STATE OF ILLINOIS
DEPARTMENT OF INSURANCE
DIRECTOR'S ORDER

The attached Report of Examination as of **December 31, 2009**, of the condition and affairs of the **First Nonprofit Insurance Company,** located in **Chicago, Illinois,** was recently completed by duly qualified examiners, pursuant to the provisions of the Illinois Insurance Code.

Due consideration has been given to the comments of the examiners regarding the operation of the Company and its financial condition, as reflected from the report.

It is therefore **ORDERED** that said report be, and it is hereby, adopted and filed and made an official record of the Department of Insurance, as of this date.

DEPARTMENT OF INSURANCE

Jack Messmore

Jack Messmore
Acting Director

Dated this 30th day of June, 2011.

STATE OF ILLINOIS
DEPARTMENT OF INSURANCE
PREFATORY COMMENT

Subsequent to the completion of the financial examination as of **December 31, 2009**, of the condition and affairs of the **First Nonprofit Insurance Company,** the Company submitted written correspondence, dated **June 13, 2011**, and by e-mail dated **June 14, 2011,** and **June 22, 2011,** to the Illinois Department of Insurance, indicating corrective action taken in response to the summary findings contained in the Report of Examination.

The Company's action and the effect were as follows:

1. The financial statements as of December 31, 2009, prepared from the books and records reflect surplus as regards policyholders in the amount of $53,458,214. Certain financial statement accounts were reclassified, common stock to aggregate write-ins for other than invested assets- cash value of officers life insurance.

   Response: The Company indicated that the reclassification of the company owned life insurance will be presented as such in future statements.

2. The Company is not in compliance with 215 ILCS 5/32(1), which requires a company to obtain a permit from the Illinois Director of Insurance prior to increasing its paid-up capital. Additionally, the Company is not in compliance with 215 ILCS 5/29 relating to amending its Articles of Incorporation to reflect the change in common shares issued.

   Response: The Company indicated that if it needs to increase capital in the future, it will obtain a permit in compliance with 215 ILCS 5/32(1). Also, the Company indicated that it has filed an Amended Articles of Incorporation with the Illinois Department of Insurance on March 17, 2011 in compliance with 215 ILCS 5/29.

3. The Company is not in compliance with 50 Ill. Adm. Code 807 in that its custodial agreement with The Private Bank does not contain all the required safeguards and controls identified in the *Financial Condition Examiners Handbook* (Examiners Handbook) of the National Association of Insurance Commissioners (NAIC), Section 1- Part III (F).

   Response: The Company indicated that it has begun the process of amending its custodial agreement to comply with 50 Ill. Adm. Code 807.

4. The Company is not in compliance with 215 ILCS 5/126.4C, which requires the Company's Board of Directors, on no less than a quarterly basis, to receive and review a summary report on the insurer's portfolio, its investment activities, and investment practices engaged in under delegated authority in order to determine whether the investment activity of the insurer is consistent with its written plan.

   Response: The Company indicated that at its first Board of Directors meeting of 2011, it was in compliance with the requirements of 215 ILCS 5/126.4C as noted above, and that the above requirements will be a subject for Board of Directors meetings on at least a quarterly basis.

5. The Company is not in compliance with 50 Ill. Adm. Code 904.10 in that it has securities being held by two brokers, Charles Schwab and Co. and William Blair & Co.

   Response: The Company indicated that it is in the process of transferring said securities from the above named brokers to the State Street Trust Company, located in Chicago, Illinois, and that it intends on completing the transfer by July 31, 2011.

   The State Street Trust Company is a qualified custodian in the State of Illinois.

Kenneth A. Skiera

Kenneth A. Skiera, CFE
Chief Examiner
Financial Examination Section

Dated this 23rd day of June, 2011.

I hereby certify that the attached Report of Examination dated

June 6, 2011, shows the condition and affairs of the

First Nonprofit Insurance Company,

of **Chicago**, **Illinois** as of **December 31, 2009**.

This report has been reviewed.

Kenneth A. Skiera

Kenneth A. Skiera, CFE
Chief Examiner
Financial Examination Section

Dated this 23rd day of June, 2011.

