2013

# ANNUAL REPORT

## Future in Focus

FCCI® INSURANCE GROUP

More than a policy. A promise.

# FCCI Insurance Group

# Future in Focus

FCCI Insurance Group is a multi-line commercial property and casualty insurance provider.

With five regional offices and more than 700 employees, we provide coverage and services in 18 states. We distribute our coverage exclusively through independent agents, and we partner with them to offer each policyholder more than a policy.

We make a promise to remain a strong, stable and responsive carrier that helps protect businesses against loss so they can face the future with confidence.


**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

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

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

**Midwest Regional Office**
9025 River Road, Suite 300
Indianapolis, IN 46240
800-824-2513

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

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


2013 FCCI Annual Report

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# From Craig Johnson, President & CEO

I am excited and energized by a very successful 2013 and by the promise of the future.

FCCI has worked hard to build a reputation of strength and integrity, both financially and in the service we provide to our customers. Our unwavering focus on our guiding principles and on doing what we say we'll do has led FCCI to be a company that is helping businesses thrive, manage risks and face the future with confidence.

It's also an important part of who we are. As you read the stories in this year's report, you'll get a glimpse of a few FCCI employees and the agents and policyholders with whom they work. Every small interaction is part of the whole FCCI picture, and each opportunity to provide value and do the right thing shapes our future.

I'm happy to say that keeping our focus in the right place has proven rewarding. In 2013, FCCI's profit totaled $32.1 million, an increase of more than $3 million over 2012. We wrote $593.5 million in direct written premium, the highest in FCCI's 55-year history and an increase of 13% — more than $68 million — over 2012.

Our combined ratio for the year is 101.5%, an improvement of almost 2 points over the prior year and a significant indication of the performance of the company.

We hit another historic high with GAAP equity at $641.5 million and statutory surplus at $552.1 million. Our total assets increased to $1.9 billion and our investment portfolio exceeds $1.4 billion. These accomplishments can only truly be appreciated in light of the tough economic climate of the last several years. Our investment team deserves to be commended for their focus on maintaining FCCI's financial strength and stability.

Another major accomplishment for FCCI in 2013 was an upgrade to an A rating with a Stable outlook from A.M. Best. The A rating is a milestone that allows our agent partners to better position FCCI in the eyes of their customers and prospects. It's also confirmation that the discipline, focus and strategy we employ every day in every department is creating the right results.

We added two new states in 2013, Arkansas and Louisiana, bringing the total number of states we write business in to 18. We build our business around having the right people and partners, and the success of our recent state expansion supports this approach. Both new states grew quickly in 2013, and we've also continued to see large premium growth from the states we added in 2012. Our geographic expansion has allowed our existing agent partners in neighboring states to secure new business, and it has allowed us to further diversify and form new partnerships.

All of our regions are performing well, increasing direct written premium, practicing sound underwriting, providing unparalleled claims service and strengthening relationships. We don't plan to enter additional states in 2014, but we will strive to increase market share in our current footprint. We are committed to supporting our agents and making sure they have what they need from us to deepen their own customer relationships and achieve their business goals.

FCCI's Agribusiness unit has continued to grow by offering the right coverage for the market and partnering with a select group of agents who understand the needs of their agriculture customers. With $82.3 million in premium, Agribusiness now rivals the size of our mature regions. We're continuing to strengthen this unit through technology investments and talent acquisition. Look for us to roll out online rating for Farmowners coverage in 2014.

Our Surety department is in its third year and has also continued to grow in a disciplined and profitable manner. We have built an impressive team that generated $7.3 million in premium in 2013.

We have the best agent partners in the business, and we will continue to work tirelessly to earn their trust and their business. We do this by providing exceptional service, by offering the right mix of coverage for their markets, and by being easy to work with. In agent surveys conducted by Deep Customer Connections in 2013, we were ranked the #6 P&C Performer nationwide for ease-of-doing-business.

We've invested in technology and infrastructure to meet the ongoing and future needs of our agents and policyholders. We enhanced our online claims capability to streamline claim entry and status checking. We implemented LC 360, a mobile platform that allows our Loss Control Consultants to enter photos and data directly into our system using tablets in the field, improving the turnaround time between policyholder visits and usable risk management recommendations. And we've initiated an upgrade of our Policy Administration System that will improve policy management functionality and ensure we have the right systems in place as we continue to grow.

Our primary objective is keeping our promises to our agents, policyholders and employees, and we chose to reflect that in a new tagline this year. We also revised our Mission Statement, and you'll see more on that in the pages to come. In addition, we launched a new public website that builds and strengthens the FCCI brand. The redesigned site makes it easy for our existing agents and policyholders to find what they need and for prospective policyholders to learn about us and find an FCCI agent near them.

I'm incredibly proud of FCCI's many accomplishments, and one I always enjoy sharing is the charitableness of FCCI employees and the impact they have on our communities. During 2013, our amazing employees graciously volunteered 1,772 hours to community organizations to improve the lives of others far less fortunate. That's another record I hope we continue to break every year.

Throughout FCCI's five regions, our employees are focused on shaping the best possible future. Whether we are building our agency partnerships, resolving claims, providing excellent customer service, updating our technology, expanding into new states, improving loss experience, developing the skills of our employees, or refining our brand and mission statement, FCCI has the Future in Focus. We are building the strongest company we possibly can — for you.

To our policyholders, agents, board members and employees, thank you for being part of the FCCI team.

Craig Johnson

# 2013 in Focus

By THE NUMBERS FCCI

"2013 turned out to be one of the strongest performance years in FCCI's history — from both our growth in premium volume and our improved profitability. We are confident this sets the stage for another very profitable year in 2014 as well. Our dedicated people and our agency partnership relationships give us solid confidence. We are prepared to take advantage of whatever opportunities the marketplace brings us."

**Rupert L. Willis, Executive Vice President & Chief Operations Officer**

**18,073** policyholders

**10,180** bonded principals

**539** contracted agencies

**3,974** appointed producers

**724** employees

**18** states

**1,772** employee hours donated to charities

**12** consecutive years of profit

**$593.5** million direct written premium

**$641.5** million GAAP equity (historic high)

**101.5%** combined ratio

**$552.1** million statutory surplus (historic high)

**$1.9** billion total assets

**$1.4** billion investment portfolio

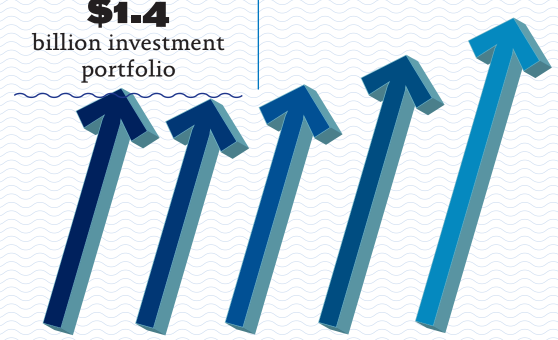
## Members' Equity

| | |
|---|---|
| 2008 | $451.9 |
| 2009 | $504.4 |
| 2010 | $549.8 |
| 2011 | $589.2 |
| 2012 | $637.2 |
| **2013** | **$641.5** |

historic high

## Net Income

| | | | |
|---|---|---|---|
| 2002 | $16.7 million | 2008 | $9.3 million |
| 2003 | $18.1 million | 2009 | $27.6 million |
| 2004 | $21.3 million | 2010 | $35.0 million |
| 2005 | $38.0 million | 2011 | $27.7 million |
| 2006 | $38.0 million | 2012 | $29.0 million |
| 2007 | $32.2 million | **2013** | **$32.1 million** |



## Direct Written Premium

| 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|
| $471.8 million | $461.4 million | $472.7 million | $525.3 million | $593.5 million |

## Revenue

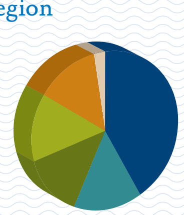
| 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|
| $499.1 million | $493.5 million | $510.4 million | $529.0 million | $586.4 million |

A.M. BEST RATING A JUNE 2013

## DIRECT WRITTEN PREMIUM

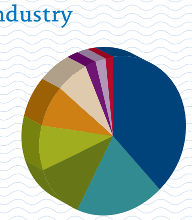
Property & Casualty 60.0%
Workers' Comp. 40.0%

### By Region



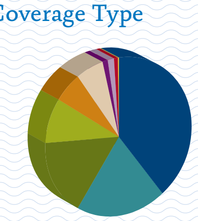
Florida 42.2%
Southeast 15.0%
Agribusiness 13.9%
Midwest 13.5%
Gulf Coast 13.1%
Southwest 2.3%

### By Industry



Construction 39.1%
Manufacturing 19.1%
Agriculture 11.8%
Services 9.2%
Wholesale 8.1%
Retail 6.6%
Financial Services 2.4%
Transportation 2.2%
Surety 1.5%

### By Coverage Type



Workers' Comp. 39.8%
Automobile 19.7%
Multi-peril 16.5%
Liability 8.8%
Property 5.9%
Umbrella 5.8%
Surety 1.2%
Inland Marine 1.2%
Farmowners 1.0%
Crime .1%

# June 2013 We got the A!


In 2012, A.M. Best confirmed what we'd known for a long time: the Outlook for FCCI was Positive. And in June 2013, we got even better news: A.M. Best raised FCCI's financial strength rating to A (Excellent).

