a guiding purpose of being true to our word – “doing what we say we’ll do.”

In the past couple of years, the growth has been accelerated, and the rewards have been exciting. We are able to serve a wider range of our agents’ needs and reach more of their clients in more states. In fact, as of January 2013, we are writing business in 17 states – one third of the U.S.!

In 2012, we wrote $525.3 million in direct written premium, with profit totaling $29 million. We hit historic highs for FCCI with GAAP equity at $637 million and statutory surplus at $521 million. Our total assets exceed $1.8 billion. Despite the economic climate and thanks to the incredible work of our investment team, our investment portfolio has grown to $1.4 billion and our asset quality is consistently high.

A.M. Best recognized our ongoing financial and operational success by upgrading our Outlook to Positive and our Financial Size Category Class to X. This raised outlook represents our continually strengthening financial position and bodes well for what’s to come.

And aside from the numbers and the ratings, we did good work.

We’ve continued to build on the strong agency relationships that form the backbone of our business, becoming more meaningful to our agency partners in all of our regions and selecting top-notch agencies to partner with in our new states. We’ve increased our understanding of the markets we serve by expanding our local presence and field personnel in many areas and by listening to our Agents’ Advisory Councils and our producers. We’ve stayed true to the sound underwriting principles that have made FCCI a strong and stable insurer for more than half a century, and we’ve provided exceptional claims service to our policyholders and claimants.

Over the last few years, we have expanded into markets where our existing customers had a need, including Virginia, Maryland, Texas and Louisiana. We plan to enter Arkansas in the fourth quarter of 2013 and subsequently pause on additional state expansion, allowing our recent investments to “season.”

We believe in building our business around people and partners; one agent at a time, one account at a time. We understand the importance of having the appropriate alignment between people, technology and processes to ensure our customers’ service expectations are achieved.

We remain committed to the independent agent model, our mutual structure, making decisions on a local and regional basis, long-term financial strength and unparalleled customer service and focus.

As an organization, FCCI believes in doing the right thing. And I believe we’re doing it.

One of the things I’m most proud about is the charitable spirit of our employees. During 2012, they volunteered nearly 1,000 hours to serve and improve the lives of those less fortunate. It’s this kind of attitude and value system that makes FCCI so special.

With the power of purpose behind us and strong principles within each of us, I believe FCCI will continue to provide the level of service and personal attention we are known for. I’m honored to be leading FCCI during this period, and I’m grateful to have every one of our agency partners, producers, policyholders, directors and employees as part of the team.

Craig Johnson

The Power of Information

FCCI offers a full range of commercial property and casualty insurance products, including agribusiness, automobile, crime, general liability, inland marine, property, surety, umbrella and workers' compensation. Distributed exclusively through independent agents, our products help protect policyholders against loss, restore them to operation and provide for injured workers.

We harness the power of information to make sound underwriting decisions, prevent and minimize losses, manage claims appropriately, invest responsibly, and provide customer service focused on the details of each individual situation. The result is that we are well-positioned to meet our customers' needs, and we are able to adapt and evolve as those needs change.

Our policyholders have resolutely pursued success in their businesses regardless of the economic climate and other challenges. We are proud to back them with the protection of our financial strength and stability.

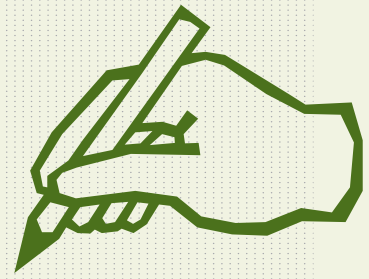
A.M. Best Rating
A- (Excellent) with a Positive Outlook
FINANCIAL SIZE CATEGORY X

$521 million
statutory surplus
historic high

Revenue

in millions

2009 $499.1
2010 $493.5
2011 $510.4
2012 $529.0



Direct Written Premium

2009 $471.8 million
2010 $461.4 million
2011 $472.7 million
2012 $525.3 million

$1.8 billion total assets

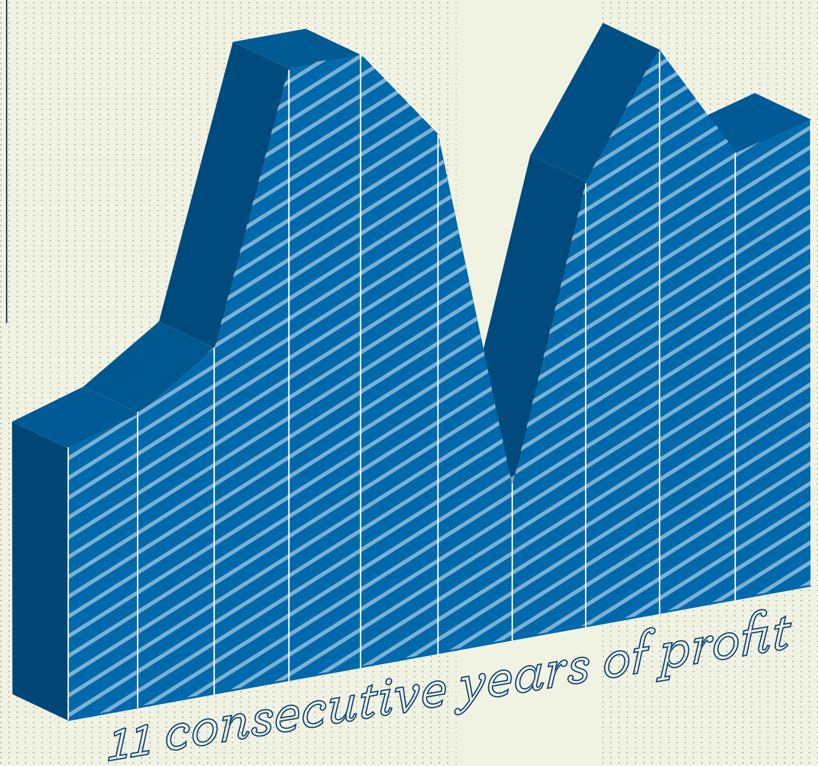
$1.4 billion investment portfolio

17,570 *policyholders*

9,075 bonded principals + 528 contracted agencies + 3,939 appointed producers

103.2% *GAAP combined ratio*

102.1% statutory ratio



Net Income

2002 $16.7 million
2003 $18.1 million
2004 $21.3 million
2005 $38.0 million
2006 $38.0 million
2007 $32.2 million
2008 $9.3 million
2009 $27.6 million
2010 $35.0 million
2011 $27.7 million
2012 $29.0 million

Members' Equity

in millions

2008 $451.9
2009 $504.4
2010 $549.8
2011 $589.2
2012 $637.2 historic high

The Power of Purpose
2012 FCCI Annual Report

The Power of Information (cont.)

Our commitment to financial strength is driven by our structure as a privately-held mutual insurance holding company and by our belief that financial stability is the key to serving our customers and keeping our commitments.

Financial prudence, conservative reserving and investing, and a disciplined, long-term approach to growth ensure that FCCI remains a strong and stable choice for our customers.

In each of our regions, we strive to achieve the same purpose and the same goals – excellence in financial, operational, ethical and safety performance – all while being attuned to local needs and characteristics.

Local presence makes a difference for our customers.

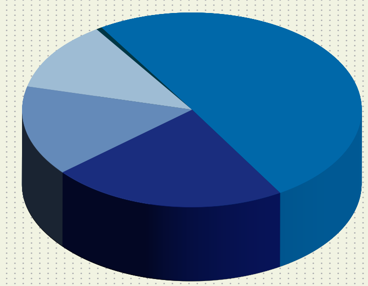
"Every one of our regions performed well in 2012, and that's because our customer agents and our service-oriented employees performed well together.

Our agents can pick up the phone and talk to someone they have a personal relationship with at FCCI and get prompt decisions made.

Those relationships are what makes FCCI strong."

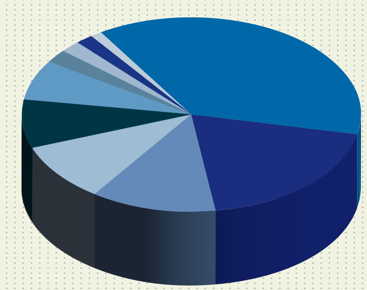
Rupe Willis, Executive Vice President & Chief Regional Officer

Direct Written Premium



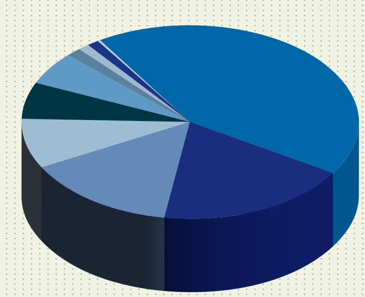
by region

Florida	50.4%
Southeast	22.6%
Midwest	14.9%
Gulf Coast	11.8%
Southwest	0.3%



by policyholder industry

Construction	37.3%
Manufacturing	19.5%
Agriculture	12.1%
Services	9.7%
Wholesale	7.9%
Retail	6.6%
Finance	2.4%
Transportation	2.0%
Other	1.5%
Surety	1.0%



by coverage type

Workers' compensation	42.8%
Automobile	18.7%
Multi-peril	14.8%
Liability	8.4%
Property	5.9%
Umbrella	5.6%
Farmowners	1.4%
Surety	1.2%
Inland marine	1.1%
Crime	0.1%

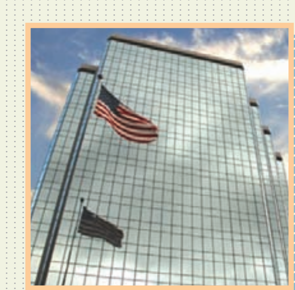
Chart percentages are based on direct written premium totaling $525,280,041.

