



2010 ANNUAL REPORT

FHM INSURANCE
COMPANY

A POLICY TO **DO MORE**®

Workers' Comp Since 1954

letter from administration

Dear Policyholder:

We are pleased to enclose FHM's 2010 Annual Report. The year 2010 marked the dawn of a new era in FHM's history as we achieved new milestones and new heights of success that once hardly seemed imaginable. 2010 also shows that the company remains in excellent financial condition. For the year ended December 31, 2010, FHM recognized \$3.6 million in Net Income which increased our surplus to \$62.3 million.

Our proudest achievement during 2010 was receiving an A- rating from the A.M. Best Company. This important milestone is a recognition that FHM has earned the right to be part of the highest level of workers' compensation carriers, as well as a recognition of the company's financial strength and its ability to successfully navigate changing markets and economic conditions.

By the end of 2010, we were actively writing business in seven states – Florida, Georgia, Alabama, North Carolina, South Carolina, Virginia and Kentucky – and quickly establishing strong relationships with agencies and agents across the southeast to serve their multi-state clients.

During 2010, we began the process of changing our name to more accurately reflect our regional focus. We received final approval of this request in early 2011 and as this Annual Report is published, we are now officially known as FHM Insurance Company.

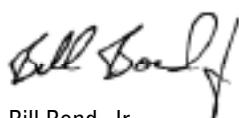
Our focus on technology continued during 2010 and saw the introduction of a completely updated web site which incorporates access to FHMconnect on every page, an expanded SafetyNet section with an array of tools and resources and a Search Engine function for quick and easy navigation to information.

Close on the heels of the new web site, we launched the FHM mobile site to allow policyholders and agents to interact with FHM regardless of their location or the device they use.

We ended the year on a positive note when our continued aggressive stance on overstated and fraudulent claims bore fruit in December as a claimant was arrested and charged with one count of Workers' Compensation fraud and one count of Identity Theft.

As 2010 drew to a close, plans were firmly in place to translate the year's momentum into what we believe is the first year of a dynamic new era for FHM. Our anticipation of greater things to come from FHM is possible in large part because of our most valuable asset – the steadfast trust and confidence our policyholders and agents place in us. Working from that base of strength, we turn our eyes eagerly toward 2011 and see a year full of promise and achievement. As we go forward, we stand firm in our commitment of "A Policy To Do More" and are proud to confirm to you that it is more than just a slogan . . . it's the way we do business.

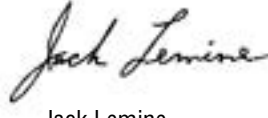
Sincerely,



Bill Bond, Jr.
President



Jack B. Healan, Jr.
Chairman



Jack Lemine
Chief Operating Officer

Board of Directors:

Walter L. Banks, William Bond, Jr., Ruel L. Bradley, Jr., George D. Gabel, Jr., Jack B. Healan, Jr.,
Mary Ann Richardson, Joseph G. Seay

condensed statutory statements

STATUTORY BALANCE SHEETS

		Year ended December 31, 2010	Year ended December 31, 2009
ADMITTED ASSETS			
Cash and Invested Assets	\$	107,135,374	108,756,995
Other Assets		<u>6,768,182</u>	<u>8,764,175</u>
Total Admitted Assets	\$	<u>113,903,556</u>	<u>117,521,170</u>
LIABILITIES AND SURPLUS			
Loss and Loss Adjustment Expense Reserves	\$	44,742,528	51,666,220
Other Liabilities		<u>6,835,028</u>	<u>7,515,575</u>
Total Liabilities		51,577,556	59,181,795
Surplus		<u>62,326,000</u>	<u>58,339,375</u>
Total Liabilities and Surplus	\$	<u>113,903,556</u>	<u>117,521,170</u>