As reasons for the upgrade, A.M. Best cited FCCI's long-lasting agent relationships, strong capitalization, solid operating performance, geographic expansion and significant premium diversification over the past 10 years. A.M. Best also commended FCCI's solid regional market knowledge, disciplined underwriting and strong claim management. We're pretty proud of those accomplishments, too.

Our Best's Capital Adequacy Ratio (BCAR) score was increased to 260, up 10.7 points from 2012; and our issuer credit rating was raised from "a-" to "a".

The new rating is confirmation of the hard work FCCI employees and our agent partners do every day to ensure we are offering the right coverage to policyholders, making sound loss control and risk management recommendations, handling claims well and making sound investments.

Our A.M. Best Outlook is again Stable, but with all the positive things happening at FCCI, we already have our sights set on the A+.

# Future in Focus


## Building the FCCI Brand

As FCCI continues to grow and change, we must ensure that our branding keeps pace with the company we are building. To celebrate our 55th anniversary, we adopted a new mission statement, logo and tagline. These changes reflect the legacy and reputation FCCI has built, our continued commitment to agency partnerships and policyholder service, and our vision for the future.

Our new mission statement is a powerful expression of why we exist as a commercial insurance carrier and what we set out to accomplish every day.

The changes to our logo included providing a streamlined and more modern feel to "Insurance Group" and the new tagline. The new tagline itself represents our commitment to keep our word, provide the coverage we've promised, and give our best service. We want to be the carrier that offers you more.

For our more than 18,073 policyholders and 10,180 bonded principals, upholding our promise means following through on the terms of their bonds and policies, protecting them from financial distress in the face of a loss, restoring what we can, taking care of injured workers, and providing loss control and risk management recommendations that prevent future loss.

For our 3,974 appointed producers, it means protecting their relationships with their clients, delivering on the coverage we said we'd provide, and making their jobs just a little bit easier by being as easy to work with as we can be.

For our claimants, it means handling claims efficiently, fairly and with compassion. Our claims philosophy is to stay true to our principles, to treat people well and to make decisions that we can be proud of in the long run. Whether we are settling a claim with our policyholder or a third-party claimant, our goal is the same: make the right decision.

FCCI is built on a legacy of trust, and we are carrying that legacy into the future.

## Mission Statement

FCCI employees are empowered to deliver commercial insurance products and exceptional customer service to meet the needs of our valued agency partners and policyholders. We keep our promises so businesses can thrive, manage risks and face the future with confidence.

To ensure we stay financially strong, we take a long-term approach to growth, expansion and investments and a disciplined approach to underwriting, pricing and selection.

To ensure we stay at the top of our game, we invest in technology, infrastructure and employee training. And to keep businesses running smoothly, we provide policyholders with efficient and fair claims resolution and real-world risk management solutions.

We do all this, so we can face the future with confidence and help our agent partners and policyholders do the same.

## 10 Teams

In 2013, we implemented an internal "10 Teams" initiative to identify best practices and opportunities for improvement within the company. Each team is made up of FCCI employees working together to make FCCI more successful. The results will be felt for years to come. The teams have already indentified more than $4.5 million in savings, initiated an upgrade to our Policy Administration System, created a website that helps employees discover training and career opportunities, and recommended strategies for attracting and retaining top notch employees and leaders.

We've also continued to invest in our internal structure, making sure we have strong leadership in every region, business continuity and succession plans in place, and extensive training opportunities to expand the skills and careers of our 724 talented employees.

## Claims

We made another change in 2013 that probably went unnoticed. We moved from centralized claims processing with adjusters in the field to aligning claims services under each of the regions. This change was seamless to agents and policyholders but allows us to provide even more local decision-making in the regions. Regional vice presidents have full autonomy to make decisions impacting claims in their regions.

Corporate Claims and Home Office Underwriting continue to provide excellent support services. The exceptional claims service FCCI is known for will not change.

## Vision

Our vision for the future is that FCCI will continue to grow and diversify based on agent need and business opportunity. As we expand, we will retain our founding principles and values and remain true to the core values our policyholders and agents have come to expect from us — Loyalty, Integrity, Vision, Excellence and Service.

We will continue to invest in and strengthen our employees, our agent relationships, our underwriting discipline, our local presence, our mutual structure, our financial prudence and our claims philosophy.

We have the future in focus, and we are developing new products and continuing to invest in technology, infrastructure and customer service improvements that make us the best commercial insurance carrier we can be.

With the momentum, strength and purpose built during an exceptional year in 2013, we face 2014 and the future with confidence.

"Top line growth coupled with declining loss ratios fueled another very solid year in 2013. Our balance sheet has never been stronger, and I expect to see continued improvement moving forward."

**Chris Shoucair, MST, CPA**

Executive Vice President, Chief Financial Officer & Treasurer

### 10 Teams

1. Improving Results
2. School of Excellence
3. Policy Administration System
4. Sales-Oriented Culture
5. Expansion
6. Agency Segmentation
7. Incentive Compensation
8. Staffing Model and Metrics
9. Enterprise Security and Risk Management Roadmap
10. Specialty Strategy

"A highly engaged workforce — with the right behaviors and the right skills — is the core of FCCI's business success. Our long-term commitment to creating and sustaining a collaborative learning culture plays a key role in our ability to deliver business results."

**Lisa Krouse, Esq., SPHR**

Executive Vice President, Chief HR Officer

"FCCI is uniquely aware of the various factors affecting our company and our industry, including legislative, regulatory and economic trends. We strive to mold our business model to best operate within the parameters that surround our highly regulated industry. Because of this, we are committed to playing an effective and key role in all of these areas to best deliver success to our company, our agents and our policyholders."

**Thomas A. Koval, Esq.**

Executive Vice President, Chief Legal Officer

"I believe FCCI has the most diligent and professional claims department in the industry. In 2013, FCCI resolved over 27,000 claims and in every case endeavored to do what is right. We work directly with our policyholders, agents and claimants to resolve claims in a timely and fair manner. Our efforts to restore injured workers to health, return businesses to operation and defend our policyholders from meritless claims are second to none. We also made it easier for our agents and policyholders to report and track claims online. Every employee at FCCI, not just in Claims, is in the business of making good on our promises."

**Joseph A. Keene**

Executive Vice President, Corporate Claims

# Strategy in Focus

Eight individuals with distinguished business backgrounds and proven success records make up FCCI's Board of Directors. Charged with strategic oversight of the company's goals and direction, they are outspoken advocates for FCCI's customers, employees and guiding principles.

**Robert W. Flanders**
*Director since 1993*

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

**Craig Johnson, MBA, CPA**
President & CEO
*Director since 2011*

**G.W. Jacobs, Esq.**
Past President & CEO
*Director since 1999*

**John Joseph "Jack" Cox**
*Director since 2012*

**John Stafford**
Chairman of the Board
*Director since 1996*

**Charles R. Baumann, CPA/CFF**
*Director since 2004*

**Roy A. Yahraus**
*Director since 2007*

## Senior Officers

**Paul I. 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

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

**Tracey J. Pfab**
Senior Vice President, Midwest 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-E, ASLI**
Senior Vice President, Business Development & Strategic Initiatives

**Kent Skidmore**
Senior Vice President, Southeast Region

**William D. Speaker, CPCU, AU**
Senior Vice President, Corporate Underwriting

**Lisa Weiland**
Senior Vice President, Underwriting

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

**David C. York, CPCU**
Senior Vice President, Florida Region

## Officers

**Patrick L. Caranfa, CIC, AU, MLIS**
Vice President, Corporate Underwriting & Product Management

**Ann Driscoll**
Vice President, Human Resources

**Cynthia L. Gaul, CIC, AIC**
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

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

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

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

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

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

**Brian Donovan, CPCU**
Assistant Vice President, Claims

## Executive Team

**Julie Bernhardt**
Executive Assistant

**Rupert L. Willis**
Executive Vice President & Chief Operations Officer

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

**Craig Johnson, MBA, CPA**
President & Chief Executive Officer

**Lisa Krouse, Esq., SPHR**
Executive Vice President, Chief HR Officer

**Thomas A. Koval, Esq.**
Executive Vice President, Chief Legal Officer

**Joseph A. Keene**
Executive Vice President, Corporate Claims

**Arlene Cueman**
Assistant to the President

# FCCI's Florida Region

Brothers Denver and Dallas Miller are the President and Vice President of D & D Garage Doors.

"In my first year with FCCI, I'm happy to say we had another great year in the Florida Region. We grew 10% to over $250 million in written premium, including more than $43 million in new business, all while keeping the region's profits solid on the overall book of business. We look forward to another strong year in the commercial middle market as we enjoy exceptional relationships with our agencies and capitalize on the presence, stability and commitment we have in the state of Florida."

David C. York, CPCU
Senior Vice President, Florida Region

In D & D's warehouse are (left to right) Liz Sandrey, AIS, FCCI Underwriting Specialist; Dallas Miller, D & D Garage Doors Vice President; Connie Harding, AINS, FCCI Senior Marketing Underwriter; Denver Miller, D & D Garage Doors President; Ryan Brown, AAI, AIP, CRIS, Ben Brown Insurance Agent; Rich Baranowski, CPCU, FCCI Underwriting Director; and Pansy Heger, CPCU, FCCI Loss Control Consultant.

# Values in Focus

FCCI Insurance Group was founded in Sarasota, Florida in 1959 as the FCCI Fund, a not-for-profit self insurance fund created by the Sarasota General Contractors Association.