Corporate Headquarters/ Florida Regional Office
6300 University Parkway
Sarasota, FL 34240
800-226-3224

Orlando Branch Office
610 Crescent Executive Court
Suite 210
Lake Mary, FL 32746
800-239-4778

Midwest Regional Office
12800 N. Meridian Street
Suite 200
Carmel, IN 46032
800-824-2513

Government Affairs Office
150 South Monroe Street
Tallahassee, FL 32301
800-224-9994



Southwest Regional Office
2435 N. Central Expressway
Suite 1000
Richardson, TX 75080
800-226-3224

Gulf Coast Regional Office
1020 Highland Colony Parkway
Suite 800
Ridgeland, MS 39157
800-530-7800

Southeast Regional Office
3175 Satellite Boulevard
Suite 200
Duluth, GA 30096
800-805-3737

The Power of Partnership

In moments of greatest need, our policyholders look to us to keep our word, to help restore their businesses, to compensate their losses, and to provide guidance.

In these same moments, our agents expect us to deliver on the promises we've made to their clients, to protect their reputations and client relationships, and to do the right thing.

And in these moments, for each of our employees, the power of purpose guides actions that make a difference.

One of these moments occurred for Janet Bowman, the General Manager of the Best Western Plus Ambassador Suites in Venice, Florida, on October 5, 2012. She arrived at work to find the fire department on site, guest rooms and halls flooded by a broken pool pump, and total confusion.

"I thought I would be in for a horrible day to say the least. Upon calling my agent, Chris O'Brien at Atlas, and FCCI, my worries were over," says Janet.

Wayne Camp-Bell, FCCI Senior Claim Adjuster, contacted the emergency water removal company already on site and joined them there to assess the situation. It was clear that after the dry-out, the rooms would require new flooring and other repairs. Wayne made sure the work proceeded as smoothly as possible.

"I was very satisfied with the results from both companies," says Janet. "I could see that I was dealing with very reputable people, and I'm so thankful Chris recommended FCCI."

FCCI's quick response was no surprise to Chris. He says, "In my 24 years of partnership with FCCI, I have always enjoyed a great relationship and excellent customer service. There's an ease of doing business with FCCI that gives me confidence recommending them to my clients."

For Wayne, it was just another day doing his best to set situations right. "Everything was resolved well, and that's what I like to see."

We can't right every situation so easily, but we pride ourselves on doing the right thing and putting people first. Our goal is to handle every claim promptly and fairly, and to make good on our promises.

For our policyholders, our purpose is being there when they need us.

Chris O'Brien of Atlas Insurance Agency and Janet Bowman, General Manager of the Best Western Plus Ambassador Suites Venice, show FCCI Senior Claim Adjuster Wayne Camp-Bell one of the completely restored guest rooms.

The Power of Partnership (cont.)

Our agents are a critical part of our success. They are the first to know what affects businesses in their communities. They help us determine the unique needs of every company we insure. They are our first line of representation and communication with our policyholders. And our policyholders were their clients first.

So we know when we write a policy, it's not just our name on the line, but theirs too.

Chairman's Club

Danny Anderson
Insurance Office of America
Longwood, Fla.

Ray Bouchard
Bouchard Insurance
Clearwater, Fla.

John Brabson
Lykes Insurance
Tampa, Fla.

Michael Brown
Ben Brown Insurance Agency
Sarasota, Fla.

John Graham
Graham-Naylor Agency
Marietta, Ga.

Bud Hornbeck
Lutgert Insurance
Naples, Fla.

Jon Loftin
MJ Insurance
Indianapolis, Ind.

Colin Lowe
Brown & Brown of Florida
Miami, Fla.

Cynthia Payne
CHAPP, Inc.
Dundee, Fla.

Bill Pridgeon
Hylant Group
Toledo, Ohio

Earl Rausch
Risk Management Insurance
Fort Myers, Fla.

Keith Stone
Gibson
South Bend, Ind.

Jerry Veazey, Jr.
Fisher Brown Bottrell Insurance
Jackson, Miss.

Mike Welch
Commercial Insurance Marketing
Sarasota, Fla.

LaVerne Wicks
Brown & Brown of Florida
Fort Myers, Fla.

President's Club

Associates Insurance Agency
Temple Terrace, Fla.

Atlantic Pacific Insurance
Palm Beach Gardens, Fla.

Atlas Insurance Agency
Sarasota, Fla.

BB&T/J. Rolfe Davis Insurance
Maitland, Fla.

Bernard Williams & Company
Savannah, Ga.

Brown & Brown of Florida
Fort Lauderdale, Fla.

Frank H Furman Insurance
Pompano Beach, Fla.

Gulfshore Insurance
Naples, Fla.

The Horton Group
Orland Park, Ill.

Innovative Insurance Consultants
Coral Springs, Fla.

Insurance and Risk Managers
Brookhaven, Miss.

J. L. Hubbard Insurance and Bonds
Forsyth, Ill.

Keyes Coverage
Tamarac, Fla.

Mike Ledkins Insurance Agency
Thomasville, Ala.

Premier Insurance Corp.
Cape Coral, Fla.

Ross & Yerger Insurance
Jackson, Miss.

Sihle Insurance Group
Altamonte Springs, Fla.

SouthGroup Insurance Services
Ridgeland, Miss.

Stahl & Associates
St. Petersburg, Fla.

Yates Insurance Agency
Atlanta, Ga.

For our agents, our purpose is being a partner they can count on.

35 Years and Counting

Having known and worked together for 35 years, Tom Quaka and Jerry Veazey, Jr., have the type of long-term partnership FCCI strives to create with our agents. Jerry is now a member of FCCI's Chairman's Club, but Tom remembers when they were both just starting out.

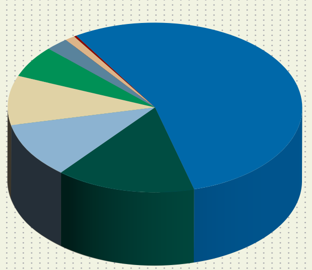
"Jerry and I go back to the time when he was a 21-year-old agent in a small Mississippi delta town of 300 people," Tom says. "We've learned a lot together in this business, and we've been good friends along the way."

Jerry agrees. "Our history goes back a long, long time," he says. "With roots that go that deep, it points toward success and that's what we've enjoyed together. I'm thankful for the business relationship Tom and I have had for so long and for the successes we've shared."

Jerry Veazey, Jr., President, Fisher Brown Bottrell Insurance, and Tom Quaka, FCCI Senior Vice President, West Coast Operations

The Power of Our People

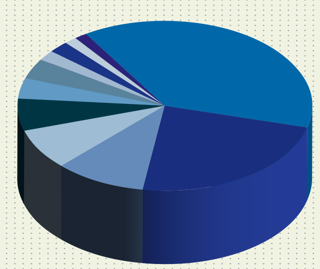
To maintain FCCI's exceptional customer service, local knowledge and purpose-driven accountability, we employ both seasoned insurance industry professionals and some of the brightest young minds entering the industry. In 2012, 684 FCCI employees throughout five regions and 17 states worked together to put people first and to keep the promises our policies make on behalf of our company. Shared purpose propels our achievement and provides us with a guide for every action and every decision, every day.



FCCI employees by location

Sarasota	374	54.7%
Field – all states	106	15.5%
Midwest	73	10.7%
Southeast	63	9.2%
Gulf Coast	42	6.1%
Orlando	17	2.5%
Southwest	8	1.2%
Tallahassee	1	0.1%

Charts are based on an employee count of 684.



FCCI employees by function

Underwriting	263	38.5%
Claims	161	23.5%
IT	70	10.2%
HR & Support Services	53	7.8%
Finance	44	6.4%
Agribusiness	27	4.0%
Legal/Risk	25	3.6%
Surety	11	1.6%
Business Development	11	1.6%
Executive & Regional Leadership	11	1.6%
Administration	8	1.2%

Elsie Thompson
Claims Customer Service Representative

Tiffany Hawkins
Senior Marketing Underwriter

Frank Zayas
Director, Agribusiness Underwriting

Javier Contreras,
Supervisor, Underwriting Operations

Othar Burks
Underwriting Specialist

Mike Janicki
Director, Loss Control & Risk Management

Daniel Siu
Actuarial Assistant

Joyce Willis
Manager, Commercial Surety

573 designations held by FCCI employees

62 CPCUs

40 average number of training & development hours per employee

44,441 policies written

26,973 claims opened

101,951 *phone calls received by FCCI*

8,249 loss control consultative service visits

11% reduction in claim frequency from 2011 to 2012

3,712 résumés received

103 positions filled

22% of positions filled by internal candidates

35% of new hires referred by employees

Top 3 reasons job candidates give for wanting to work at FCCI:

1. "Best Employer" awards
2. Financial stability
3. Company longevity

The Power of Our People (cont.)