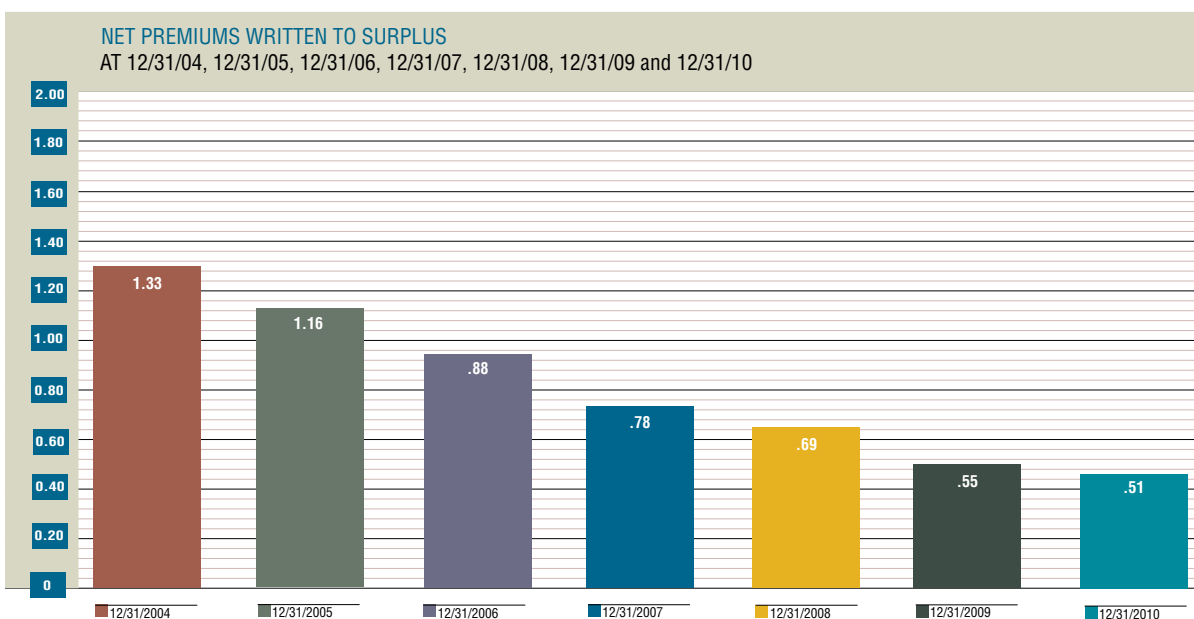
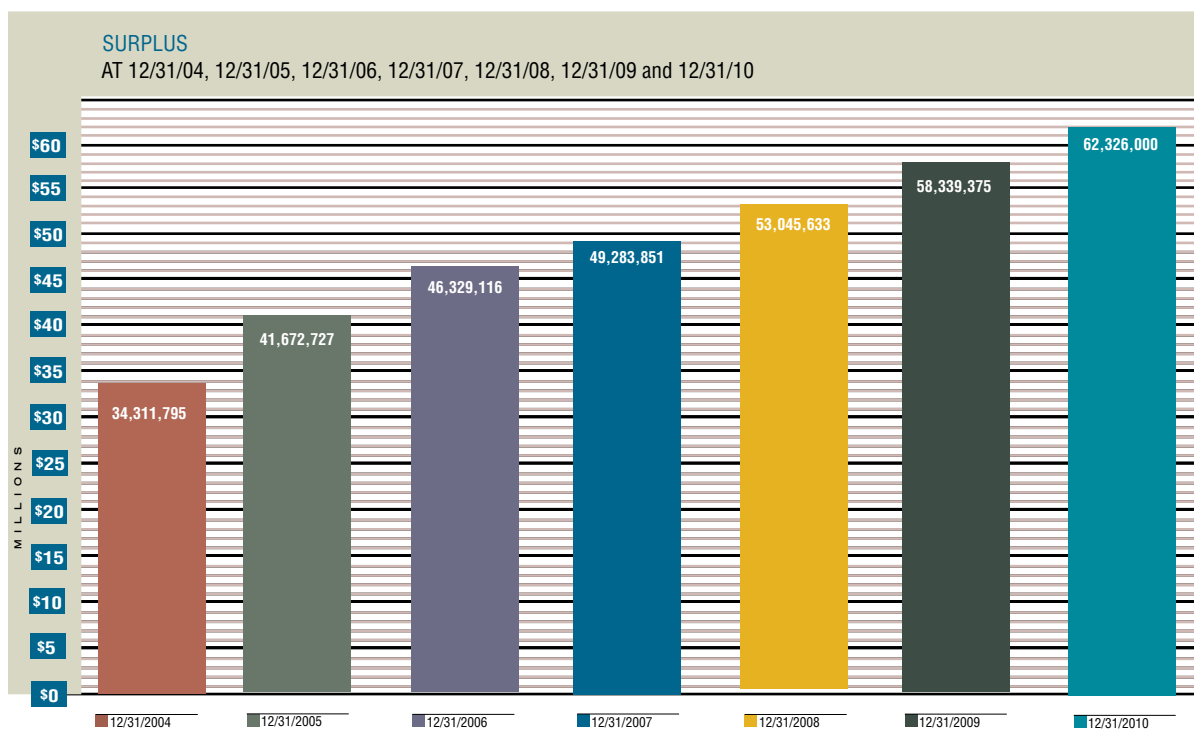
STATUTORY STATEMENTS OF INCOME