Many carefully considered expansions and structure changes have led to the Florida Region being just one part of a growing, super-regional property & casualty carrier with a mutual structure.

FCCI's original founders may not have known at the time what the future held, but they began a company with enough character and integrity to endure for 55 years and beyond.

## D & D Garage Doors

*Sarasota, Florida*

*Ben Brown Insurance*

With 10 locations and an RV turned into a custom mobile showroom, D & D Garage Doors is the largest garage door dealer in the state of Florida.

It all started in Sarasota where Dallas and Denver Miller — the D & D behind D & D Garage Doors — grew up and learned the building trade and the value of honest work from their father, a contractor. In 1991, they opened their first garage door business in a barn. They didn't originally plan to expand the business throughout the state, but their winning combination of integrity, industry knowledge, wide product selection and excellent customer service created demand from builders and homeowners.

D & D now has more than 150 employees, including "Mom" and "Dad" Miller, and is headquartered in a bright yellow 30,000 square foot building in Sarasota, which also houses a showroom and an extensive warehouse.

FCCI insures all the D & D Garage Door locations, and Ryan Brown of Ben Brown Insurance handles the account. Ben Brown Insurance is another family-run business in Sarasota that has grown rapidly in the last several years. Built by three generations of the Ben Brown family, the agency has a 95% retention rate — proof they have strong client relationships.

Connie Harding, FCCI Senior Marketing Underwriter, believes Ryan's involvement is an advantage for his customers. "Ryan is very risk management oriented, and he has a great working relationship with his customers and with FCCI. Requesting FCCI's Driver Awareness course for D & D is a perfect example."

FCCI Driver Awareness Training is a 90-minute course focused on preventing unnecessary injuries and deaths while operating a motor vehicle. Participants view video clips of traffic scenarios and are quizzed on what they think the driver should do.

Dallas says, "FCCI first taught this course to our drivers a couple of years ago, and it was great. We all expected it to be boring, but it's very engaging and gets everyone thinking. We have several new employees, so we thought it was a good time to bring the class back."

On September 10, 2013, FCCI Loss Control Consultant Chris Marriner taught the FCCI Driver Awareness Training to 30 D & D drivers at the Sarasota location. The following week, he taught the same course for the Fort Myers and Port Charlotte locations, and FCCI Loss Control Consultant Steve Westman taught it for the Orlando and Daytona locations.

Pansy Heger is the FCCI Loss Control Consultant on the D & D account. "Dallas and Denver are very safety conscious. When I offered our Driver Awareness Training, they were eager to have all their drivers trained, even if it meant taking an hour and a half out of their daily routine. It is great to have a policyholder with such dedication to safety."

Ryan says, "FCCI's loss control consultants did a great job teaching the Driver Awareness courses for D & D. These courses bring a lot of value to our clients, and we appreciate the service."

FCCI Underwriting Specialist Liz Sandrey credits Dallas and Denver's approachable management style. "The owners of D & D are hands-on and are committed to controlling their exposures."

Dallas agrees, "I appreciate FCCI working with us to get all of our drivers trained. We've been with FCCI a long time and know several people there. It's a really good partnership."

| $250.9m | 135 | 159 |
|---|---|---|
| Direct Written Premium | Employees | Contracted Agencies |

### 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.

**Bud Hornbeck**
Lutgert Insurance
Naples, Fla.

**Colin Lowe**
Brown & Brown of Florida
Miami, Fla.

**Cynthia Payne**
CHAPP, Inc.
Dundee, Fla.

**Earl Rausch**
Risk Management Insurance
Fort Myers, Fla.

**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.

**Atlas Insurance Agency**
Sarasota, Fla.

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

**Brown & Brown of Florida**
Fort Lauderdale, Fla.

**Frank H Furman Insurance**
Pompano Beach, Fla.

**Gulfshore Insurance**
Naples, Fla.

**Innovative Insurance Consultants**
Coral Springs, Fla.

**Keyes Coverage**
Tamarac, Fla.

**Premier Insurance Corp.**
Cape Coral, Fla.

**Sihle Insurance Group**
Altamonte Springs, Fla.

**Stahl & Associates Insurance**
St. Petersburg, Fla.

# Relationships in Focus

John Graham III, CIC, Sterling Risk Advisors Principal (far left) with members of FCCI's Southeast Regional Office team: (left to right) Jeff Webber, CFPS, FCCI Loss Control Consultant; Josie Berry, CPCU, FCCI Director, Claims; Kurt Nelson, CPCU, FCCI Senior Marketing Underwriter; and Todd Marks, CPCU, AAI, FCCI Director, Underwriting.

"There is a strong sense of loyalty and progression in the Southeast Regional Office. Many of the agents that have been a part of FCCI's history in this region are also an important part of the current evolution and the future expansion within the region. We're also working with some new agencies that are proving to be exceptional business partners. All of us — our agency partners, our regional office staff and our field employees — are willing to go the extra mile for our policyholders, and I think that's very significant."

Kent Skidmore
Senior Vice President, Southeast Region

| Chairman's Club | President's Club | |
|---|---|---|
| *John Graham*<br>Sterling Risk Advisors<br>Atlanta, Ga. | *Bernard Williams & Company*<br>Savannah, Ga. | *Yates Insurance Agency*<br>Atlanta, Ga. |

**$88.7m**
Direct Written Premium

**95**
Employees

**109**
Contracted Agencies

# FCCI's Southeast Region

FCCI's Southeast Region began to take shape in 1991 with the purchase of National Trust, Inc., a company domiciled in Tennessee and licensed in five southern states.

That same year, FCCI's first agents outside the state of Florida were appointed in Georgia, and FCCI committed to establishing local presence, leadership and management in the growing region.

In 1999, the Southeast Regional Office was opened in Marietta. Today, FCCI's Southeast Region includes Georgia, South Carolina, North Carolina, Virginia and Maryland.

## Sterling Risk Advisors

*Atlanta, Georgia*

John Graham was one of the original agents appointed by FCCI in Georgia in 1991. He was a principal and founding partner of Graham-Naylor Agency, Inc., a family-owned business that shared FCCI's commitment to high professional standards and long-term relationships between carriers, agencies and policyholders.

In September 2013, Graham-Naylor merged with Sterling Risk Advisors, one of Atlanta's fastest-growing agencies, and John brought his loyalty to FCCI to the new partnership. "I always look for win-win business situations, but with FCCI it goes beyond that," says John. "It's really a win-win-win situation. My customers win because they get coverage from an outstanding carrier. I believe FCCI wins because we bring good risks to them, and Sterling Risk wins because working with FCCI brings great benefit to the agency."

FCCI Director of Underwriting Todd Marks has known John for more than 20 years. "John has been a member of FCCI's Chairman's Club since 2006. He and FCCI have enjoyed success together many of these years, but also have stuck by each other through some rough loss ratio years," says Todd. "By working together to manage risks and implement loss control recommendations that turned those accounts around, John and FCCI have provided exceptional service to policyholders and have shown how meaningful the FCCI–agency relationship can be."

John says, "Working with FCCI is the longest existing and most rewarding relationship in my professional career. We're going into the 24th year, and we've seen a lot of success together. I think that's driven by having common core values. Insurance is still very much a relationship business, and those relationships are built on trust and integrity. We share those values in good times and in bad times, which all partnerships go through from time to time, and the real test is whether you come out of those times together."

FCCI Regional Vice President Kent Skidmore says, "FCCI couldn't ask for a more loyal partner than John Graham. He goes above and beyond for his clients and we pride ourselves on going that extra mile with him."

"It's been very special to me knowing the Board of Directors over the years, knowing G.W. and Craig, and working with Todd and Kent," says John. "It's been a great journey and I feel fortunate to have participated in FCCI's spectacular growth from a niche workers' comp carrier in Florida to branching out into Georgia and into P&C and to really becoming the super-regional multi-line carrier they are today. I think the best is yet to come."

We think so, too.

# Relationships in Focus

## South Risk Management LLC

*Columbia, South Carolina*

In 2012, when J. Patrick McKain and David J. Wells III decided to start an agency along with their partners Tripp Hafner and W.D. Morris Jr., FCCI was one of the first carriers they called. Patrick and David had worked with FCCI at a previous agency and felt the focus on partnership suited their goal for South Risk Management LLC – to bridge the gap between the insurance industry and the companies it serves.

According to Patrick, the experience they already had working with Kent Skidmore, FCCI Southeast Region Senior Vice President, and Todd Laudun, FCCI Senior Marketing Underwriter, influenced the decision. "I've known Todd for many years, and I think the world of his underwriting skills and knowledge. I've known and worked with Kent a long time, too. There's a level of mutual trust with our FCCI partners that we value greatly and that we strive to duplicate with our other carrier partners."

Kent says that level of trust made a difference to FCCI. "We are very selective about doing business with new agencies," he explains, "but due to our existing relationship with Patrick and David, we had no doubts about South Risk."

"What stands out to us about FCCI is personal contact with the decision makers," says Patrick. "It's rare to be able to pick up the phone these days and have access to the folks that can make a difference in working together or writing a piece of business. We value that because it can add up to better service for our clients."

Todd's working relationship with David and Patrick goes back more than 20 years and spans multiple agencies and carriers, but he believes the combination of South Risk and FCCI is a winning team. "It's been exciting to partner with David and Patrick as they founded this agency," he says. "As expected, South Risk has gotten a strong start in its first two years, and I'm expecting even bigger things for them in 2014. The entire FCCI Southeast Regional team is ready to help them win new business and support their clients as they grow."