We find purpose not only in fulfilling our commitments to our customers, but also in serving the communities where we live and supporting the causes we believe in.

In 2012, FCCI implemented a policy allowing employees to spend four hours of company-paid time volunteering at the community organizations of their choice. The widely embraced program has extended FCCI's community involvement beyond corporate giving and made each act of volunteerism personal.

For departments that volunteer together, the experience can be team-building as well as a chance to give back. For example, FCCI's Risk & Compliance department volunteered at Southeastern Guide Dogs in Palmetto, Fla.

This internationally accredited guide dog school raises and trains service dogs for visually impaired adults and children and for veterans suffering from Post Traumatic Stress. Operating entirely on donations, the school has trained and placed more than 2,800 guide dogs.

FCCI's volunteers pitched in to help scrub kennels, but the highlight of their day was playing with the dogs. Of course, this structured playtime also serves a purpose: helping to socialize the puppies and provide exercise for the dogs in training.

As a company, FCCI supports many community organizations, including United Way, All Faiths Food Bank, Children First, Step Up For Students, Suncoast Charities for Children and the Westcoast Black Theatre Troupe.

996
hours donated

30+
organizations helped

$166,201
FCCI employee donations to United Way

$300,000+
FCCI charitable donations

Pictured above is Bonnie Knapp, Southeastern Guide Dogs Volunteer Coordinator (far left), and the FCCI Risk & Compliance department volunteers: Janet Bordeau, Tracey Hall, Lisa Conley, Keith Larkins, Lois Hadsell, Lori Richards, Curtis Mollohan, Cina Welch and Leslie Pike.

For our communities, our purpose is to do our part.

The Power of Leadership

Board of Directors

FCCI's Board of Directors is comprised of experienced business leaders who have distinguished themselves in various fields. Their guidance and direction are critical factors in determining FCCI's goals and plans for the coming years, while ensuring the company remains true to its guiding principles.

John Stafford
Chairman of the Board since 2004
Director since 1996

Craig Johnson, MBA, CPA
President & Chief Executive Officer
Director since 2011

Charles R. Baumann, CPA/CFF
Director since 2004

Robert W. "Doc" Benjamin, Esq.
Director since 2007

John Joseph "Jack" Cox
Director since 2012

Robert W. Flanders
Director since 1993

G.W. Jacobs, Esq.
Director since 1999
Retired President & CEO, 1999 – 2011

Roy A. Yahraus
Director since 2007

FCCI Officers

The FCCI executive team and officers actively engage with agents, policyholders, directors and employees, ensuring that our power of purpose extends through every level of the organization.

Craig Johnson, MBA, CPA
President & Chief Executive Officer

Chris Shoucair, MST, CPA
Executive Vice President,
Chief Financial Officer & Treasurer

Rupert L. Willis
Executive Vice President &
Chief Regional Officer

Joseph A. Keene
Executive Vice President,
Corporate Claims

Paul Ayoub, AINS
Senior Vice President &
Chief Information Officer

Garth D. Crow, CPCU, CIC, AIC, AFSB, ARe
Senior Vice President, Claims

Warren Edwards, CIC
Senior Vice President,
East Coast Operations

Thomas A. Koval, Esq.
Senior Vice President, General Counsel
& Government Affairs

Lisa Krouse, Esq., SPHR
Senior Vice President, Human Resources
& Support Services

David Leblanc-Simard, FCAS, MAAA, ASA, CFA
Senior Vice President & Chief Actuary

Tracey J. Pfab
Senior Vice President, Midwest Region

Christopher Piela, CPA
Senior Vice President, Southeast Region

Earl E. Price
Senior Vice President, Agribusiness

Thomas G. Quaka, CPCU
Senior Vice President, West Coast
Operations

Richard E. Rueger, CPCU, AIC, ARe, AFSB, ARM, ASLI
Senior Vice President, Business
Development & Strategic Initiatives

William D. Speaker, CPCU, AU
Senior Vice President, Home Office
Underwriting

Christina D. Welch, Esq., CPCU
Senior Vice President, Chief Risk &
Compliance Officer

Patrick L. Caranfa, CIC, AU, MLIS
Vice President, Home Office Underwriting
& Product Management

Cynthia L. Gaul, CIC
Vice President, Claims

Carey A. Geaglone, CPCU, MBA, ARe, AIS, AIT, ARM
Vice President, IT Application Services

James L. Harms, CPCU, CIC
Vice President, Southwest Region

Michelle Jalbert, CPA
Vice President, Controller &
Assistant Treasurer

Gregory L. Kramer
Vice President, Underwriting,
Midwest Region

Duane L. Padgett, CIC, AU, AINS
Vice President, Marketing &
Corporate Communications

Kent Skidmore
Vice President, Underwriting,
Southeast Region

Tracy L. Stoeckel, CPCU
Vice President, Underwriting,
Florida Region

Ned B. Wilson, Ph.D., CPCU
Vice President, Treasury Operations

Ann Driscoll
Assistant Vice President,
Human Resources

Michael S. Noble, CPCU, AAI
Assistant Vice President, Underwriting,
Gulf Coast Region

Scott G. Paice, CPCU, AFSB, CIC
Assistant Vice President, Surety

Craig Johnson John Stafford Charles Baumann Bob Flanders G.W. Jacobs Jack Cox Doc Benjamin Roy Yahraus

FCCI Mutual Insurance Holding Company and Subsidiaries

Consolidated Financial Statements

As of and for the years ended December 31, 2012 and 2011

Contents

Independent Auditor's Report

Board of Directors and Members
FCCI Mutual Insurance Holding Company and Subsidiaries
Sarasota, Florida

We have audited the accompanying consolidated balance sheets of FCCI Mutual Insurance Holding Company and subsidiaries (the Company) as of December 31, 2012 and 2011, and the related consolidated statements of income, comprehensive income, members' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of FCCI Mutual Insurance Holding Company and subsidiaries as of December 31, 2012 and 2011, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

BDO USA, LLP

March 27, 2013

BDO USA, LLP, a Delaware limited liability partnership, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

BDO is the brand name for the BDO network and for each of the BDO Member Firms.

FCCI Mutual Insurance Holding Company and Subsidiaries

Consolidated Balance Sheets
As of December 31,

(in thousands)

	2012	2011
Assets		
Investments:		
Securities available for sale, at fair value		
Fixed maturity securities	$ 1,183,377	1,149,860
Common stocks	177,250	134,651
Other invested assets	1,632	1,885
Total investments	1,362,259	1,286,396
Cash and cash equivalents	14,827	23,011
Accrued investment income	11,810	11,765
Amounts due from policyholders, net	203,421	184,575
Reinsurance recoverable and prepaid reinsurance premium	116,764	115,563
Amounts due from Florida Special Disability Trust Fund	4,503	6,633
Deferred policy acquisition costs	30,873	27,746
Land, building and equipment, net	46,453	48,009
Deferred income taxes, net	-	11,450
Goodwill	24,151	24,151
Other assets	11,197	11,491
Total assets	$ 1,826,258	1,750,790
Liabilities and Members' Equity		
Liabilities:		
Loss and loss adjustment expenses	$ 723,319	754,121
Unearned premiums	227,637	206,918
Accrued expenses and other liabilities	89,100	86,646
Deferred income taxes, net	3,032	-
Accrued policyholder dividends	6,342	9,056
Premiums refundable and loss fund deposits	2,929	3,094
Income tax payable	4,938	1,965
Debt	131,765	99,824
Total liabilities	1,189,062	1,161,624
Commitments and Contingencies (Note 15)		
Members' Equity:		
Accumulated earnings	583,208	554,228
Accumulated other comprehensive income	53,988	34,938
Total members' equity	637,196	589,166
Total liabilities and members' equity	$ 1,826,258	1,750,790

See accompanying notes to consolidated financial statements.

FCCI Mutual Insurance Holding Company and Subsidiaries

Consolidated Statements of Income
For the Years Ended December 31,

(in thousands)

	2012	2011
Revenues		
Net premiums earned	$ 472,651	452,297
Net investment income	45,382	46,826
Net realized gain	8,460	8,566
Service fees and other income	2,503	2,730
Total revenues	528,996	510,419
Expenses		
Losses and loss adjustment expenses incurred	316,634	301,946
Policy acquisition expenses	79,475	80,860
General and administrative expenses	84,607	79,237
Policyholder dividends	6,692	8,229
Other	1,730	1,286
Total expenses	489,138	471,558
Income before income taxes	39,858	38,861
Income tax expense	10,878	11,195
Net income attributable to members	$ 28,980	27,666

See accompanying notes to consolidated financial statements.