Illinois Department of Insurance

100 West Randolph Street, Suite 9-301, Chicago, Illinois 60601

PAT QUINN
Governor

MICHAEL T. McRAITH
Director

Honorable Joseph Torti, III
Chairman, Financial Condition (E)
Committee, NAIC
State of Rhode Island
Department of Business Regulation
Division of Insurance
1511 Pontiac Avenue, Building 69-2
Cranston, Rhode Island 02920

Honorable Mila Kofman
Secretary, Northeastern Zone (I), NAIC
Department of Professional & Financial Regulation
Maine Bureau of Insurance
34 State House Station
Augusta, Maine 04333-0034

Honorable Stephen W. Robertson
Secretary, Midwestern Zone (III), NAIC
Indiana Department of Insurance
311 West Washington Street, Suite 300
Indianapolis, Indiana 46204-2787

Honorable Michael T. McRaith
Director of Insurance
State of Illinois
320 West Washington Street
Springfield, Illinois 62767

Pursuant to authority vested in **Illinois Property and Casualty Warrant No. 10014-1**, dated **May 17, 2010**, and your several instructions, an examination has been conducted of the condition and affairs of the **First Nonprofit Insurance Company**, located in **Chicago, Illinois**. The report of such examination is submitted herewith.

Respectfully,

Tom Karas

Tom Karas, CFE
Representing State of Illinois and
Midwestern Zone (III) NAIC

STATE OF ILLINOIS)
) ss
COUNTY OF COOK)

Tom Karas, CFE, deponent herein, being first duly sworn, upon oath deposes and says:

That this deponent is an examiner employed by the Department of Insurance of the State of Illinois;

That an examination was made of the affairs of the **First Nonprofit Insurance Company,** located in **Chicago, Illinois,** a property and casualty domestic stock company, organized and authorized under the laws of the State of Illinois, pursuant to authority vested in **Illinois Property and Casualty Warrant No. 10014-1**, dated **May 17, 2010**, issued by Michael T. McRaith, Director of Insurance State of Illinois.

That this deponent was the Examiner-in-Charge of said examination, and that the attached report of examination is a true and complete report of the condition of the above named Company on **December 31, 2009**, as determined by the examiners.

Tom Karas

Examiner-in-Charge

Subscribed and sworn to before me this

9TH day of JUNE, A. D. 2011

Rudolph J. Stimac

Notary Public

OFFICIAL SEAL
RUDOLPH J STIMAC
NOTARY PUBLIC - STATE OF ILLINOIS
MY COMMISSION EXPIRES:11/14/13

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REPORT OF EXAMINATION

DATE:	June 6, 2011
WARRANT:	Property and Casualty No. 10014-1
EXAMINATION OF:	First Nonprofit Insurance Company 1 South Wacker Drive, Suite 2380 Chicago, Illinois 60606
TYPE OF ORGANIZATION:	Stock Insurance Company
INCORPORATED (Date and Act):	January 1, 1978, Illinois Insurance Code
LICENSED (Date):	January 1, 1978
BUSINESS AUTHORIZED:	215 ILCS 5/4, Class 2 and 3
DATE OF LAST EXAMINATION:	November 1, 2005; PERIOD COVERED: January 1, 2000 to December 31, 2004
PERIOD COVERED BY THIS EXAMINATION:	January 1, 2005 to December 31, 2009

BALANCE SHEET SUMMARY

TOTAL ADMITTED ASSETS		$ 128,054,667
TOTAL LIABILITIES		$ 74,596,453
COMMON CAPITAL STOCK	$ 5,000,000	
SURPLUS NOTES	7,000,000	
GROSS PAID IN AND CONTRIBUTED SURPLUS	36,100,525	
UNASSIGNED FUNDS	5,357,689	
SURPLUS AS REGARDS POLICYHOLDERS		53,458,214
TOTAL LIABILITIES AND SURPLUS		$ 128,054,667

NOTE: The Company's minimum amount of combined capital and surplus required to be maintained under the provisions of 215 ILCS 5/13 is $1,500,000.