**South Risk Management and FCCI partners: (left to right) David J. Wells III, South Risk Management LLC Founding Partner; Tripp Hafner, South Risk Management LLC Founding Partner; Tina Reiff, FCCI Claim Specialist; J. Patrick McKain, South Risk Management LLC Founding Partner; Todd Laudun, FCCI Senior Marketing Underwriter; Kent Skidmore, FCCI Senior Vice President, Southeast Region; W.D. Morris Jr., South Risk Management LLC Founding Partner; and Kevin Bishop, FCCI Loss Control Consultant.**

"The Gulf Coast accomplished more in 2013 than we've had the opportunity to do in the last five years. We grew our premium by 50%, and that's with a staff increase of just 19%. To our existing two states of Mississippi and Alabama, we added three states. Tennessee transitioned to the Gulf Coast region from the Southeast, and Louisiana and Arkansas were new entries. The Gulf Coast team worked hard to build and prepare for success, and we were supported by FCCI's wonderful Product Management and IT departments."

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

# FCCI's Gulf Coast Region

Pictured from left to right in the River Hills Club are Austin Sims, FCCI Loss Control Associate; Cary Spence, River Hills Club General Manager; Tiffany Hawkins, FCCI Senior Marketing Underwriter; Jimmie McNair, FCCI Claim Specialist; Nathan Vancil, FCCI Commercial Lines Underwriter; and John Marchetti, Marchetti, Robertson & Brickell Insurance President.

| Chairman's Club | President's Club | | | |
|---|---|---|---|---|
| *Jerry Veazey Jr.*<br>Fisher Brown Bottrell Insurance<br>Jackson, Miss. | *Insurance and Risk Managers*<br>Brookhaven, Miss. | *Mike Ledkins Insurance Agency*<br>Thomasville, Ala. | *Ross & Yerger Insurance*<br>Jackson, Miss. | *SouthGroup Insurance Services*<br>Ridgeland, Miss. |

## Service in Focus

FCCI's Gulf Coast Region was originally formed in 1999 as Brierfield Insurance Company of Jackson, Mississippi. Brierfield was a joint venture between FCCI and a managing general agent, Mississippi Insurance Managers, Inc., with 80% ownership belonging to FCCI. Combining FCCI's underwriting capacity and MIM's book of business, Brierfield grew steadily.

In 2009, FCCI acquired the remaining 20% of Brierfield and retained both the office in Jackson and Tom Quaka, Brierfield's president. In 2011, the Gulf Coast Regional Office moved to its current location just outside Jackson in Ridgeland, Mississippi. As of 2013, the region is writing business in five states: Alabama, Arkansas, Louisiana, Mississippi and Tennessee.

### River Hills Club

*Jackson, Mississippi*

*Marchetti, Robertson & Brickell Insurance*

Jackson native and former president of the U.S. Tennis Association, the late W.E. "Slew" Hester had a vision: to create a tennis and sports facility that would be among the finest in the country.

He succeeded. Officially founded in 1964, River Hills Club is the premier tennis facility in Mississippi and one of the best in the Southeast. The Club now boasts 17 outdoor tennis courts, four indoor courts, a pro shop, a Junior Olympic-sized swimming pool with a two-story waterslide, a fitness center, four large dining and banquet rooms, and a lounge called "Slew's Place."

With its white columns, grand arches and dormer windows, the main clubhouse looks like it could have been built 100 years earlier than it was. The 26,000 square foot building is actually a modern addition, built in 2006 as part of a capital improvement program that included rebuilding 13 of the outdoor tennis courts. The new courts employ Har-Tru clay and HydroCourt technology that continuously irrigates the clay from below the surface, maintaining the consistency of the clay and eliminating downtime waiting for courts to dry.

In addition to tennis tournaments and swim meets, River Hills Club hosts weddings and receptions, formal and informal gatherings, "Dive-In" movies at the pool and family picnics. General Manager Cary Spence says, "River Hills Club is a family-friendly environment with a 50-year history. We're lucky to be in a great location in Jackson, but what makes the Club really special is the people. We have many members and staff who have been with us for a very long time."

One of those long-time members is Tom Quaka, FCCI Senior Vice President of West Coast Operations, who joined the club 30 years ago. "River Hills is a swim & tennis club, but it's really becoming a focal point for the business community in Jackson. As businesses have expanded outside the downtown area, more and more meetings and business lunches are taking place at the Club."

With its visibility in the business community, extensive facilities, full food service and catering, and on-site childcare, tennis lessons and fitness classes, River Hills Club requires an insurance team that it can trust. John Marchetti, President of Marchetti, Robertson & Brickell Insurance, represents the account.

"Marchetti, Robertson & Brickell is one of our second generation agencies," says Tom. "John's dad, Bob Marchetti, was an agent of ours for 40 years. John has grown up in the business, and he knows what he's doing. And, to tell you the truth, he has to, because he's also a member of the Club, and his brother, an attorney, was on the Club's Board of Directors when they had a pretty big claim a couple of years ago."

John remembers the claim well. "There was a bad storm with high winds and lots of rain. A retaining wall was blown down and water got onto two of the tennis court and did a lot of damage. The question was whether wind or water caused the damage and if it was covered under the policy."

"It was a major disaster for us," Cary remembers. "A member who lives along the property line called me at 6:00 a.m. and said, 'Your north wall fell.' I said, 'What? The whole wall?' Then, of course, I called John and he came right out."

Jimmie McNair, FCCI Claim Specialist, met John at the club and they looked at the damage together. "Jimmie is just great to work with," says John. "Everybody at FCCI did a fantastic job on the claim. They treated the insured really well, and on top of all that, everything was run up the flagpole to Tom. Tom was looking at things throughout the process and making sure they were progressing the way they should and communicating with me. You don't get that kind of attention from a lot of insurance companies."

Tom says, "The day after the storm, John called me and was a little concerned because with a policy for something like a country club, there can be gray areas, especially when it comes to wind and water damage. I'm happy to say our folks did an exceptional job with that claim. So good, in fact, that Cary stood up at a club event and said 'FCCI is the best insurance company in the world.' We couldn't ask any policyholder to be more pleased than that."

Cary agrees. "The claim was handled very professionally, and we were able to have the wall and the tennis courts rebuilt. As our P&C provider, FCCI's service has been stellar. People today are looking for integrity, and FCCI is a company that has it."

Tiffany Hawkins, FCCI Senior Marketing Underwriter, joined the River Hills Club service team in 2012. Nathan Vancil, FCCI Commercial Lines Underwriter, and Austin Sims, FCCI Loss Control Associate, are more recent additions. They all know they have a legacy to uphold.

"The day we were taking these photos, Tom was in the Club having lunch with his grandkids," says Tiffany. "We know how much this club means to him and to Jackson. We'll keep FCCI's promise."

| $77.7m | 66 | 123 |
|---|---|---|
| Direct Written Premium | Employees | Contracted Agencies |


# FCCI's Midwest Region


"2013 was a great year for the Midwest overall. The partnership and teamwork between our staff and agency partners have never been higher, and our financial results are evidence of that. We're continuing to build the FCCI brand in the Midwest with a consistent, thoughtful approach to business while partnering with the premier agencies in our territory. We are positioned well for long term success in the Midwest, and we look forward to seeing what 2014 brings!"

**Tracey J. Pfab**
**Senior Vice President, Midwest Region**

# Safety in Focus

FCCI entered the Midwest in 2000 with the purchase of Monroe Guaranty Insurance Company in Carmel, Indiana. In August 2013, the Midwest Regional Office moved into its current location in Indianapolis. Serving Illinois, Indiana, Kentucky, Michigan, Missouri and Ohio, the region has a strong field presence with an emphasis on safety and service.

## Arvco Container Corporation

*Kalamazoo, Michigan*

*USI Insurance Services*

Offering affordable stock packing products and creative custom packaging, Arvco Container Corporation has become one of the top corrugated foodservice and industrial packaging companies in the U.S.

In operation since 1971, Arvco is a family-owned business that employs 225 workers. A 315,000 square foot building in Kalamazoo, Mich., houses both the corporate offices and a production facility where packaging is designed, manufactured and tested. Additional manufacturing facilities in Michigan and Indiana produce many of the corrugated products.

The company holds several U.S. patents for innovative and unique designs, including a triangular box that snugly holds a slice of pizza with less waste than a traditional square box.

Like most businesses, though, Arvco has had its challenges. In the early 2000's, Arvco experienced several sizable workers' compensation claims while insured by another carrier. If left unchecked, the issue could have been a risk to the health and well-being of employees, as well as the company's ongoing success.

Kyle Baldwin, Arvco's Chief Financial Officer says, "Safety was always important to Arvco, but we weren't doing some of the things we needed to do, like staying on top of safety meetings with the people who really needed to be there. Presidents and vice presidents can talk about safety, but it's the operators on the floor who need to be involved in that discussion and help make the policies."

Kyle brought in Lester Allen Jr. of USI Insurance Services to look at Arvco's policies and see what could be done. Kyle says, "Les recommended a risk control consultant from the agency who helped us improve our safety committee and set some new policies. He also introduced us to FCCI. Before that, we'd never had a relationship with our underwriter."