FCCI Mutual Insurance Holding Company and Subsidiaries

Consolidated Statements of Comprehensive Income
For the Years Ended December 31,
(in thousands)

	2012	2011
Net income attributable to members	$ 28,980	27,666
Other comprehensive income, net of taxes:		
Increase in unrealized gains on investments, net of taxes of $14,603 and $10,229	24,336	17,046
Reclassification adjustments for realized gains in net income, net of taxes of $3,174 and $3,212.	(5,286)	(5,354)
	19,050	11,692
Total comprehensive income	$ 48,030	39,358

See accompanying notes to consolidated financial statements.

Consolidated Statements of Members' Equity
For the Years Ended December 31,
(in thousands)

	Accumulated Earnings	Accumulated Other Comprehensive Income	Total Members' Equity
December 31, 2010	$ 526,562	23,246	549,808
Comprehensive income:			
Net income	27,666	-	27,666
Unrealized gain on available-for-sale securities net of deferred tax	-	11,692	11,692
December 31, 2011	554,228	34,938	589,166
Comprehensive income:			
Net income	28,980	-	28,980
Unrealized gain on available-for-sale securities net of deferred tax	-	19,050	19,050
December 31, 2012	$ 583,208	53,988	637,196

See accompanying notes to consolidated financial statements.

FCCI Mutual Insurance Holding Company and Subsidiaries

Consolidated Statements of Cash Flows
For the Years Ended December 31,
(in thousands)

	2012	2011
Cash flow from operating activities:		
Net income	$ 28,980	27,666
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	4 ,991	4 ,647
Deferred tax expense	3 ,051	3 ,646
Net realized (gains) losses on equipment sold and retired	(55)	5
Net realized gains on investments sold	(8,460)	(8,566)
Net amortization of discounts and premiums on fixed maturity securities	7 ,819	7,351
Changes in assets and liabilities:		
Decrease (increase) in:		
Accrued investment income	(45)	802
Amounts due from policyholders	(18,846)	6,708
Reinsurance recoverables and prepaid reinsurance premium	(1,201)	17,355
Amounts due from Florida Special Disability Trust Fund	2 ,130	3 ,541
Deferred policy acquisition costs	(3,127)	3 ,409
Other assets	294	270
Increase (decrease) in:		
Loss and loss adjustment expenses	(30,802)	(65,632)
Unearned premiums	20,719	(10,419)
Accrued expenses and other liabilities	2 ,454	42
Accrued policyholder dividends	(2,714)	(3,126)
Premiums refundable and loss fund deposits	(165)	(331)
Income tax payable	2 ,973	(725)
Net cash provided by (used in) operating activities	7 ,996	(13,357)
Cash flow from investing activities:		
Sales and maturities of investments	271,943	349,251
Purchases of investments	(316,684)	(330,478)
Purchases of business	-	(2,713)
Proceeds from sales of property and equipment	234	677
Purchases of property and equipment	(3,673)	(4,819)
Net cash (used in) provided by investing activities	(48,180)	11,918
Cash flow from financing activities:		
Proceeds from credit facility	81,315	5,250
Principal payments on credit facility	(49,315)	(5,250)
Net cash provided by financing activities	32,000	-
Net decrease in cash, cash equivalents	(8,184)	(1,439)
Cash, cash equivalents, beginning of year	23,011	24,450
Cash, cash equivalents, end of year	$ 14,827	23,011
Cash paid during the year for:		
Interest	$2,364	2 ,166
Income taxes	$4,854	8,274

See accompanying notes to consolidated financial statements.

1. Nature of Operations

FCCI Mutual Insurance Holding Company and subsidiaries (the Company) was created on August 27, 1998 when the policyholders of FCCI Mutual Insurance Company voted to reorganize into a mutual holding company. The Company is engaged in the commercial property and casualty insurance business. In connection with the reorganization, FCCI Group, Inc. was formed as an intermediate holding company for the purpose of holding investments in insurance operations. FCCI Mutual Insurance Company became FCCI Insurance Company, a stock insurance company by issuing 5 million shares of common stock to FCCI Group, Inc. No cash or other consideration was paid in connection with the reorganization.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. The significant accounting policies followed by the Company are summarized below.

Principles of Consolidation

The consolidated financial statements include the accounts, after intercompany eliminations, of the Company as summarized below:

- FCCI Group, Inc. (FGI)
  - FCCI Services, Inc. (FSI)
    - FCCI Agency, Inc. (FAI)
  - FCCI Insurance Company (FCCI)
    - FCCI Insurance Group, Inc. (FIG)
      - Monroe Guaranty Insurance Company (MGI)
      - National Trust Insurance Company (NTI)
      - FCCI Commercial Insurance Company (FCIC)
      - FCCI Advantage Insurance Company (FAIC)
      - Brierfield Insurance Company (BIC)
      - FCCI Tax Credit, LLC (FTC)

All of the above are wholly owned subsidiaries.

On September 19, 2012, the Board of Directors of the Company's downstream subsidiary, FIG, declared a stockholder dividend of all of its stock in FSI, which was distributed to its sole shareholder, FCCI. The Board of Directors of FCCI also declared a stockholder dividend of that FSI stock, which was distributed to its sole shareholder, FGI. The dividend, valued at $2,358 was distributed on October 31, 2012.

Cash and Cash Equivalents

Cash equivalents consist of short-term, highly liquid investments that are readily convertible to known amounts of cash. Only investments with original maturities of three months or less qualify as cash equivalents.

Investments

The Company purchases equity and fixed maturity securities with the intent, expectation, and capability to hold them indefinitely or until maturity. However, since securities may be sold prior to maturity they are classified as available-for-sale and are reported at fair value, with net unrealized gains and losses, net of deferred income tax, reported as accumulated other comprehensive income. Fair values are based on quoted market prices from independent pricing services when available or broker pricing if the security class lacks liquidity. A decline in fair value of any security below cost that is deemed to be other-than-temporary results in a charge to income. All holdings are continuously monitored to assess future prospects for individual securities as a part of the Company's portfolio management, including the identification of other-than-temporary decline in fair values.

All securities in an unrealized loss position as of the reporting date are evaluated for other-than-temporary impairment. The Company does not define an arbitrary finite period as "temporary." Rather, the Company believes the time frame should be related more closely to reasonable levels of liquidity in bond markets and the business cycle for equity holdings. In addition to issuer specific discrete credit events, management identifies fixed maturity securities as candidates for other-than-temporary impairment if they have been in an unrealized loss position for twelve consecutive months and the fair values are at least 20% below book value as of the balance sheet date. These securities are evaluated by management utilizing data and information from the Company's external investment consultant and investment manager to determine if the unrealized loss position is due to credit issues rather than market volatility, in which case an other-than-temporary impairment loss will be recognized in the income statement. This evaluation includes an analysis of expected future cash flows and projections of the probability and severity of defaults. In addition, if events indicate that the Company will not hold securities until the fair value recovers from an unrealized loss position, the Company will recognize an other-than-temporary impairment in the consolidated statement of earnings.

Equity securities are evaluated for other-than-temporary impairment using the following procedures:

1. Single issuer equity securities (not mutual funds) whose fair value is adversely affected by a precipitating event that is of an extended duration (e.g., bankruptcy, major court action, serious product liability exposure) will be immediately considered for other-than-temporary impairment treatment.

2. On at least a quarterly basis, mutual funds or single issuer equity securities that have been in an unrealized loss position for twelve consecutive months and whose fair values have declined by more than one standard deviation (based on historical performance for the associated equity sector) will be considered for other-than-temporary impairment treatment.

3. Single issuer equity securities and mutual funds identified above for consideration for other-than-temporary impairment treatment are evaluated by management utilizing data and information from the Company's external investment consultant and investment manager to determine whether the full recovery of cost is expected in the near term.

Realized gains and losses on the sales of securities are recognized based on the specific identification method, except for mutual fund equities which are based on the weighted average cost method. Premiums and discounts on securities are amortized using the interest method over their contractual lives or expected average lives for loan-backed securities. Interest rate adjustments associated with changes in projected cash flows on mortgage and asset-backed securities are accounted for using the retrospective method.

Short-term investments consist of government and corporate bonds and are stated at cost, which approximates fair value.

Deferred Policy Acquisition Costs

Policy acquisition costs, consisting of commissions, premium-related taxes and assessments for successful efforts to acquire policies are deferred and amortized as the related premiums are earned. The Company considers anticipated investment income in determining if a premium deficiency exists.

Land, Building and Equipment

Land is stated at cost. Buildings and equipment are stated at cost less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, generally 3 – 39 years. Improvements, which increase the life of an asset, are capitalized and depreciated over the remaining estimated useful life of the asset.

Capitalized Software Costs

Capitalized software costs are accounted for in accordance with Accounting Standards Codification (ASC) 350-40, *Internal Use Software*, and are recorded at cost less accumulated amortization. Upon successful testing of the system, amortization is charged to expense over the estimated useful life of the software, generally seven years.