SUMMARY

The principal findings of the examiners, based upon information and data obtained during the course of the examination are summarized as follows:

1) The financial statements as of December 31, 2009, prepared from the books and records reflect surplus as regards policyholders in the amount of $53,458,214. Certain financial statement accounts were reclassified, common stock to aggregate write-ins for other than invested assets- cash value of officers life insurance. This had no effect on the surplus reported by the Company. (RECONCILIATION OF EXAMINERS' CHANGES IN SURPLUS)

2) The Company is not in compliance with 215 ILCS 5/32(1), which requires a company to obtain a permit from the Illinois Director of Insurance prior to increasing its paid-up capital. Additionally, the Company is not in compliance with 215 ILCS 5/29 relating to amending its Articles of Incorporation to reflect the change in common shares issued. (CAPITAL STOCK)

3) The Company is not in compliance with 50 Ill. Adm. Code 807 in that its custodial agreement with The Private Bank does not contain all the required safeguards and controls identified in the *Financial Condition Examiners Handbook* (Examiners Handbook) of the National Association of Insurance Commissioners (NAIC), Section 1- Part III (F). (ACCOUNTING RECORDS AND PROCECURES)

4) The Company is not in compliance with 215 ILCS 5/126.4C, which requires the Company's Board of Directors, on no less than a quarterly basis, to receive and review a summary report on the insurer's portfolio, its investment activities, and investment practices engaged in under delegated authority in order to determine whether the investment activity of the insurer is consistent with its written plan. (ACCOUNTING RECORDS AND PROCEDURES)

5) The Company is not in compliance with 50 Ill. Adm. Code 904.10 in that it has securities being held by two brokers, Charles Schwab and Co. and William Blair & Co. (ACCOUNTING RECORDS AND PROCEDURES)

HISTORY

First Nonprofit Insurance Company, hereafter referred to as "the Company", was originally established on March 21, 1978, as a Religious and Charitable Risk Pooling Trust known as First Illinois Religious and Charitable Risk Pooling Trust.

The following name changes and/or reorganization took place since incorporation in 1978.

- On June 24, 1981, the name was changed to First Non Profit Risk Pooling Trust.
- On February 11, 1991, the name was changed to First Nonprofit Trust.
- On April 1, 1993, the Company was reorganized to a reciprocal and the name was changed to First Nonprofit Insurance Company, a Reciprocal.
- On December 31, 1997, the Company was merged into First Nonprofit Mutual Insurance Company.
- On August 1, 2002, the Company formed a mutual insurance holding company called First Nonprofit Mutual Holding Company. First Nonprofit Mutual Insurance Company was then reorganized as an Illinois stock company and adopted its current name of First Nonprofit Insurance Company.

CAPITAL STOCK

The Company's paid-up capital at December 31, 2009, totals $5,000,000, and consists of 5,000,000 shares of common stock issued and outstanding, with a par value of $1.00 per share held by its parent, Mutual Insurers Holding Company.

The following are changes to common stock for the period under review:

Balance, December 31, 2004	$ 2,500,000
2008 **(A)**	$ 2,500,000
Balance, December 31, 2009	$ 5,000,000

(A) On May 14, 2008, the Board of Directors authorized a common stock dividend to its parent, Mutual Insurers Holding Company. The Company transferred $2,500,000 from unassigned surplus for 2,500,000 additional shares of common stock at $1 per share par value.

The Company is not in compliance with 215 ILCS 5/32(1), which requires a company to obtain a permit from the Illinois Director of Insurance prior to increasing its paid-up capital. The Company did not obtain the approval of the Illinois Director of Insurance prior to issuing the 2008 common stock dividend to its parent Mutual Insurers Holding Company.

Surplus Notes

At December 31, 2009, the unpaid principal balance of the Company's surplus notes totaled $7,000,000 and was composed of the following:

Note Holder	Date Issued	Original Note Amount	Balance 2004	Balance 2009	
National Cooperative Bank	August 30, 1999	$ 1,750,000	$ 1,315,000	$ 0	a
Milwaukeee Insuance Company	January 15, 2003	2,000,000	2,000,000	0	b
U.S. Bank National Association	May 12, 2004	5,000,000	5,000,000	5,000,000	c
Wilmington Trust Company	December 15, 2005	2,000,000	0	2,000,000	d
		$ 10,750,000	$ 8,315,000	$ 7,000,000	

a. In accordance with the terms of the note, $145,000 was repaid each year from 2002 through 2008. In 2009, the note was paid in full. Additionally, the following interest payments, calculated using the adjusted LIBOR rate was accrued and paid during the period under exam.