"When I started working with Arvco," says Les, "they had a Workers' Comp claims problem that had been going on for several years, but they also had a sincere desire to correct the problem. FCCI went out on a limb to write this account, but Linda Hudson from FCCI Loss Control and Lori Herman, our Marketing Underwriter, met with us and believed in what they heard from Arvco. We all believed we could bring the loss ratio down."

"Arvco has made significant measures to raise awareness of employee safety, especially through a dedicated safety committee that meets monthly and includes top management, supervisors and production employees," says Linda. She attends Arvco's safety meetings, conducts ergonomic audits, performs safety checks and works with Cheri Stark, Arvco's HR Manager, on Return-to-Work initiatives.

"Cheri finds a way to accommodate any type of restriction, which helps the employee remain part of the team while recuperating," says Linda. "Arvco's management is very hands-on and involved with each step of the claims process."

"Arvco has really turned things around from a loss prevention and safety aspect," says Amy Smith, FCCI Underwriting Specialist. "By the time we wrote the account in 2009, losses were trending in the right direction, and we assisted with a TeamWorks!SM approach. Arvco benefitted from having two loss control experts on their side: the agency's risk control consultant and Linda. Arvco's average cost of workers' compensation claims over the last six years is 77% less than what it was from 2004-2008. That's a remarkable improvement."

The FCCI TeamWorks! approach means the entire team that works with the account, including the underwriter, loss control consultant and claim representative, meet with the policyholder. Les says, "It's fairly unique in the industry, and it's worked well for Arvco."

"Having Linda and the rest of the team available to us has been incredibly helpful," Kyle explains, "Because FCCI was willing to work with us on putting together a new culture, we've been able to reduce our premiums and use dividends to fund a safety bonus program. If we go a quarter with no lost time, every production employee gets a $150 safety bonus for that quarter. It's an approach that works, everyone's invested, and it's been absolutely fantastic."

| $80.1m | 100 | 96 |
| --- | --- | --- |
| Direct Written Premium | Employees | Contracted Agencies |

**Chairman's Club**

| Jon Loftin | Bill Pridgeon | Keith Stone |
| --- | --- | --- |
| MJ Insurance<br>Indianapolis, Ind. | Hylant Group<br>Toledo, Ohio | Gibson<br>South Bend, Ind. |

**President's Club**

| Energy Insurance Agency | The Horton Group | J L Hubbard Insurance and Bonds |
| --- | --- | --- |
| Lexington, Ky. | Orland Park, Ill. | Forsyth, Ill. |

**TeamWorks! in progress: Lester Allen, Jr., USI Insurance Services Senior Sales Executive; Amy Smith, FCCI Underwriting Specialist; Cheri Stark, Arvco HR Manager; Linda Hudson, FCCI Loss Control Consultant; and Kyle Baldwin, Arvco's Chief Financial Officer.**

"I believe we entered Texas at a great time due to firming rates and economic growth. It is a pleasure to work for FCCI along with a great group of employees and the best agencies in the state. We saw proof of that in the 2013 year-end results, and with the team we've put together and the opportunities available to us, I expect good news to continue in 2014."

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

| $13.8m | 17 | 52 |
|---|---|---|
| Direct Written Premium | Employees | Contracted Agencies |

# Teamwork in Focus

The agency partnerships FCCI has formed in Texas over the last two years have been absolutely critical to the quick success in the state. FCCI contracts with carefully selected Texas agencies and is committed to working with each one to meet the needs of their customers.

# FCCI's Southwest Region

To ensure FCCI's products and services are spot-on, the Southwest Region has just formed its first Agents' Advisory Council (AAC). With the first meeting held in March 2014, the Southwest Region AAC joined an FCCI tradition, offering feedback that will help FCCI keep our promise to provide the right coverage for the Texas market, take care of policyholders and claimants, and be easy for our agent partners to work with.

## INSURICA

*Plano, Texas*

When talking about FCCI's Southwest Region agency partners, one name comes up time and time again: INSURICA Insurance Management Network.

INSURICA was the first agency to write business with FCCI in Texas in 2012. INSURICA was the first agency to hit $1 million in written premium with FCCI in 2013. And Mike Haselden, INSURICA's Texas Region President, is one of the first members of the newly formed Southwest Region AAC.

"When I came to FCCI and started identifying the agencies we wanted to do business with, INSURICA was one I trusted and put on the list right away," says Jim Harms. "Mike Haselden has the kind of honesty and integrity that when he tells you something, you can believe it. He's very knowledgeable, and all the INSURICA locations in Texas share the same approach."

Mike says, "We are very proud of our short legacy and mutual success with FCCI. I have known Jim Harms for more than 12 years, and I genuinely respect him for his professionalism, leadership and business conduct. FCCI is exactly what Jim told us it would be from day one."

"Two of the most noticeable characteristics of FCCI are underwriter responsiveness and communication," Mike continues. "Jim has surrounded himself with insurance veterans who have excellent underwriting skills and are good communicators. FCCI's underwriters collaborate with us to work out the best terms and conditions for our clients. We know that when an account is placed with FCCI, we do not have to worry about any underwriting surprises after the fact."

FCCI's claims service has also come to Mike's attention. "I also have not had to worry that an insured's claim would not be handled properly. In the 18 months we have represented FCCI, I have not had one claim escalated to my attention," he says. "FCCI keeps their promise. This gives me peace of mind at the end of the day."

**The INSURICA and FCCI team (from front left to back right): Thomas McMahon, INSURICA Commercial Lines Producer; Kelly Charland, INSURICA Account Manager; Theresa Hrubesh, INSURICA Commercial Lines Producer; Richard Reynolds, FCCI Underwriting Director; Suzanne Van Meter, INSURICA Commercial Insurance and Marketing Manager; Russell Luttrell, FCCI Marketing Underwriter; Charles Milby, INSURICA Commercial Lines Producer; Ron Smith, INSURICA Claims Manager; Catherine Vasquez, FCCI Senior Marketing Underwriter; Michael S. Whitson, INSURICA Director of Risk Management Services; Don Saetre, FCCI Senior Marketing Underwriter; Kris Flores, INSURICA Commercial Lines Producer; James J. Roskopf, INSURICA Commercial Lines Producer; James L. Harms, FCCI Regional Vice President; James A. Smith, INSURICA Commercial Lines Producer; Mike Haselden, INSURICA Texas Region President; James Freeland, FCCI Senior Marketing Underwriter; Ron Knight, INSURICA Commercial Lines Producer; Peter H. Duncan, FCCI Director of Southwest Region Claims.**

# Knowledge in Focus

# FCCI Agribusiness

Devastation inside the South Georgia Pecan Cleaning Plant after a fire in late 2012.

Since entering the Ag market in 1999, FCCI's goal has been to offer the specialized knowledge and expertise this unique industry requires.

Our Ag professionals know the business, and we work with experienced, local agents who have the same goal: to provide the best coverage possible for their commercial agribusiness, farm and ranch clients.

## South Georgia Pecan Cleaning Plant

*Leary, Georgia*

*Fleming & Riles Insurance*

Raw, roasted, lightly salted, praline ... there are many ways to enjoy pecans. "On fire" isn't one of them, and it certainly isn't what Mark Goodyear, owner of South Georgia Pecan Cleaning Plant in Leary, Ga., wanted to hear when he answered an early morning phone call.

A fire sparked during the pecan drying process at his plant, likely caused by debris under a dryer vent. A warehouse and thousands of pounds of pecans — half of the plant's operations — were destroyed.

FCCI Claim Specialist Brad Thompson arrived at the scene the day the fire occurred and issued an initial check the following week. FCCI made an effort to mitigate the loss and reduce claim costs by working with the FDA to allow the burned and smoke-damaged pecans to be used for animal feed, but unfortunately, all the pecans had to be disposed of. FCCI paid for the disposal as well.

Within eight months, the claim was closed, the warehouse was rebuilt and the plant was up and running again at full capacity. Mark says he was extremely satisfied with the way his claim was handled. "FCCI did a great job! I would recommend them to anybody. They were fair and worked well with us to close the claim quickly. I have nothing but accolades for the team at FCCI."

Mark's agent, Garrett Fleming of Fleming & Riles Insurance, agrees. "This was the fastest paid claim of this size that my office has seen in 30-plus years," he says.

No business owner wants to be called in the early morning hours and told that their building is on fire, but when it happens to FCCI policyholders, our Claims department will be there with an appropriate, knowledgeable response.

We speak Ag, and we keep promises.

| $82.3m | 20 | 164* |
|---|---|---|
| Direct Written Premium | Employees | Contracted Agencies |

*Agribusiness agencies are contained within regional agency counts.

"FCCI Ag is poised for continued success in growth and profitability based on clear, intentional decisions in the selection of staff, agents and policyholders."

Earl E. Price, Senior Vice President, Agribusiness

# FCCI Surety

FCCI Surety writes commercial and contract surety bonds in all of the states we offer coverage in, and more.

In just three years, FCCI Surety has experienced impressive growth and low loss ratios despite tough economic times. As we continue to grow, our goal is to build relationships of integrity and trust.

To ensure FCCI Surety is meeting the needs of our contracted agencies, we requested feedback through an agent survey in 2013. The responses were overwhelmingly positive: 90% of FCCI Surety agents rated our level of service very good to excellent; 71% rated FCCI Surety's service quality better than our competitors; 92% rated FCCI Surety staff very to extremely knowledgeable; and 86% were very to extremely likely to recommend FCCI Surety.

We appreciate our agents taking the time to respond, and we look forward to continuing to provide the high level of service you have come to expect.