Goodwill

Goodwill represents the excess of costs over fair value of assets of acquired businesses and is determined to have an indefinite useful life and is not amortized, but instead tested for impairment at least annually in accordance with ASC 350-20, *Goodwill*.

Impairment of Long-Lived Assets

In accordance with ASC 360, *Property, Plant and Equipment*, long-lived assets, such as property and equipment, and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset be tested for possible impairment, the Company first compares undiscounted future cash flows expected to be generated by an asset to the carrying value of the asset. If the carrying value of the long-lived asset is not recoverable on an undiscounted cash flow basis, an impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques under ASC 820, *Fair Value Measurements and Disclosures* (ASC 820), including discounted cash flow models, quoted market values, and third-party independent appraisals, as considered necessary.

Recognition of Revenue

Premiums are earned on a pro rata basis over the policy term. The policy period for contract surety business is determined based on the estimated completion date of the contract. Premiums applicable to the unexpired terms of effective policies are recorded as unearned premiums. Premiums for certain lines of business, such as workers' compensation, are subject to revision based upon final determination of the exposure base, which occurs after the policy period. Retrospectively rated policy premiums are increased or decreased, subject to certain policy limitations, based upon the estimated loss experience of the insured during the policy period and subsequent calendar years. Service fees and commission income are earned pro rata over the term of the contract period or when the services are performed, if applicable. Reinsurance commission income is recognized pro rata over the term of the related insurance contract.

Loss and Loss Adjustment Expenses

The liability for loss and loss adjustment expenses (LAE) represents the ultimate estimated liability for reported claim costs (including LAE) that have not settled, and an estimate, based on experience, for claims that have been incurred but not yet reported. The liability for loss and LAE is estimated by management based upon actuarial reviews of the Company's historical loss development experience and industry data. The Company does not discount the liability for loss and LAE.

Policyholder Dividends

At the sole discretion of the Boards of Directors of the insurance companies, and within regulatory guidelines, insureds with participating insurance contracts may be eligible to share in the profitability of the policy in the form of a dividend, based on the insured's individual loss experience. An estimated provision for policyholder dividends is accrued as the related premiums are earned based on historical profitability and published dividend tables. Changes in estimates are recognized in the period determined.

Reinsurance

Premiums and loss and LAE ceded under reinsurance contracts are reported as a reduction to premiums earned and loss and LAE incurred, respectively. Loss and LAE reserve amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsurance contract.

Florida Special Disability Trust Fund

Amounts due from the Florida Special Disability Trust Fund (SDTF) relate to recoverable amounts for certain claims costs related to injuries that aggravate or accelerate a preexisting injury or physical impairment. The receivable is comprised of three components: amounts paid by the Company which has been submitted to the SDTF pending reimbursement, amounts paid by the Company which have not yet been submitted to the SDTF, and amounts not yet paid by the Company.

Income Taxes

The Company files a consolidated federal income tax return. Deferred income taxes are recognized for assets and liabilities that have different values for financial statement and tax reporting purposes using enacted federal and state tax rates. A valuation allowance is recorded, as deemed necessary, to reduce a net deferred tax asset to the amount expected to be realized.

The Company's federal income tax return is consolidated with the following entities:

- FCCI Group, Inc.
  - FCCI Services, Inc.
    - FCCI Agency, Inc.
  - FCCI Insurance Company
    - FCCI Insurance Group, Inc.
      - Monroe Guaranty Insurance Company
      - National Trust Insurance Company
      - FCCI Commercial Insurance Company
      - FCCI Advantage Insurance Company
      - Brierfield Insurance Company

Concentrations of Business Risks

The Company is inherently subject to various business risks. Following is a description of the most significant risks facing property and casualty insurers:

Catastrophic Loss Risk is the risk of losses due to geographic concentrations of property policies within storm-prone regions and accumulation of lives within a single location. The Company maintains reinsurance coverage to mitigate the risk of catastrophic losses.

Legal/Regulatory Risk is the risk that the legal or regulatory environment in which an insurer operates will change and create additional loss costs or expense not anticipated by the insurer in pricing its products. Regulatory initiatives designed to reduce insurer profits or new legal theories may create costs for the insurer beyond those currently recorded in the consolidated financial statements. As the Company writes a significant amount of insurance business in the state of Florida, these risks might have a more significant effect on the Company than on a more geographically diversified insurance company.

Credit Risk is the risk that issuers of securities owned by the Company will default or other parties, including policyholders, reinsurers, and the SDTF that owe the Company money, will not pay. The Company minimizes this risk by adhering to a conservative investment strategy, closely monitoring premiums receivable, and contracting with reinsurance companies that meet certain rating criteria and other qualifications.

Interest Rate Risk is the risk that interest rates will change and cause a decrease in the value of an insurer's investments. To the extent that liabilities come due more quickly than assets mature, an insurer would have to sell assets prior to maturity and potentially recognize a loss in a rising interest rate environment. The Company mitigates this risk by attempting to match the duration of its assets with the duration of its liabilities and by maintaining working lines of credit.

Use of Estimates

The preparation of consolidated financial statements requires management to make a number of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from those estimates. Significant estimates include the liability for loss and LAE, amounts recoverable from reinsurers, deferred income tax assets and liabilities, the deferral of policy acquisition costs, amounts due from the Florida SDTF, accrued policyholder dividends, guaranty fund assessments, final premium audits, allowance for doubtful accounts, and retrospectively rated premiums.

Recently Issued Accounting Standards

In May 2011, the FASB issued ASU 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. ASU 2011-04 provides a consistent meaning for the term "fair value" between the FASB and International Accounting Standards Board and establishes common requirements for measuring and disclosing information related thereto. The Company adopted ASU 2011-04 prospectively on January 1, 2012. The adoption of ASU 2011-04 did not have an impact on consolidated shareholders' equity or net income or the Company's fair value measurements.

In September 2011, the FASB issued ASU 2011-08, *Testing Goodwill for Impairment*. ASU 2011-08 simplifies how goodwill is tested for impairment by permitting entities to assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. The results of the qualitative assessment will determine if an entity needs to proceed with the two-step goodwill impairment test. ASU 2011-08 is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The Company adopted ASU 2011-08 on January 1, 2012. The adoption of ASU 2011-08 did not have an impact on consolidated shareholders' equity or net income.

In July 2012, the FASB issued ASU 2012-02, *Testing Indefinite-Lived Intangible Assets for Impairment*. ASU 2012-02 modifies both annual and interim impairment testing and allows the inclusion of qualitative factors in the assessment of whether a quantitative impairment test is necessary. When an entity's qualitative assessment reveals that indefinite-lived intangible asset impairment is more likely than not, the entity must perform the quantitative impairment test. The amendments did not change the existing accounting guidance on how this impairment test is performed. ASU 2012-02 is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012 and early adoption is permitted. The Company has not elected early adoption. The Company does not expect the adoption of this guidance to have an impact on its consolidated members' equity or net income.

Subsequent Events

The Company has evaluated events subsequent to December 31, 2012, and through the consolidated financial statements issuance date of March 27, 2013.

3. Investments

The amortized cost and fair value of available for sale securities as of December 31 are as follows:

2012	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
US Treasury and US government agencies and corporations	$ 48,999	2,816	(39)	51,776
State and political subdivisions	421,095	29,112	(259)	449,948
Mortgage-backed and asset-backed securities	307,445	19,544	(277)	326,712
Corporate bonds	232,277	17,518	(3)	249,792
Foreign government and foreign corporate bonds	97,570	7,588	(9)	105,149
Total fixed maturity securities	1,107,386	76,578	(587)	1,183,377
Common stock	166,856	10,394	-	177,250
Total available-for-sale securities	$ 1,274,242	86,972	(587)	1,360,627

2011	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
US Treasury and US government agencies and corporations	$ 47,960	3,363	(6)	51,317
State and political subdivisions	339,382	19,683	(11)	359,054
Mortgage-backed and asset-backed securities	363,847	20,498	(165)	384,180
Corporate bonds	255,518	10,337	(1,447)	264,408
Foreign government and foreign corporate bonds	86,923	4,752	(774)	90,901
Total fixed maturity securities	1,093,630	58,633	(2,403)	1,149,860
Common stock	134,977	3,054	(3,380)	134,651
Total available-for-sale securities	$ 1,228,607	61,687	(5,783)	1,284,511

The amortized cost and fair value of fixed maturity securities as of December 31, 2012 by contractual maturities follow:

	Amortized Cost [1]	Fair Value [1]
Due in one year or less	$ 11,408	11,590
Due after one year through five years	468,131	501,078
Due after five years through ten years	342,287	365,009
Due after ten years	285,560	305,700
Total fixed maturities	$ 1,107,386	1,183,377

[1] Includes principal paydowns on mortgage and asset-backed securities using estimated maturities.