2009	2008	2007	2006	2005
$23,009	$72,895	$89,572	$96,501	$63,865

b. In accordance with the terms of the note, $200,000 was repaid annually beginning in 2007. However, in November 2007, in conjunction with the merger of First Nonprofit Mutual Holding Company with Mutual Insurers Holding Company, the principal outstanding balance of the note was forgiven.

c. The surplus note matures June 17, 2034. Interest accrues at the three month LIBOR rate plus 3.8% and is paid on the 17th of March, June, September and December of each year commenting in September 2004. Interest paid during the period under exam is:

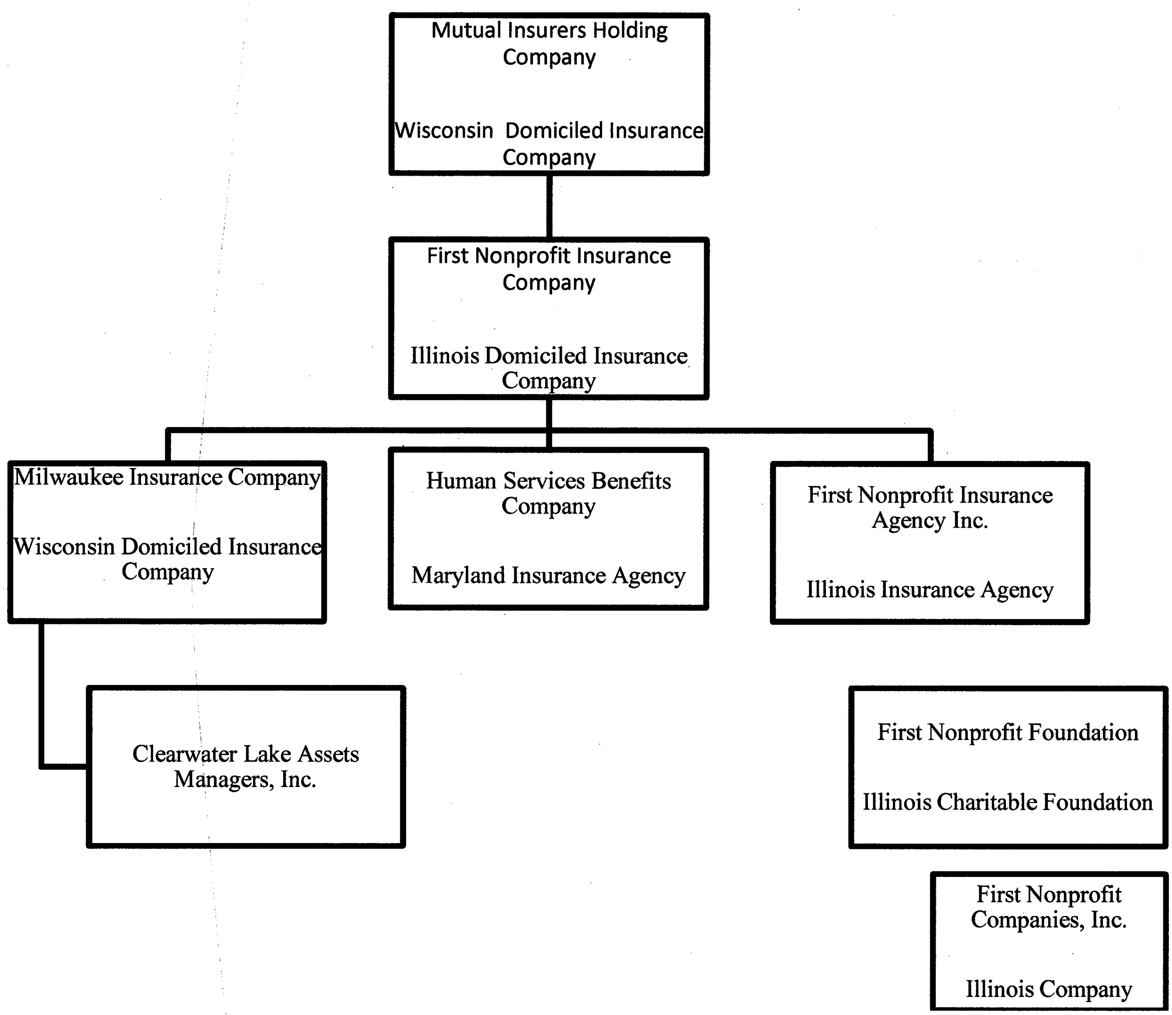
2009	2008	2007	2006	2005
$244,399	$363,568	$467,197	$447,625	$ 97,138