## J.E. Charlotte Construction Corp.

*Venice, Florida*

*Atlas Insurance Agency*

Perhaps the single most important factor for success in surety is forming strong bonds. FCCI Senior Surety Underwriter Jamie Wood explains, "Like most types of insurance, surety is driven by relationships. Building trust with all of our customers is crucial."

Because of a relationship forged between FCCI, Florida Region President's Club agency Atlas Insurance and Atlas' client J.E. Charlotte Construction Corp., FCCI Surety was able to write a $2.5 million bond for J.E. Charlotte Owner and President Jeff Charlotte that allowed him to construct one of the most prestigious buildings in Sarasota County — Plantation Golf & Country Club.

Jeff was so pleased with the service he received from FCCI and Atlas that we now write the general liability, commercial auto, commercial property and workers' compensation policies for J.E. Charlotte.

FCCI Surety strives to build and maintain relationships that help our customers achieve their goals and objectives — the true measure of bonding.

| $7.3m* | 17 | 253* |
|---|---|---|
| Direct Written Premium | Employees | Contracted Agencies |

*Surety is a business segment within the regions. Surety premium and agencies are contained within regional numbers.

# Growth in Focus

"I look back on 2013 as a 'positioning' year for us. After growing 150% in 2012, we were fortunate enough to be able to hire six experienced surety underwriters over the past year to support continued growth and to better serve our agents. Now, we have a strong regional presence in all of the 18 states in which we operate. We grew 16% in 2013 and plan to grow 22% in 2014. For FCCI Surety, we truly have our future in focus."

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

Jamie Wood, FCCI Senior Surety Underwriter; Jeff Charlotte, J.E. Charlotte Owner & President; and Jared Hawkins, Atlas Insurance Agent meet at the beautiful Plantation Golf & Country Club.

# Citizenship in Focus

FCCI's vision for the future doesn't end with our own goals, or even those of our agents and policyholders. We have the future of our communities in focus, too.

At the corporate level, FCCI sponsors many deserving non-profit organizations throughout our five regions. Some of the organizations we support include All Faiths Food Bank, Children First, Community Youth Development, Step Up for Students, Suncoast Charities for Children, Westcoast Black Theatre Troupe, and Zero - The End of Prostate Cancer, among many others.

One of our employees' major projects each year is a month-long fundraiser for United Way. In 2013, FCCI employees raised more than $117,000 to help fund United Way's community programs.

Our employees have another way to serve and give back to their communities. Through FCCI's Volunteerism Policy, each employee has four hours of company-paid time to volunteer at the organization of their choice. The policy was implemented in 2012, and in just one year, FCCI employees nearly doubled the number of company-paid hours they spent volunteering. In 2013, 443 employees volunteered 1,772 hours, and we're well on our way to surpassing that number in 2014.

## Habitat for Humanity

FCCI employees choose many different organizations to volunteer with, and several departments have volunteered together as team-building events. In 2013, groups from the Midwest, Gulf Coast, Southeast and Home Office partnered with their local Habitat for Humanity affiliate to help a family in their community have a safe and affordable place to live.

In the Midwest, a group of employees helped Habitat for Humanity of Hamilton County build a fence for a new home in Ind. Before moving into their Habitat home, Ryan and Cherish Davis and their three young children were living in a two-bedroom apartment in an area where the kids could not play outside and the school zone did not meet their needs. The school system where their new home is located allows them to send their children to school instead of homeschooling them, and now the children can enjoy their fenced yard.

Employees from the Gulf Coast Region worked with Habitat for Humanity Mississippi Capital Area to clean up the construction site of a house for the caretaker of The Salvation Army of Jackson, Miss. The new house is on The Salvation Army grounds and allows him to conveniently monitor the facility. The caretaker and his wife had been living in a house that was literally falling down around them.

In the Southeast, employees helped Richmond Metropolitan Habitat for Humanity paint a home in North Chesterfield, Va. This home was part of the Habitat for Heroes program that provides veterans with access to quality, affordable housing.

Employees from the Home Office helped with landscaping a newly built Habitat for Humanity Sarasota house by preparing the yard for sod.

FCCI and our employees focus on giving back to many community organizations, and we are proud to support those who are making a difference in the lives of so many.


Midwest employees take a moment to meet with the Davis family in their newly fenced yard.


Gulf Coast employees celebrate a job well done after cleaning up the construction site of a new home.

Southeast employees complete the rehabilitation of a Habitat for Heroes home by painting it.

Home Office employees gather at the construction site for the home they helped landscape.

**FCCI Mutual Insurance Holding Company and Subsidiaries**

Consolidated Financial Statements

**As of and for the Years Ended December 31, 2013 and 2012**

# 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, 2013 and 2012, 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 opinions.

### 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, 2013 and 2012, 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 28, 2014
Atlanta, Georgia

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## FCCI Mutual Insurance Holding Company and Subsidiaries
## Consolidated Balance Sheets as of December 31, (in thousands)

| | 2013 | 2012 |
|---|---|---|
| **Assets** | | |
| Investments: | | |
| Securities available for sale, at fair value | | |
| Fixed maturity securities | $ 1,155,534 | 1,183,377 |
| Common stocks | 190,437 | 177,250 |
| Other invested assets | 1,378 | 1,632 |
| Total investments | 1,347,349 | 1,362,259 |
| Cash and cash equivalents | 54,687 | 14,827 |
| Accrued investment income | 11,502 | 11,810 |
| Amounts due from policyholders, net | 227,863 | 203,421 |
| Reinsurance recoverable and prepaid reinsurance premium | 99,858 | 116,764 |
| Amounts due from Florida Special Disability Trust Fund | 4,422 | 4,503 |
| Deferred policy acquisition costs | 35,477 | 30,873 |
| Land, building and equipment, net | 43,480 | 46,453 |
| Deferred income taxes, net | 13,132 | - |
| Goodwill | 24,151 | 24,151 |
| Other assets | 11,849 | 11,197 |
| Total assets | $ 1,873,770 | 1,826,258 |
| **Liabilities and Members' Equity** | | |
| Liabilities: | | |
| Loss and loss adjustment expenses | $ 719,416 | 723,319 |
| Unearned premiums | 256,623 | 227,637 |
| Accrued expenses and other liabilities | 108,496 | 89,100 |
| Deferred income taxes, net | - | 3,032 |
| Accrued policyholder dividends | 4,947 | 6,342 |
| Premiums refundable and loss fund deposits | 3,317 | 2,929 |
| Income tax payable | 7,679 | 4,938 |
| Debt | 131,750 | 131,765 |
| Total liabilities | 1,232,228 | 1,189,062 |
| Commitments and Contingencies (Note 15) | | |
| Members' Equity: | | |
| Accumulated earnings | 615,341 | 583,208 |
| Accumulated other comprehensive income | 26,201 | 53,988 |
| Total members' equity | 641,542 | 637,196 |
| Total liabilities and members' equity | $ 1,873,770 | 1,826,258 |

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)

| | 2013 | 2012 |
|---|---|---|
| **Revenues** | | |
| Net premiums earned | $ 531,602 | 472,651 |
| Net investment income | 45,254 | 45,382 |
| Net realized gain | 6,975 | 8,460 |
| Service fees and other income | 2,614 | 2,503 |
| Total revenues | 586,445 | 528,996 |
| **Expenses** | | |
| Losses and loss adjustment expenses incurred | 350,767 | 316,634 |
| Policy acquisition expenses | 90,273 | 79,475 |
| General and administrative expenses | 92,578 | 84,607 |
| Policyholder dividends | 5,394 | 6,692 |
| Other | 1,372 | 1,730 |
| Total expenses | 540,384 | 489,138 |
| Income before income taxes | 46,061 | 39,858 |
| Income tax expense | 13,928 | 10,878 |
| Net income attributable to members | $ 32,133 | 28,980 |

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)

| | 2013 | 2012 |
|---|---|---|
| Net income attributable to members | $ 32,133 | 28,980 |
| Other comprehensive income, net of taxes: | | |
| (Decrease) increase in unrealized gains on investments, net of taxes of $14,058 and $14,603 | (23,428) | 24,336 |
| Reclassification adjustments for realized gains in net income, net of taxes of $2,616 and $3,174 | (4,359) | (5,286) |
| | (27,787) | 19,050 |
| Total comprehensive income | $ 4,346 | 48,030 |

See accompanying notes to consolidated financial statements.

