



*Alabama*

ALABAMA



*South Carolina*

SOUTH CAROLINA



*North Carolina*

NORTH CAROLINA



*Florida*

FLORIDA



*Georgia*

GEORGIA

A POLICY

TO DO MORE®

MEMBER  
SINCE 1954  
COMP SINCE

**FHM**  
INSURANCE  
COMPANY

2008 annual report



# letter from the audit committee

The Audit Committee of FHM Insurance Company reviewed the Company's audited financial statements for the year ending December 31, 2008. The Committee reviewed and discussed the financial statements with management which has primary responsibility for the financial statements.

The Audit Committee received from its external accountants the written disclosures required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees) which confirm, in their professional judgment, that the external accountants are independent of the Company and the Audit Committee. The Audit Committee also met with the Company's external auditors, with and without management present, to discuss the Company's audited financial statements, the external auditor's judgments of the quality of the accounting principles applied to the audit, the significant judgments affecting the Company's financial statements, and other matters required to be discussed by Statement on Auditing Standards No. 114 (The Auditor's Communication with Those Charged With Governance).

Based on our review and discussions referred to above, the Audit Committee recommended to the Company's Board of Directors, and the Board approved, including condensed statutory statements of the audited financial statements in the Company's Annual Report.

The foregoing report is provided by the following directors who constitute the Audit Committee:

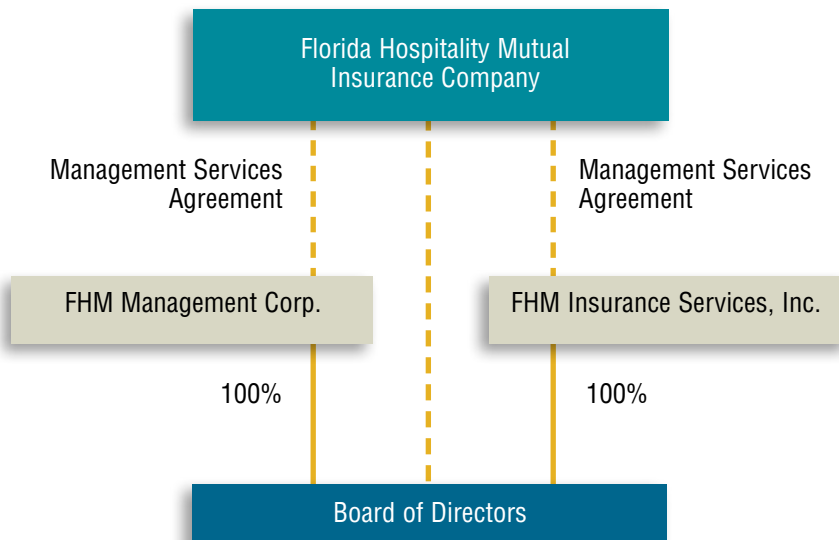


George D. Gabel, Jr., Chair

Walter L. Banks

Mary Ann Richardson

Joseph G. Seay



# letter from administration

Dear Policyholder:

2008 continued the trend of profitability and financial stability for FHM. The combination of less severe claims experience during the year and the decrease in IBNR (Incurred But Not Reported) reserves allowed FHM to recognize \$4.8 million in Net Income for the year, which increased our surplus to \$53 million.

During 2008, we continued to work on diversifying our policyholder base by expanding our horizons into other states. By year end, FHM was approved to write business in South Carolina. During the first quarter 2009, FHM was also approved in North Carolina. FHM has begun writing business in South Carolina and anticipates writing business in North Carolina by mid-year. This means FHM is now licensed in Florida, Georgia, Alabama, North Carolina and South Carolina.

We are pleased to report our Georgia book of business has grown steadily since our entry into that state in 2007. Our partnership with the Restaurant Owners' Safety Association remains strong and our efforts to increase our relationships in Georgia continue as our experience in that market grows.

In 2008, FHM continued to make significant advances in technology. We introduced a completely redesigned web site with increased information and functionality for policyholders and agents. We also introduced FHMconnect, a new web site tool that provides access to up-to-date information and reports policyholders need to effectively manage their workers' compensation program. The new website and FHMconnect, coupled with the power of the Tropics system, mean FHM now has a solid technological base that will allow us to continue enhancing the tools available to policyholders and provide access to real-time information whenever and wherever needed.

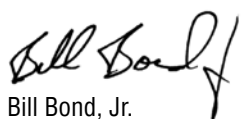
In keeping with our commitment to enhance services to policyholders, 2008 saw the introduction of a streamlined Payroll Audit Process that consolidated the quarterly audit package to a pre-filled, one-page form. This process is now far less time consuming for policyholders and gives FHM the advantage of having a more accurate picture of a policyholder's payroll throughout the policy period.

The end of 2008 saw us once again preparing for a rate decrease in Florida. As in years past, we responded to the anticipated rate decrease by developing a strategy to ensure we identify and capitalize on opportunities to enhance our book of business with quality accounts while maintaining our strong financial position.

The October 2008 Florida Supreme Court ruling against Mariners Health in the Murray vs. Mariners Health case, which opened up the Statute to allow attorneys to advocate on behalf of injured workers with few restrictions on fee awards, reinforced our belief that establishing a good working relationship with injured workers can help to hold the line on increases in claims costs due to attorney involvement. Our WECAR<sub>xE</sub> program remains one of the major strategic advantages we provide to policyholders by focusing on establishing contact with injured workers within 24 hours of the report of an injury and maintaining open lines of communication until the case is resolved.