d. The surplus note matures December 15, 2035. Interest accrues at the three month LIBOR rate plus 3.75% and is paid on the 17th of March, June, September and December of each year commenting in September 2004. Interest paid during the period under exam is:

2009	2008	2007	2006	2005
$ 97,536	$143,505	$184,407	$178,826	$ 0

AFFILIATED COMPANIES

First Nonprofit Insurance Company is a member of an insurance holding company system pursuant to 215 ILCS /131. The ultimate controlling person is Mutual Insurers Holding Company, a Wisconsin Mutual Holding Company.



- The Company owns 100% of Milwaukee Insurance Company, a Wisconsin insurer currently in voluntary run-off.
- The Company owns 100% of First Nonprofit Insurance Agency, Inc., hereafter referred to as "FNIA." FNIA is a licensed insurance agency whose operations include brokering directors' and officers' insurance coverages for independent insurance companies, underwriting commercial liability coverages, and brokering reinsurance for the Company.

- On November 15, 2007, First Nonprofit Mutual Holding Company, parent of First Nonprofit Insurance Company, merged with and into Mutual Insurers Holding Company with Mutual Insurers being the surviving parent organization. As a result of the merger, 100% of the stock of Milwaukee Insurance Company, subsidiary of Mutual Insurers Holding Company, was transferred to First Nonprofit Insurance Company.

- On June 30, 2009, the Company acquired a 100% interest in Human Services Benefits Company, hereafter referred to as 'HSBC', a Maryland based insurance agency. HSBC is a retail insurance agency, which provides a full line of property and casualty insurance products to nonprofit organizations.

- First Nonprofit Foundation was formed in 2003 to provide educational material and grants to nonprofit entities to improve their operations and expand their mission. The foundation is a stand alone 501(c)(3) nonprofit, however a majority of the Board of Directors are also Board members of the Company.

- First Nonprofit Companies, Inc. (FNC) is a program management company and is a related party via the Company's President and Chief Executive Officer through his purchase of all the outstanding stock from the former mutual holding company, First Nonprofit Mutual Holding Company as of November 19, 2003.

Affiliated Transactions

Effective June 30, 2009, the Company is party to a tax allocation agreement whereby Mutual Insurers Holding Company files a consolidated income tax return with all the members of the holding company listed above except First Nonprofit Foundation. According to the terms of this agreement, Mutual Insurers Holding Company files a consolidated tax return for all affiliated members. The consolidated tax liability is to be apportioned among all members of the affiliated group in accordance with the ratio, which that portion of the consolidated tax liability is attributable to each member. Inter-company balances between affiliates and the Company are to be settled within thirty days subsequent to the filing of the consolidated return or within thirty days after the receipt of any applicable refund. In the case of a tax refund, settlement must be made within 30 days after the receipt of the refund. The Tax Sharing Agreement was accepted as filed by the Illinois Director of Insurance.

MANAGEMENT

The Company operates on the proprietary plan with authority and control held by the sole shareholder and the corporate powers and management authority vested and exercised by the Board of Directors.