## FCCI Mutual Insurance Holding Company and Subsidiaries
## Consolidated Statements of Members' Equity for the years ended December 31, (in thousands)

| | *Accumulated Earnings* | *Accumulated Other Comprehensive Income* | *Total Members' Equity* |
|---|---|---|---|
| **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 |
| Comprehensive income: | | | |
| Net income | 32,133 | - | 32,133 |
| Unrealized gain on available-for-sale securities net of deferred tax | - | (27,787) | (27,787) |
| **December 31, 2013** | $ 615,341 | 26,201 | 641,542 |

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)

| | 2013 | 2012 |
|---|---|---|
| Cash flow from operating activities: | | |
| Net income | $ 32,133 | 28,980 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization expense | 5,211 | 4,991 |
| Deferred tax expense | 510 | 3,051 |
| Net realized losses (gains) on equipment sold and retired | 1,452 | (55) |
| Net realized gains on investments sold | (6,975) | (8,460) |
| Net amortization of discounts and premiums on fixed maturity securities | 8,138 | 7,819 |
| Changes in assets and liabilities: | | |
| Decrease (increase) in: | | |
| Accrued investment income | 308 | (45) |
| Amounts due from policyholders | (24,442) | (18,846) |
| Reinsurance recoverables and prepaid reinsurance premium | 16,906 | (1,201) |
| Amounts due from Florida Special Disability Trust Fund | 81 | 2,130 |
| Deferred policy acquisition costs | (4,604) | (3,127) |
| Other assets | (652) | 294 |
| Increase (decrease) in: | | |
| Loss and loss adjustment expenses | (3,903) | (30,802) |
| Unearned premiums | 28,986 | 20,719 |
| Accrued expenses and other liabilities | 1,300 | 2,454 |
| Accrued policyholder dividends | (1,395) | (2,714) |
| Premiums refundable and loss fund deposits | 388 | (165) |
| Income tax payable | 2,741 | 2,973 |
| Net cash provided by operating activities | 56,183 | 7,996 |
| Cash flow from investing activities: | | |
| Sales and maturities of investments | 252,051 | 271,943 |
| Purchases of investments | (264,669) | (316,684) |
| Proceeds from sales of property and equipment | 163 | 234 |
| Purchases of property and equipment | (3,868) | (3,673) |
| Net used in investing activities | (16,323) | (48,180) |
| Cash flow from financing activities: | | |
| Proceeds from credit facility | 186,475 | 81,315 |
| Principal payments on credit facility | (186,475) | (49,315) |
| Net cash provided by financing activities | - | 32,000 |
| Net increase (decrease) in cash and cash equivalents | 39,860 | (8,184) |
| Cash and cash equivalents, beginning of year | 14,827 | 23,011 |
| Cash and cash equivalents, end of year | $ 54,687 | 14,827 |
| Cash paid during the year for: | | |
| Interest | $ 2,824 | 2,364 |
| Income taxes | $ 10,677 | 4,854 |

See accompanying notes to consolidated financial statements.



## FCCI Mutual Insurance Holding Company and Subsidiaries
## Notes to Consolidated Financial Statements (in thousands)

### 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 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 Mutual Insurance Holding Company
  - 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 February 2013, the Financial Accounting Standards Board (FASB) issued ASC Update No. 2013-02 (Topic 220), *Comprehensive Income Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*. This guidance requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income (AOCI), either on the face of the statement of income or in the notes to the consolidated financial statements. Significant amounts reclassified out of AOCI should be provided by the respective line items of net income but only if the amount reclassified is required under U.S GAAP to be reclassified in its entirety to net income in the same reporting period. For amounts not required to be reclassified in their entirety to net income, a cross-reference to other disclosures provided for in accordance with U.S. GAAP is required. This guidance is effective for nonpublic entities for periods beginning after December 15, 2013. The adoption of this guidance is not expected to have a material effect on the Company's results of operations, financial position or liquidity.

#### *Subsequent Events*

The Company has evaluated events subsequent to December 31, 2013, and through the consolidated financial statements issuance date of March 28, 2014.

### 3. Investments

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

| 2013 | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| US Treasury and US government agencies and corporations | $ 49,808 | 1,250 | (1,131) | 49,927 |
| State and political subdivisions | 484,957 | 12,146 | (9,780) | 487,323 |
| Mortgage-backed and asset-backed securities | 274,500 | 9,812 | (6,453) | 277,859 |
| Corporate bonds | 268,424 | 10,002 | (666) | 277,760 |
| Foreign government and foreign corporate bonds | 60,211 | 2,499 | (45) | 62,665 |
| Total fixed maturity securities | 1,137,900 | 35,709 | (18,075) | 1,155,534 |
| Common stock | 166,147 | 25,945 | (1,655) | 190,437 |
| Total available-for-sale securities | $ 1,304,047 | 61,654 | (19,730) | 1,345,971 |

| 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 |

The amortized cost and fair value of fixed maturity securities as of December 31, 2013 by contractual maturities follow:

| | | Amortized Cost (1) | Fair Value (1) |
|---|---|---|---|
| Due in one year or less | $ | 36,457 | 36,830 |
| Due after one year through five years | | 352,079 | 367,153 |
| Due after five years through ten years | | 412,043 | 415,539 |
| Due after ten years | | 337,321 | 336,012 |
| Total fixed maturities | $ | 1,137,900 | 1,155,534 |

(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), c umulative 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 as of December 31, were as follows:

| 2013 | | Less Than 12 Months Unrealized Losses | Less Than 12 Months Fair Value | 12 Months or More Unrealized Losses | 12 Months or More Fair Value | Total Unrealized Losses | Total Fair Value |
|---|---|---|---|---|---|---|---|
| Available for sale: | | | | | | | |
| Bonds | $ | 8,851 | 244,120 | 2,771 | 15,742 | 11,622 | 259,862 |
| Equity securities | | 1,655 | 30,686 | - | - | 1,655 | 30,686 |
| Mortgage-backed and asset-backed securities | | 4,141 | 59,927 | 2,312 | 23,526 | 6,453 | 83,453 |
| | $ | 14,647 | 334,733 | 5,083 | 39,268 | 19,730 | 374,001 |

| 2012 | | Less Than 12 Months Unrealized Losses | Less Than 12 Months Fair Value | 12 Months or More Unrealized Losses | 12 Months or More Fair Value | Total Unrealized Losses | Total 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 |

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 in 2013 was $1,620, representing a 33% decline, on a bond issued by the Commonwealth of Puerto Rico.

During 2013 and 2012, 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, 2013. 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, 2013 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:

| | | 2013 | 2012 |
|---|---|---|---|
| Bonds | $ | 40,547 | 42,251 |
| Equity securities | | 9,923 | 7,295 |
| Other invested assets | | (254) | (254) |
| Cash, cash equivalents and short-term investments | | 3 | 5 |
| Gross investment income | | 50,219 | 49,297 |
| Investment expenses | | (4,965) | (3,915) |
| Net investment income | $ | 45,254 | 45,382 |

Proceeds from sales or maturities of fixed maturity securities during 2013 and 2012 were $228,493 and $249,960, respectively. Proceeds from sales of equity securities during 2013 and 2012 were $23,556 and $21,983, respectively.

Net realized gains (losses) on investments sold were comprised of the following for the years ended December 31:

| | | 2013 | 2012 |
|---|---|---|---|
| Fixed maturity securities: | | | |
| Gross gains | $ | 5,539 | 7,008 |
| Gross losses | | (306) | (4) |
| Equity securities: | | | |
| Gross gains | | 1,742 | 1,456 |
| Gross losses | | - | - |
| Other invested assets: | | | |
| Gross gains | | - | 7 |
| Gross losses | | - | (7) |
| Total realized investments gain | $ | 6,975 | 8,460 |

The Company recorded no impairment write-downs during 2013 and 2012, and realized no gains or losses from subsequent sales.

At December 31, 2013 and 2012, bonds, cash, and cash equivalents with fair values of $17,629 and $18,220, 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 9% of members' equity at December 31, 2013 and 2012.

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 subprime mortgage-related risk exposure by holding securities that carry an aggregate credit rating of BB- 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 | $ | 1,127 | 1,125 | 1,083 | - |

***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 the investment is $1,378, including its cost of $2,392. Amortization was $254 for both 2013 and 2012. The investment is being amortized over ten years from the initial date of acquisition.

The Company has six years of remaining unexpired tax credits and has fulfilled its one year holding period requirement as of September 27, 2011.

Each low-income property is subject to an annual regulatory review and the properties maintain their qualifying status as of December 31, 2013.

***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:

| 2013 | 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 | $ 47,074 | 47,074 | - | - |
| State and political subdivisions | 487,323 | - | 487,323 | - |
| Mortgage-backed and asset-backed securities | 277,859 | - | 277,859 | - |
| Corporate bonds | 280,613 | - | 280,613 | - |
| Foreign government and foreign corporate bonds | 62,665 | - | 62,665 | - |
| Total fixed maturity securities | 1,155,534 | 47,074 | 1,108,460 | - |
| Common stock(1) | 182,673 | 182,673 | - | - |
| Total investment securities | $ 1,338,207 | 229,747 | 1,108,460 | - |

(1) The Company holds $7,764 of other common stock carried at its contractually specified redemption value.

| 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.

## 4. Amounts Due from Policyholders

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

| | 2013 | 2012 |
|---|---|---|
| Premiums in course of collection | $ 25,480 | 19,212 |
| Premiums deferred not yet due | 202,274 | 185,617 |
| Premiums due on retrospectively rated policies | 2,971 | 1,865 |
| Amounts due on deductible policies | 1,635 | 992 |
| Amounts due from policyholders, gross | 232,360 | 207,686 |
| Allowance for doubtful accounts | (4,497) | (4,265) |
| Amounts due from policyholders, net | $ 227,863 | 203,421 |

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:

| | 2013 | 2012 |
|---|---|---|
| January 1, | $ 30,873 | 27,746 |
| Capitalized costs | 82,048 | 74,078 |
| Amortized costs | (77,444) | (70,951) |
| December 31, | $ 35,477 | 30,873 |

## 6. Land, Building and Equipment

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

| | 2013 | 2012 |
|---|---|---|
| Land | $ 4,269 | 4,269 |
| Building and improvements | 49,940 | 49,909 |
| Furniture and equipment | 14,562 | 13,364 |
| Software in use | 33,764 | 35,083 |
| Software under development | 580 | 275 |
| Land, building and equipment, at cost | 103,115 | 102,900 |
| Accumulated depreciation and amortization | (59,635) | (56,447) |
| Land, building and equipment, net | $ 43,480 | 46,453 |

Depreciation and amortization expense for land, building and equipment for the years ended December 31, 2013 and 2012 amounted to $5,211 and $4,991, 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.