		Year ended December 31, 2010	Year ended December 31, 2009
REVENUES			
Direct Premiums Earned	\$	32,537,850	30,894,672
Ceded Premiums Earned		<u>(1,402,759)</u>	<u>(1,621,479)</u>
Net Premiums Earned		31,135,091	29,273,193
Net Investment Income		<u>7,966,093</u>	<u>5,392,388</u>
Net Revenues		<u>39,101,184</u>	<u>34,665,581</u>
EXPENSES			
Net Loss and Loss Adjustment Expenses		23,323,326	16,324,542
Underwriting, Operating and Other Expenses		<u>10,201,311</u>	<u>10,445,309</u>
Net Expenses		33,524,637	26,769,851
Net Income Before Income Taxes and Policyholder Dividends		5,576,547	7,895,730
Policyholder Dividends		<u>2,705,000</u>	<u>3,145,000</u>
Net Income Before Income Taxes		2,871,547	4,750,730
Income Taxes		<u>(726,891)</u>	<u>427,867</u>
Net Income	\$	<u>3,598,438</u>	<u>4,322,863</u>

condensed statutory statements

STATUTORY STATEMENTS OF SURPLUS

		Year ended December 31, 2010	Year ended December 31, 2009
Surplus, Beginning of Year	\$	58,339,375	53,045,633
Net Income		3,598,438	4,322,863
Other Changes in Surplus, Net		388,187	970,879
Surplus, End of Year	\$	<u>62,326,000</u>	<u>58,339,375</u>



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, 2010. 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:

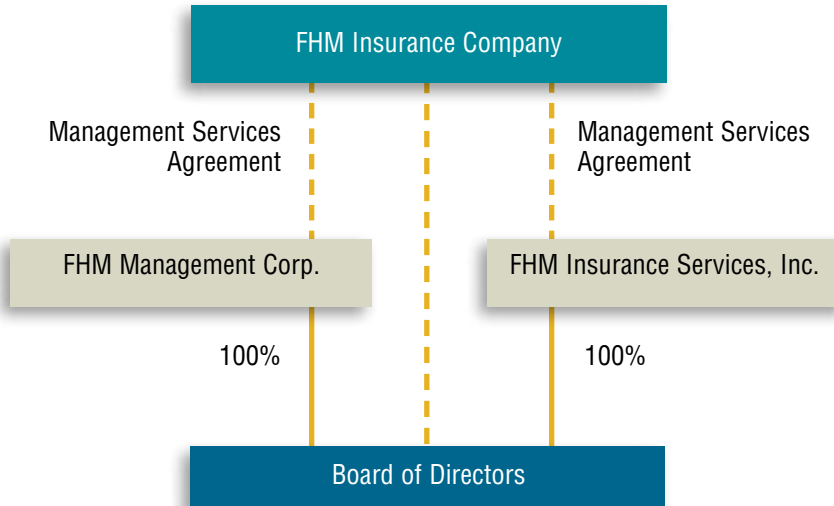


George D. Gabel, Jr., Chair

Walter L. Banks

Mary Ann Richardson

Joseph G. Seay



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COMPANY

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Workers' Comp Since 1954

FHM Insurance Company

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