Board of Directors

In accordance with the Amended and Restated By-laws, the affairs of the Company are managed and controlled by a Board of Directors consisting of fifteen members. Directors are elected to two year staggered terms at the annual meeting of the sole shareholder, Mutual Insurers Holding Company. Individuals elected and serving as of December 31, 2009, were as follows:

Name	Term Expires	Residence	Affiliation
Delbert W. Arsenault	2009	Chicago, IL	Retired
Jim W. Croft, Ph.D.	2010	St. Charles, IL	Executive Vice President, The Field Museum
Daniel R. Doucette	2011	Elm Grove, WI	President, Milwaukee Insurance Company
Ronald Dukes	2010	Buffalo Grove, IL	President, Ronald Dukes and Associates, LLC
Joseph M. Geiger	2011	Hummelstown, PA	Executive Director, Pennsylvania Association of Nonprofit Organizations
Richard M. King	2011	Oak Park, IL	President, Kittleman & Associates LLC
Robert J. Klaus	2010	Galena, IL	Retired
Phillip A. Merriman	2009	Loda, IL	Retired
Douglas G. Olson	2011	Philadelphia, PA	President, Olson and Associates
Hugh R. Parry	2010	Wilmette, IL	President and CEO Prevent Blindness America
William R. Rowan III	2010	Greenville, SC	Retired

Charles J. Stadler	2010	New Berlin, WI	Vice President and CFO Goodwill Industries of Southeastern Wisconsin, Inc.
Michael B. Tarnoff	2011	Highland Park, IL	Executive Vice President and CFO Jewish Federation of Metro Chicago
Harry Tankus	2009	Northfield, IL	Retired
Philip R. Warth Jr.	2011	Glenview, IL	President and CEO First Nonprofit Insurance Company

Officers

All officers are elected to a term of one year, at the annual meeting of the Board of Directors. Individuals elected at the December 9, 2009 annual Board meeting and serving as of December 31, 2009 were as follows:

NAME	POSITION
Philip R. Warth	President and Chief Executive Officer
Richard J. Dacey	Senior Vice President, Secretary, Treasurer, and Chief Financial Officer
Ronald R. Boggs *	Senior Vice President of Insurance Operations
Marianne Tadish	Senior Vice President & Chief Underwriting Officer
Patricia Shanahan	Senior Vice President of Marketing
Steven R. Wellbank	Vice President of Claims
Chris Finkley	Vice President of Underwriting
Kathleen Suizzo	Vice President of Human Resources
Robert White	Vice President, Brokerage Services
Kathleen Szur	Vice President, Product Development

* Retired effective June 1, 2010, and was replaced by Robert White.

Executive Committee

The Company's By-laws provide for an Executive Committee of the Board consisting of a Chairman, Vice Chairman of the Board and immediate past chairman, and the President. As of December 31, 2009, the members of the Executive Committee were as follows:

Joseph M. Geiger, Chairman	Michael B. Tarnoff
Robert J. Klaus	Daniel R. Doucette
Hugh R. Parry	Philip Warth

Investment Committee

The Company's By-laws provide for an Investment Committee to be elected by the Board of Directors to serve for a period of one year. As of December 31, 2009, the members of the Investment Committee were as follows:

Douglas G. Olson, Chairman	Hugh R. Parry
Ronald Dukes	Harry Tankus
Jim W. Croft	

Audit Committee

The Company's By-laws provide for an Audit Committee of three or more persons to be elected by the Board of Directors. The Audit Committee elected by the Board of Directors and serving as of December 31, 2009, were as follows:

Richard M. King, Chairman	Joseph M. Geiger
Jim W. Croft	Robert J. Klaus
Delbert W. Arsenault	Daniel R. Doucette
William R. Rowan	Charles J. Stadler

Reinsurance Committee

The Company's By-laws provide for a Reinsurance Committee of three or more persons to be elected by the Board of Directors. Individuals serving on the Reinsurance Committee as of December 31, 2009, were as follows:

Phillip R. Warth	Ronald R. Boggs
Marianne Tadish	Richard J. Dacey
Chris Finkley	

TERRITORY AND PLAN OF OPERATIONS

The Company is licensed to transact business in the following states:

Arizona*	Kansas*	Nevada*	South Dakota*
Colorado*	Kentucky*	New Jersey*	Tennessee*
Delaware*	Maryland	NorthCarolina*	Texas*
District of Columbia	Michigan	North Dakota*	Utah*
Florida*	Minnesota	Ohio	Virginia*
Georgia*	Missouri*	Oregon*	Washington*
Illinois	Montana*	Pennsylvania	Wisconsin*
Indiana	Nebraska*	SouthCarolina*	

* Obtained a Certificate of Authority during the period under examination.