As of December 31, 2013, 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:

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | 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) | (2,475) | (1,309) | (1,980) |
| Goodwill and other intangible assets, net | $ 24,151 | 2,474 | 24,151 | 2,969 |

(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, 2013 and 2012.

## 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:

| | 2013 | 2012 |
|---|---|---|
| January 1, gross | $ 723,319 | 754,121 |
| Less: | | |
| 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 |
| January 1, net | $ 604,119 | 632,788 |
| Incurred related to: | | |
| Current year | 387,999 | 363,828 |
| Prior years | (37,232) | (47,194) |
| | 350,767 | 316,634 |
| Paid related to: | | |
| Current year | 147,510 | 137,094 |
| Prior years | 190,700 | 208,209 |
| | 338,210 | 345,303 |
| December 31, net | $ 616,676 | 604,119 |
| Plus: | | |
| Reinsurance recoverable, unpaid losses | 88,583 | 106,332 |
| Florida Special Disability Trust Fund recoverable (Note 9) | 4,422 | 4,503 |
| Salvage and subrogation recoverables | 5,874 | 5,022 |
| Reinsurance reserves assumed | 2,226 | 2,351 |
| Liability for loss and LAE on deductible policies | 1,635 | 992 |
| December 31, gross | $ 719,416 | 723,319 |

The liability for LAE developed favorably in 2013 and 2012 by $37,232 and $47,194, 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:

| | 2013 | 2012 |
|---|---|---|
| Amounts paid by the Company submitted to the SDTF pending reimbursement | $ 1,251 | 993 |
| Amounts paid by the Company not yet submitted to the SDTF | 358 | 553 |
| Amounts not yet paid by the Company | 2,813 | 2,957 |
| | $ 4,422 | 4,503 |

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

For the years ended December 31, 2013 and 2012, assessments were $1,729 and $1,556, respectively, and the Company collected $1,337 and $1,397, 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:

| | 2013 | 2013 |
|---|---|---|
| Recoverable for loss and LAE reserves | $ 88,583 | 106,332 |
| Recoverable for paid loss and LAE | 905 | 1,712 |
| Prepaid reinsurance premium | 10,370 | 8,720 |
| | $ 99,858 | 116,764 |

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

| | Direct | Assumed | Ceded | Net |
|---|---|---|---|---|
| **2013** | | | | |
| Written premiums | $ 593,490 | 6,509 | 40,890 | 559,109 |
| Earned premiums | 564,829 | 6,013 | 39,240 | 531,602 |
| **2012** | | | | |
| Written premiums | $ 525,280 | 4,297 | 37,370 | 492,207 |
| Earned premiums | 504,651 | 4,043 | 36,043 | 472,651 |

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

| | Direct | Assumed | Ceded | Net |
|---|---|---|---|---|
| **2013** | $ 367,758 | 3,559 | 20,550 | 350,767 |
| **2012** | $ 322,964 | 2,617 | 8,947 | 316,634 |

## 11. Income Tax

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

| | 2013 | 2012 |
|---|---|---|
| Current income tax expense | | |
| Federal | $ 11,583 | 6,722 |
| State | 1,835 | 1,105 |
| Total current income tax expense | 13,418 | 7,827 |
| Deferred income tax expense | | |
| Federal | (1,166) | 2,727 |
| State | 1,676 | 324 |
| Total deferred income tax expense | 510 | 3,051 |
| Total income tax expense | $ 13,928 | 10,878 |

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

| | 2013 | 2012 |
|---|---|---|
| Deferred income tax assets: | | |
| Discount of liability for loss and LAE | $ 16,247 | 18,486 |
| Discount of unearned and advance premiums | 18,702 | 16,620 |
| Deferred compensation | 5,665 | 5,050 |
| Net state operating loss carryforwards | 2,822 | 3,125 |
| Accrued policyholder dividends | 1,777 | 2,313 |
| Allowance for doubtful accounts | 1,686 | 1,599 |
| Subsequent injury tax | 1,149 | 710 |
| Unrealized loss on investment securities | 7,399 | 220 |
| Other | 2,965 | 2,835 |
| Total gross deferred income tax assets | 58,412 | 50,958 |
| Less valuation allowance | (2,822) | (3,125) |
| Total net deferred income tax assets | 55,590 | 47,833 |
| Deferred income tax liabilities: | | |
| Unrealized gain on investment securities | 23,121 | 32,616 |
| Deferred policy acquisition costs | 13,305 | 11,578 |
| Other | 6,032 | 6,671 |
| Total deferred income tax liabilities | 42,458 | 50,865 |
| Net deferred income tax asset (liability) | $ 13,132 | (3,032) |

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 $2,822 related to net operating losses in the state of Indiana, the Company will need to generate future taxable income of approximately $188,476 prior to the expiration of the net operating loss carryforwards in 2019 to 2026. Indiana taxable income for the years ended December 31, 2013 and 2012 was $155 and $210, 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, 2013. 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, 2013 and 2012) to the expense recorded for the years ended December 31:

| | 2013 | 2012 |
|---|---|---|
| Expected tax | $ 16,121 | 13,950 |
| Tax-exempt interest | (4,712) | (4,510) |
| State income taxes, net of federal benefit | 2,285 | 939 |
| Provision to return adjustment | (315) | (61) |
| Other, net | 549 | 560 |
| Actual income tax expense | $ 13,928 | 10,878 |

The Company has adopted ASC 740-10-05, *Accounting for Uncertainty in Income Taxes*, 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, 2013, 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 $25,425 have been pledged as collateral. There is no balance outstanding on the LOC as of December 31, 2013 and 2012.

*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, 2013 and 2012, the Company owned FHLB stock in the amount of $7,764 and $8,139, respectively. As of December 31, 2013, 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, 2013 are summarized in the following table:

| Description | Amount Outstanding | Date Issued | Maturity Date | Interest Rate |
|---|---|---|---|---|
| 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% |
| 5-Year Fixed Rate Note | 32,000 | 6/27/2013 | 6/27/2018 | 1.853% |
| 2-Year Fixed Rate Note | 47,750 | 10/21/2013 | 10/21/2015 | 0.492% |
| | $ 131,750 | | | |

## 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 2013 and 2012 were $5,222 and $4,655, 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 2013 and 2012, the Company recognized expense related to these units of $2,158 and $1,692, respectively. As of December 31, 2013 and 2012, the Company has a liability for the Performance Units outstanding of $9,495 and $8,032, 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 2013 and 2012, the Company recognized expense related to Appreciation Rights of $2,550 and $1,870, respectively. As of December 31, 2013 and 2012, the Company has a liability for the Appreciation Rights outstanding of $7,445 and $5,806, 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, 2013 and 2012, the Company's liability for such deferred compensation, not funded by Performance Units, was $1,056 and $1,144, respectively. During 2013 and 2012, the Company recognized a reduction in expense of $88 and $399, respectively.

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, 2013 and 2012, 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:

| | 2013 | 2012 |
|---|---|---|
| Net income | $ 28,390 | 27,263 |
| Policyholders' surplus | 552,115 | 520,814 |

### 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, 2013 follow:

| | Amount |
|---|---|
| 2014 | $ 1,913 |
| 2015 | 1,827 |
| 2016 | 1,603 |
| 2017 | 744 |
| 2018 | 760 |
| Thereafter | 1,947 |
| | $ 8,794 |

Rent expense for the years ended December 31, 2013 and 2012 was $2,727 and $2,220, respectively.



# Future in Focus

*2013*


## Acknowledgments

We would like to thank the following individuals and businesses for their contributions to the 2013 FCCI Annual Report.

***Lester M. Allen Jr.***
Senior Sales Executive Commercial
**USI Insurance Services**
*Grand Rapids, Mich.*

***Kyle Baldwin***
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**Arvco Container Corporation**
*Kalamazoo, Mich.*

***Ryan Brown***
Agent
**Ben Brown Insurance**
*Sarasota, Fla.*

***Jeff Charlotte***
Owner & President
**J.E. Charlotte Construction Corp.**
*Venice, Fla.*

***Ryan, Cherish, Rain, Sky and Violet Davis***
Habitat for Humanity Homeowners
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***Garrett Fleming***
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***Mark Goodyear***
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***John Graham III***
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***Habitat for Humanity of Hamilton County***
*Westfield, Ind.*

***Habitat for Humanity Mississippi Capital Area***
*Jackson, Miss.*

***Habitat for Humanity Sarasota***
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***Richmond Metropolitan Habitat for Humanity***
*Richmond, Va.*

***Cary Spence***
General Manager
**River Hills Club**
*Jackson, Miss.*

***The Salvation Army***
*Jackson, Miss.*

## Photography

***Atlanta Studios***
*Duluth, Ga.*

***Joshua Aaron Photography***
*Columbia, S.C.*

***Michael Brown***
*Sarasota, Fla.*

***Gil Ford Photography***
*Jackson, Miss.*

***John Gilroy Photography***
*Kalamazoo, Mich.*

***Martha Ivey Photography***
*Albany, Ga.*

***Don Netzer Photography***
*Dallas, Texas*

***Villetto Photography***
*Bradenton, Fla.*

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