Mortgage and asset-backed securities are classified in the maturity distribution based upon their projected cash flows. The Company uses a six-month average actual cumulative prepayment rate (CPR), cumulative default rate (CDR), and severity in determining projected cash flows for the life of each bond. CPR, CDR, and severity information is obtained from various data providers including Loan Performance Corp, Polypaths, and Intex when available. When actual severity cannot be obtained or calculated from these sources, the Company uses assumptions based on market research. Actual maturities and projected cash flows may differ from contractual maturities because borrowers may have the right to call or prepay obligations without call or prepayment penalties.

Gross unrealized losses on investment securities and the fair value of the related securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, were as follows:

	Less Than 12 Months		*12 Months or More*		*Total*	
2012	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
Available for sale:						
Bonds	$ 310	40,418	-	-	310	40,418
Equity securities	-	-	-	-	-	-
Mortgage-backed and asset-backed securities	238	63,670	39	718	277	64,388
	$ 548	104,088	39	718	587	104,806

	Less Than 12 Months		*12 Months or More*		*Total*	
2011	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
Available for sale:						
Bonds	$ 2,137	69,393	101	5,165	2,238	74,558
Equity securities	3,380	39,235	-	-	3,380	39,235
Mortgage-backed and asset-backed securities	104	13,172	61	1,647	165	14,819
	$ 5,621	121,800	162	6,812	5,783	128,612

The Company's other-than-temporary impairment assessment includes reviewing the extent and duration of declines in fair values of investments, the seniority and duration for the securities, historical and projected company financial performance, company specific news and other developments, the outlook for industry sectors, credit ratings and macro-economic changes, including government policy initiatives. The largest single unrealized loss was $37, representing a 6% decline, on the Structured Asset Securities Corporation 02 AL1 A2.

During 2012 and 2011, the Company did not recognize any other-than-temporary impairment losses.

For fixed maturity securities, the Company currently does not believe it is probable that it will be unable to collect all amounts due according to the contractual terms of the investments. Because management has the ability and intent to hold these investments until a recovery of fair value, which may be maturity, management does not consider these securities to be other-than-temporarily impaired at December 31, 2012. Management bases this conclusion on its understanding, which includes the opinions of their outside investment consultant and outside investment manager, of the issuers of these securities, as described above.

It is possible that the Company could recognize other-than-temporary impairment losses on some securities owned at December 31, 2012 if future events, information and the passage of time cause the Company to determine that a decline in value is other-than-temporary.

Net investment income is summarized as follows for the years ended December 31:

		2012	2011
Bonds	$	42,251	44,680
Equity securities		7,295	5,993
Other invested assets		(254)	(253)
Cash, cash equivalents and short-term investments		5	9
Gross investment income		49,297	50,429
Investment expenses		(3,915)	(3,603)
Net investment income	$	45,382	46,826

Proceeds from sales or maturities of fixed maturity securities during 2012 and 2011 were $249,960 and $300,081, respectively. Proceeds from sales of equity securities during 2012 and 2011 were $21,983 and $49,170, respectively.

Net realized gains (losses) on investments sold, as well as other-than-temporary impairment charges incurred (OTTI), were comprised of the following for the years ended December 31:

		2012	2011
Fixed maturity securities:			
Gross gains	$	7,008	7,473
Gross losses		(4)	(842)
Equity securities:			
Gross gains		1,456	2,326
Gross losses		-	(391)
Other invested assets:			
Gross gains		7	-
Gross losses		(7)	-
Total realized investments gain	$	8,460	8,566

The Company recorded no impairment write-downs during the year, and realized no gains or losses from subsequent sales.

At December 31, 2012 and 2011, bonds, cash, and cash equivalents with fair values of $18,220 and $18,115, respectively, were pledged to various state and federal regulatory authorities.

The Company maintains a diversified portfolio and there were no concentrations of investments in excess of 10% of members' equity at December 31, 2012 and 2011.

The Company does not engage in direct subprime residential mortgage lending. The Company's exposure to subprime mortgage-related risk is limited to investments within the fixed maturity income investment portfolio, which contains securities collateralized by mortgages that have characteristics of subprime lending. Such characteristics include an interest rate above prime to borrowers who do not qualify for prime rate loans, borrowers with low credit ratings (FICO scores), unconventionally high initial loan-to-value ratios, and borrowers with less than conventional documentation of their income and/or net assets.

The Company minimizes risk exposure by holding securities that carry an aggregate credit rating of AA- and by monitoring the underlying collateral performance on an ongoing basis.

The following chart summarizes the actual cost, book/adjusted carrying value, and the fair value of subprime mortgage-related risk exposure:

		Actual Cost	Book/Adjusted Carrying Value	Fair Value	Other-Than-Temporary Impairment Losses Recognized to Date
Residential mortgage-backed securities	$	1,411	1,410	1,427	-

Other Invested Assets

FCCI Insurance Company (FCCI), Monroe Guaranty Insurance Company (MGIC) and National Trust Insurance Company (NTI), all companies within the FCCI Insurance Group, entered into an Operating Agreement to form FCCI Tax Credit, LLC (FTC) for the purpose of investing in low-income housing property in order to obtain low-income housing tax credits in the state of Georgia. This agreement was approved by the OIR on November 22, 2010 and the Indiana Department of Insurance on November 12, 2010.

On December 20, 2012, NTI entered into an agreement with FCCI to assign a portion of its membership interest in FTC to FCCI. Prior to the assignment, FTC was owned 55% by FCCI, 29% by NTI and 16% by MGIC. As a result of the assignment, FTC is owned 62% by FCCI, 22% by NTI and 16% by MGIC.

The Company's carrying value of $1,632 consists of the cost of $2,392 and includes amortization of $253 in both 2012 and 2011. The investment is being amortized over ten years.

The Company has seven years of remaining unexpired tax credits, and the required holding period for this investment is thirteen years.

Each low-income property is subject to an annual regulatory review and the properties maintain their qualifying status as of December 31, 2012.

Fair Value Measurements

The Company has adopted the provisions of ASC 820, which defines fair value as the exit price or the amount that would be (1) received to sell an asset or (2) paid to transfer a liability in an orderly transaction between marketplace participants at the measurement date. When determining an exit price, the Company must, whenever possible, rely upon observable market data.

The ASC 820 exit price notion requires the Company's valuation to also consider what a marketplace participant would pay to buy an asset or receive to assume a liability. Therefore, while the Company can consider pricing data from these outside services, the Company ultimately determines whether the data or inputs used by these outside services are observable or unobservable.

In accordance with ASC 820, the Company has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level that is significant to the fair value measurement of the instrument.

Level 1 and Level 2 Valuation Techniques

All invested assets of the Company measured at fair value are classified as Level 1 or Level 2. Financial assets that fall within Level 1 and Level 2 are priced according to observable data from identical or similar securities that have traded in the marketplace. Also within Level 2 are securities that are valued by outside pricing services because the inputs used in pricing the securities are market observable. The Company has evaluated the pricing methodology and has determined that the inputs are observable.

Level 3 Valuation Techniques

Financial assets that fall within Level 3 of the hierarchy are valued based upon unobservable market inputs, normally because they are not actively traded on a public market. The Company includes broker quotes in this category due to the lack of transparency in the process that brokers use to develop such prices and due to the lack of a binding or completed sale or purchase transaction. The Company holds no Level 3 investments.

Rollforward of Level 3 Items

The Company has no Level 3 assets or liabilities measured at fair value.

Policy on Transfers into and out of Levels 1, 2 and 3

At the end of each reporting period, the Company evaluates whether or not an event has occurred or circumstances have changed that would cause an instrument to be transferred into or out of Levels 1, 2 and 3. The Company had no transfers into or out of Levels 1, 2 or 3 in the current year.

The following tables represent fair value of fixed maturity and equity securities by hierarchy level as of December 31:

2012	Total	Quoted Prices in Active Markets for Identical Assets Level 1 Inputs	Significant Observable Inputs Level 2 Inputs	Significant Unobservable Inputs Level 3 Inputs
US Treasury and US government agencies and corporations	$ 51,776	48,763	3,013	-
State and political subdivisions	449,948	-	449,948	-
Mortgage-backed and asset-backed securities	326,712	-	326,712	-
Corporate bonds	249,792	-	249,792	-
Foreign government and foreign corporate bonds	105,149	-	105,149	-
Total fixed maturity securities	1,183,377	48,763	1,134,614	-
Common stock [(1)]	169,111	169,111	-	-
Total investment securities	$ 1,352,488	217,874	1,134,614	-

[(1)] The Company holds $8,139 of other common stock carried at its contractually specified redemption value.