We appreciate your continuing trust and confidence in us, and we want you to know we stand firm in our commitment to "A Policy To Do More" as the way we do business.

Sincerely,



Bill Bond, Jr.  
President



Jack B. Healan, Jr.  
Chairman



Jack Lemine  
Chief Operating Officer

# condensed statutory statements

## STATUTORY BALANCE SHEETS

	Year ended December 31, 2008	Year ended December 31, 2007
<b>ADMITTED ASSETS</b>		
Cash and Invested Assets	\$ 115,571,523	122,312,297
Other Assets	10,218,541	12,602,219
Total Admitted Assets	<u>\$ 125,790,064</u>	<u>134,914,516</u>
<b>LIABILITIES AND SURPLUS</b>		
Loss and Loss Adjustment Expense Reserves	\$ 64,045,632	68,509,492
Other Liabilities	8,698,799	17,121,173
Total Liabilities	<u>72,744,431</u>	<u>85,630,665</u>
Surplus	53,045,633	49,283,851
Total Liabilities and Surplus	<u>\$ 125,790,064</u>	<u>134,914,516</u>

## STATUTORY STATEMENTS OF INCOME

	Year ended December 31, 2008	Year ended December 31, 2007
<b>REVENUES</b>		
Direct Premiums Earned	\$ 40,538,699	39,201,239
Ceded Premiums Earned	(1,879,028)	(2,260,742)
Net Premiums Earned	<u>38,659,671</u>	<u>36,940,497</u>
Net Investment Income	4,878,634	5,753,790
Net Revenues	<u>43,538,305</u>	<u>42,694,287</u>
<b>EXPENSES</b>		
Net Loss and Loss Adjustment Expenses	22,688,406	27,051,729
Underwriting, Operating and Other Expenses	11,341,476	11,030,295
Net Expenses	<u>34,029,882</u>	<u>38,082,024</u>
Net Income Before Income Taxes and Policyholder Dividends	9,508,423	4,612,263
Policyholder Dividends	2,750,000	1,890,000
Net Income Before Income Taxes	<u>6,758,423</u>	<u>2,722,263</u>
Income Taxes	1,948,059	777,320
Net Income	<u>\$ 4,810,364</u>	<u>1,944,943</u>

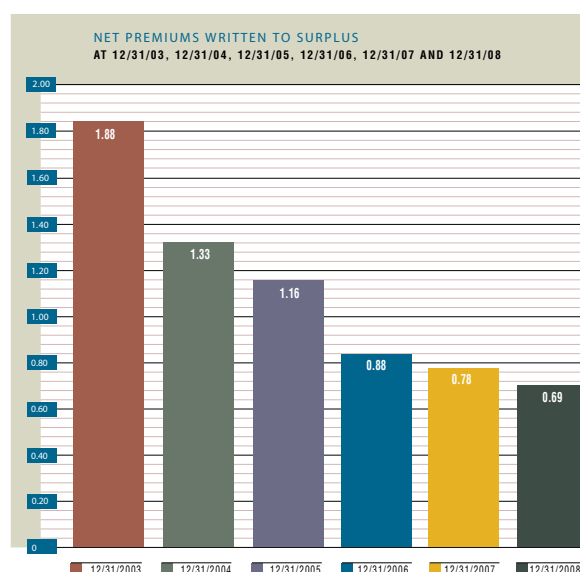
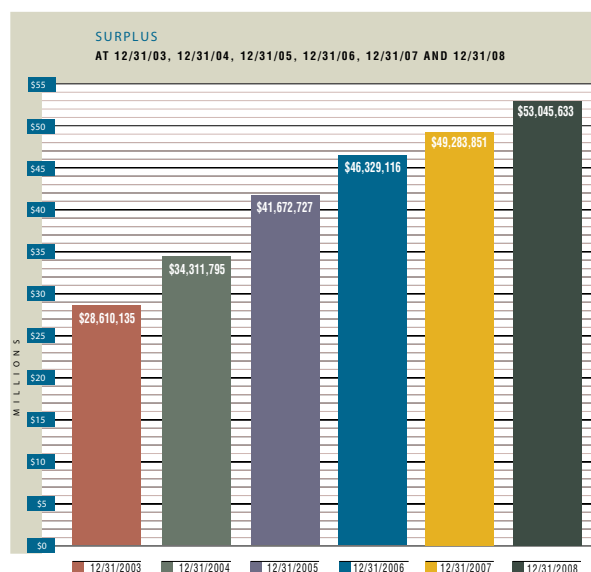
# condensed statutory statements

## STATUTORY STATEMENTS OF CASH FLOW

		Year ended December 31, 2008	Year ended December 31, 2007
Net Cash From Operations	\$	672,919	2,351,182
Total Cash Provided From Investments and Other Sources		43,029,317	35,411,490
Total Cash Applied (primarily for purchase of investments)		(46,111,466)	(34,161,721)
Net Change in Cash and Short-Term Investments		(2,409,230)	3,600,951
Cash and Short-Term Investments, Beginning of Year		5,783,417	2,182,466
Cash and Short-Term Investments, End of Year	\$	3,374,187	5,783,417

## STATUTORY STATEMENTS OF SURPLUS

		Year ended December 31, 2008	Year ended December 31, 2007
Surplus, Beginning of Year	\$	49,283,851	46,329,116
Net Income		4,810,364	1,944,943
Other Changes in Surplus, Net		(1,048,582)	1,009,792
Surplus, End of Year	\$	53,045,633	49,283,851





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