2011	Total	Quoted Prices in Active Markets for Identical Assets Level 1 Inputs	Significant Observable Inputs Level 2 Inputs	Significant Unobservable Inputs Level 3 Inputs
US Treasury and US government agencies and corporations	$ 51,317	45,190	6,127	-
State and political subdivisions	359,054	-	359,054	-
Mortgage-backed and asset-backed securities	384,180	-	384,180	-
Corporate bonds	264,408	-	264,408	-
Foreign government and foreign corporate bonds	90,901	-	90,901	-
Total fixed maturity securities	1,149,860	45,190	1,104,670	-
Common stock [(1)]	127,526	127,526	-	-
Total investment securities	$ 1,277,386	172,716	1,104,670	-

[(1)] The Company holds $7,125 of other common stock carried at its contractually specified redemption value

4. Amounts Due from Policyholders

Amounts due from policyholders are composed of the following at December 31:

	2012	2011
Premiums in course of collection	$ 19,212	20,115
Premiums deferred not yet due	185,617	164,885
Premiums due on retrospectively rated policies	1,865	2,179
Amounts due on deductible policies	992	1,119
Amounts due from policyholders, gross	207,686	188,298
Allowance for doubtful accounts	(4,265)	(3,723)
Amounts due from policyholders, net	$ 203,421	184,575

The allowance for doubtful accounts reflects the Company's best estimate of probable losses inherent in our amounts due from policyholders balance determined on the basis of historical experience, specific allowances for known troubled accounts, and other currently available evidence.

5. Deferred Policy Acquisition Costs

Deferred policy acquisition costs are summarized as follows as of and for the years ended December 31:

	2012	2011
January 1,	$ 27,746	31,155
Capitalized costs	74,078	65,733
Amortized costs	(70,951)	(69,142)
December 31,	$ 30,873	27,746

6. Land, Building and Equipment

The major components of land, building, and equipment as of December 31 are as follows:

	2012	2011
Land	$ 4,269	4,269
Building and improvements	49,909	49,714
Furniture and equipment	13,364	12,658
Software in use	35,083	32,796
Software under development	275	1,914
Land, building and equipment, at cost	102,900	101,351
Accumulated depreciation and amortization	(56,447)	(53,342)
Land, building and equipment, net	$ 46,453	48,009

Depreciation and amortization expense for land, building and equipment for the years ended December 31, 2012 and 2011 amounted to $4,991 and $4,647, respectively.

7. Goodwill and Other Intangible Assets

The balance sheets include goodwill attributable to the Company's purchase of MGI in November 2000. The original amount of goodwill associated with this acquisition was $18,120. Prior to the adoption of ASC 350, *Intangibles-Goodwill and Other*, in 2002, cumulative amortization of $1,309 was recorded. In addition, the Company purchased MIM, a managing general agent, through a wholly owned subsidiary in December 2008. The cost of the MIM acquisition was $8,000, and the Company recorded an intangible asset associated with the purchase of $4,949, which is being amortized over ten years and is reported as a component of other assets in the consolidated balance sheets. The purchase contract included a three-year earn-out provision in which the final payout was made in 2011. All amounts paid in connection with this earn-out provision are recorded as an increase to goodwill. During 2011, the Company paid $2,713 in additional purchase price, increasing total gross goodwill to $25,460 at December 31, 2011.

As of December 31, 2012, the Company tested the underlying goodwill and intangible assets for recoverability, and the test indicated that the fair values exceeded the carrying values of the assets.

The following table details goodwill and intangible assets as of December 31:

	2012		2011	
	Goodwill	Other Intangibles(1)	Goodwill	Other Intangibles(1)
Monroe Guaranty Insurance Company	$ 18,120	-	18,120	-
Mississippi Insurance Managers, Inc.	7,340	4,949	7,340	4,949
Goodwill and other intangible assets, gross	25,460	4,949	25,460	4,949
Accumulated amortization (2)	(1,309)	(1,980)	(1,309)	(1,485)
Goodwill and other intangible assets, net	$ 24,151	2,969	24,151	3,464

(1) Reported as a component of other assets

(2) Goodwill amortization recorded in 2001 prior to SFAS 142, Goodwill and Other Intangible Assets, now ASC 350-20, Goodwill

Intangible amortization expense was $495 for each of the years ended December 31, 2012 and 2011.

8. Liability for Loss and LAE

The Company establishes a liability for loss and LAE that estimates the future payments of reported and unreported claims for losses and the related loss expenses with respect to insured events that have occurred. The process of establishing this liability is subject to uncertainties that are normal, recurring, and inherent in the property and casualty business. The process requires reliance upon estimates based on available data that reflects past experience, current trends, and other information and the exercise of informed judgment. Changes in the Company's estimate of this liability may be required as information develops that varies from experience, provides additional data, or, in some cases, augments data previously not considered sufficient for use in determining reserves. The effect of these changes, net of reinsurance, is charged (unfavorable development) or credited (favorable development) to income for the periods in which they are determined.

In management's judgment, information currently available has been appropriately considered in estimating the Company's liability for losses and LAE. However, future changes in estimates of the Company's liability for insured events may materially affect results positively or adversely in future periods although such effects cannot be reasonably estimated.

Activity for the years ended December 31 in the liability for loss and LAE is summarized in the table below:

	2012	2011
January 1, gross	$ 754,121	819,753
Less:		
Reinsurance recoverable, unpaid losses	107,028	124,526
Florida Special Disability Trust Fund recoverable (Note 9)	6,633	10,174
Salvage and subrogation recoverables	4,839	4,566
Reinsurance reserves assumed	1,714	1,494
Liability for loss and LAE on deductible policies	1,119	1,079
January 1, net	632,788	677,914
Incurred related to:		
Current year	363,828	378,990
Prior years	(47,194)	(77,044)
	316,634	301,946
Paid related to:		
Current year	137,094	146,647
Prior years	208,209	200,425
	345,303	347,072
December 31, net	604,119	632,788
Plus:		
Reinsurance recoverable, unpaid losses	106,332	107,028
Florida Special Disability Trust Fund recoverable (Note 9)	4,503	6,633
Salvage and subrogation recoverables	5,022	4,839
Reinsurance reserves assumed	2,351	1,714
Liability for loss and LAE on deductible policies	992	1,119
December 31, gross	$ 723,319	754,121

The liability for LAE developed favorably in 2012 and 2011 by $47,194 and $77,044, respectively, due mainly to reductions in expected ultimate losses driven primarily by lower than anticipated emergence on prior accident years.

9. Florida Special Disability Trust Fund

The SDTF provides for the reimbursement of certain Florida workers' compensation claim costs related to injuries that occurred prior to 1998 and that aggravate or accelerate a preexisting injury or physical impairment. The Company submits claims to the SDTF, a Florida government trust fund for recovery of eligible claim costs. The SDTF is funded on a current basis through quarterly assessments imposed on insurance carriers, self-insurance funds, and self-insurers, based on Florida workers' compensation direct premiums written net of any related policyholder dividends.

The Company's receivable from the SDTF is comprised of the following three components as of December 31:

	2012	2011
Amounts paid by the Company submitted to the SDTF pending reimbursement	$ 993	2,141
Amounts paid by the Company not yet submitted to the SDTF	553	717
Amounts not yet paid by the Company	2,957	3,775
	$ 4,503	6,633

The SDTF accepts submissions for recovery once per year for each subject claim.

For the years ended December 31, 2012 and 2011, assessments were $1,556 and $1,499, respectively, and the Company collected $1,397 and $3,844, respectively, in reimbursements.

10. Reinsurance

The Company has a reinsurance program that is intended to reduce overall risks, including exposure to large losses and catastrophic events. The Company limits the maximum net loss that can arise from claims by reinsuring certain levels of risks with reinsurers. In the ordinary course of business, the Company assumes premiums, losses, and LAE from involuntary assigned risk pools.

The Company expects those companies with whom reinsurance has been placed to honor their obligations. However, in the event that all or any of the reinsuring companies are unable to meet their obligations for existing paid and unpaid loss recoverables, the Company would be liable for such defaulted amounts.

The following table summarizes reinsurance recoverables and prepaid reinsurance premium as of December 31:

	2012	2011
Recoverable for loss and LAE reserves	$ 106,332	107,028
Recoverable for paid loss and LAE	1,712	1,142
Prepaid reinsurance premium	8,720	7,393
	$ 116,764	115,563

The following table summarizes the effect of reinsurance on premiums for the years ended December 31:

	Direct	Assumed	Ceded	Net
2012				
Written premiums	$ 525,280	4,297	37,370	492,207
Earned premiums	504,651	4,043	36,043	472,651
2011				
Written premiums	$ 472,697	3,427	34,222	441,902
Earned premiums	483,029	3,333	34,065	452,297

The following table summarizes the effect of reinsurance on loss and LAE incurred for the years ended December 31:

	Direct	Assumed	Ceded	Net
2012	$ 322,964	2,617	8,947	316,634
2011	$ 286,228	3,306	(12,412)	301,946

11. Income Tax

The components of income tax expense are as follows for the years ended December 31:

	2012	2011
Current income tax expense		
Federal	$ 6,722	5,874
State	1,105	1,675
Total current income tax expense	7,827	7,549
Deferred income tax expense		
Federal	2,727	3,626
State	324	20
Total deferred income tax expense	3,051	3,646
Total income tax expense	$ 10,878	11,195

The significant components of the net deferred income tax asset as of December 31 are as follows:

	2012	2011
Deferred income tax assets:		
Discount of liability for loss and LAE	$ 18,486	20,576
Discount of unearned and advance premiums	16,620	15,155
Deferred compensation	5,050	5,213
Net state operating loss carryforwards	3,125	3,142
Accrued policyholder dividends	2,313	3,339
Allowance for doubtful accounts	1,599	1,396
Subsequent injury tax	710	984
Unrealized loss on investment securities	220	2,169
Other	2,835	2,429
Total gross deferred income tax assets	50,958	54,403
Less valuation allowance	(3,125)	(3,142)
Total net deferred income tax assets	47,833	51,261
Deferred income tax liabilities:		
Unrealized gain on investment securities	32,616	23,134
Deferred policy acquisition costs	11,578	10,406
Other	6,671	6,271
Total deferred income tax liabilities	50,865	39,811
Net deferred income tax (liability) asset	$ (3,032)	11,450

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. In order to fully realize the deferred tax asset of $3,125 related to net operating losses in the state of Indiana, the Company will need to generate future taxable income of approximately $181,513 prior to the expiration of the net operating loss carryforwards in 2019 to 2026. Indiana taxable income for the years ended December 31, 2012 and 2011 was $208 and $193, respectively. Accordingly, management believes it is not more likely than not that this deferred tax asset will be realized and has recorded a valuation allowance. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the remaining deferred tax assets are deductible, management believes it is more likely than not that the Company will realize the benefits of these deductible differences, net of the existing valuation allowances at December 31, 2012. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced.

Following is a reconciliation of the provision for federal income tax at the U.S. corporate rate (35% for December 31, 2012 and 2011) to the expense recorded for the years ended December 31:

	2012	2011
Expected tax	$ 13,950	13,601
Tax-exempt interest	(4,510)	(3,811)
State income taxes, net of federal benefit	939	782
Provision to return adjustment	(61)	151
Other, net	560	472
Actual income tax expense	$ 10,878	11,195

The Company has adopted ASC 740-10-05, *Accounting for Uncertainty in Income Taxes* (ASC 740-10-05), which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements. This guidance prescribes a threshold for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Management has evaluated their tax positions and determined that there are no situations where it is "more likely than not" that a position taken will not be upheld. Therefore, the Company has no liability recorded for uncertainty in income taxes. The Company's policy is to classify interest and penalties related to unrecognized tax positions in income before income taxes. As of December 31, 2012, the Company has no accrued interest or penalties related to unrecognized tax positions.

12. Debt

Lines of Credit/Credit Facility

Northern Trust Line of Credit

The Company has a line of credit (LOC) from Northern Trust Bank of Florida, N.A., in the amount of $20,000 expiring on June 23, 2014. Bonds with a carrying value of $29,562 have been pledged as collateral. There is no balance outstanding on the LOC as of December 31, 2012 and 2011.

FHLB Credit Facility

The Company is a member of the Federal Home Loan Bank of Atlanta (FHLB). As a requirement of membership, the Company owns FHLB stock in an amount that is adjusted annually based on the asset size of the Company. In addition to membership stock requirements, the FHLB also requires members to purchase additional FHLB stock in amounts equal to 4.5% of each advance. FHLB shares that are purchased at the time of an advance are automatically redeemed when the advance is repaid (proportionately if the advance is partially repaid). As of December 31, 2012 and 2011, the Company owned FHLB stock in the amount of $8,139 and $7,125, respectively. As of December 31, 2012, the Company's borrowing limit is $250,000. The Company's overall FHLB credit limit can fluctuate based on the Company's financial condition, and all balances must be adequately collateralized.

The Company's FHLB borrowings as of December 31, 2012 are summarized in the following table:

Description	Amount Outstanding	Date Issued	Maturity Date	Interest Rate
5-Year Fixed Rate Note	$ 20,000	7/24/2008	7/24/2013	4.258%
5-Year Fixed Rate Note	12,000	9/5/2008	9/5/2013	3.908%
10-Year Fixed Rate Note	10,000	8/18/2010	8/18/2020	3.165%
10-Year Fixed Rate Note	10,000	8/26/2010	8/26/2020	3.137%
10-Year Fixed Rate Note	32,000	9/18/2012	9/19/2022	2.300%
Line of Credit	47,750	Various	4/19/2013	0.355%
	$ 131,750			

Capital Lease

The Company entered into a $174 three year capital lease with CISCO Systems Capital on March 17, 2010. There is a balance due on the capital lease of $15 as of December 31, 2012.

13. Retirement and Deferred Compensation Plans

Retirement and Savings Plan

The Company has a retirement and profit sharing plan (defined 401(k) contribution plan) for which all employees are eligible to participate. Employees, at their option, may contribute a portion of their eligible earnings to the plan, which may qualify for a matching contribution by the Company. Based on the Company's financial results, an additional discretionary profit sharing contribution may be made to all eligible employees' accounts. All contributions by the Company are restricted to amounts authorized annually by the Board of Directors. Retirement benefits are based on the balance in each employee's account, including the amount vested in employer 401(k) matching contributions and profit sharing contributions. The plan may be cancelled at any time at the option of the Company. The Company's net contributions to the plan for 2012 and 2011 were $4,655 and $4,656, respectively.

Long-Term Incentive Plan

Directors and officers are eligible participants under the Company's Long-Term Incentive Plan (Incentive Plan), which offers two types of performance-based incentive awards, a Full Value Performance Unit Award (Performance Units) and a Performance Unit Appreciation Rights Award (Appreciation Rights).

After satisfaction or lapse of the restrictions, terms, and conditions established by the Incentive Plan with respect to a grant of Performance Unit awards, the Incentive Plan participant will receive a cash payment equal to the number of Performance Units multiplied by a Company Value as of the exercise date as defined in the Incentive Plan. During 2012 and 2011, the Company recognized expense related to these units of $1,692 and $1,928, respectively. As of December 31, 2012 and 2011, the Company has a liability for the Performance Units outstanding of $8,032 and $8,171, respectively.

Appreciation Rights may be exercised subject to the terms of the Incentive Plan and upon exercise, the Incentive Plan participant will receive the number of Appreciation Rights exercised multiplied by the increase in Company Value as of the exercise date compared to the Company Value on the grant date. During 2012 and 2011, the Company recognized expense related to Appreciation Rights of $1,870 and $434, respectively. As of December 31, 2012 and 2011, the Company has a liability for the Appreciation Rights outstanding of $5,806 and $6,380, respectively.

Directors' Deferred Compensation Plan

Certain members of FGI's Board of Directors have entered into a deferred compensation plan, which includes a deferred compensation payment of three times the Directors' annual fees at retirement subject to certain vesting criteria, which is to be partially funded through a special grant of Performance Units, described above. As of December 31, 2012 and 2011, the Company's liability for such deferred compensation, not funded by Performance Units, was $1,144 and $1,543, respectively. During 2012, the Company recognized a reduction in expense of $399; and for 2011, recognized expense of $89.

Costs for retirement and deferred compensation plans are allocated to each subsidiary based on the direct written premiums and the level of claims transactions to the totals for the consolidated company.

14. Regulation

The Company and its insurance company subsidiaries are regulated by state insurance departments and are subject to insurance statutes of their domiciliary states. The insurance companies are required to file financial statements with the state insurance departments prepared on an accounting basis prescribed or permitted by such regulators (statutory basis). Included among the applicable insurance laws and regulations with which the insurance companies must comply is the requirement that they maintain sufficient surplus, as defined by the states.

Risk-Based Capital

The National Association of Insurance Commissioners and the domiciliary states utilize risk-based capital (RBC) standards. RBC is a method of measuring the amount of capital and surplus appropriate for an insurer to support its overall business operations in light of its size and risk profile. Under RBC standards, risks specific to insurance companies in such areas as asset risk and underwriting risk are evaluated and compared to the insurance companies' capital and surplus to determine solvency margins. Regulators use RBC standards to initiate actions relating to insurers that show signs of weak or deteriorating financial condition. At December 31, 2012 and 2011, the insurance companies were adequately capitalized under the RBC requirements.

Combined net income and policyholders' surplus of the Company's insurance subsidiaries, as determined in accordance with statutory accounting practices, follow:

	2012	2011
Net income	$ 27,263	35,241
Policyholders' surplus	520,814	491,350

15. Commitments and Contingencies

Legal Proceedings

The Company's insurance subsidiaries are party to litigation and workers' compensation administrative proceedings involving claims arising in the normal course of business, none of which, in the opinion of management, will have a material adverse effect on the consolidated financial position, results of operations, or cash flows of the Company.

Operating Leases

The Company leases vehicles, office equipment, and office space with terms expiring through 2018. The minimum rentals on these operating leases as of December 31, 2012 follow:

	Amount
2013	$ 2,344
2014	2,360
2015	2,357
2016	2,127
Thereafter	812
	$ 10,000

Rent expense for the years ended December 31, 2012 and 2011 was $2,220 and $2,091, respectively.

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