In 2009, approximately 46% of the direct written premiums were from Illinois, 30% from Pennsylvania, 7% from Michigan and 4% from Minnesota.

The Company writes commercial multi-peril, commercial property, commercial auto liability and physical damage, workers' compensation, excess property, umbrella and directors and officers lines to charitable entities determined to be tax exempt pursuant to the Internal Revenue Code of 1986. In 2009, the Company reported direct written premiums of $57,582,771 consisting primarily of commercial multi-peril, workers' compensation and commercial auto, 54%, 30%, 8% respectively.

The majority of the Company's direct business is produced by independent agents or brokers. A wholly-owned subsidiary agency, First Nonprofit Insurance Agency, Inc. (FNIA), produces more than 5% of the Company's business.

The Company utilizes three third party administrators for the handling of workers' compensation claims: Constitution State Service Company, Employers' Claim Service, and Gallagher Bassett Claim Services Inc.

Significant financial data for the period under review follows:

	2009	2008	2007	2006	2005
Net admitted assets	$ 128,054,667	$ 115,250,142	$ 107,979,339	$ 46,025,564	$ 45,556,000
Unassigned funds	$ 5,357,689	$ 3,453,811	$ 7,611,526	$ 6,642,250	$ 5,538,321
Gross premiums written	$ 57,582,771	$ 49,204,756	$ 50,539,752	$ 51,707,387	$ 52,001,299
Net premiums written	$ 44,727,878	$ 36,626,246	$ 51,782,502	$ 36,704,200	$ 37,702,837
Losses	$ 14,752,121	$ 13,167,696	$ 13,269,935	$ 5,623,331	$ 4,677,143
Loss adjustment expenses	$ 7,790,922	$ 8,360,935	$ 6,716,127	$ 2,919,973	$ 604,722
Net income(loss)	$ 933,836	$ 1,814,914	$ (544,731)	$ 845,866	$ 604,722

RETENTION AND REINSURANCE

The largest net aggregate amount retained in any one risk at December 31, 2009 was $1,000,000.

Under a quota share reinsurance agreement, effective July 1, 2001, the Company ceded 80% of the Company's business after excess reinsurance to Milwaukee Insurance Company (MIC), a subsidiary. Effective January 1, 2007, this agreement was terminated on a cut-off basis with the Company continuing to be reimbursed for all losses covered by the agreement occurring prior to the termination date.

The Company also has a number of reinsurance agreements primarily with U.S. domestic insurance companies, for the purpose of limiting losses from large risk exposures and catastrophic events. The Company utilizes a combination of reinsurance coverages, including quota share, excess of loss, facultative, catastrophe and clash with excess of loss being the primary vehicle for most lines of business and limits. These treaties are generally layered with varying levels of participation in each layer by the assuming companies.

The Company has a reinsurance committee in accordance with 215 ILCS 5/179(b). The committee is charged with performing the evaluation of the reinsurance treaties at each renewal, with the ultimate ratification of its actions performed by the full Board of Directors of the Company.

The reinsurance contracts contain the standard insolvency clause, which is in accordance with 215 ILCS 5/173. The contract provisions for loss premium, adjustments, and reinstatements were reviewed and satisfy the transfer of risk requirements as outlined by Statement of Statutory Accounting Principles (SSAP) No. 62.

ACCOUNTING RECORDS AND PROCEDURES

At December 31, 2009, the Company maintained a custodial account with The Private Bank of Chicago, Illinois. It was determined that the custodial agreement with The Private Bank does not contain all the required safeguards and controls identified in the *Financial Condition Examiners Handbook* (Examiners Handbook) of the National Association of Insurance Commissioners (NAIC), Section 1- Part III (F) and now required by 50 Ill. Adm. Code 807. Examples of the missing provisions include, but are not limited to:

- The securities shall be promptly replaced or the value of the securities and the value of any loss of rights or privileges resulting from said loss of securities shall be promptly replaced.

- The custodian shall not be liable for any failure to take any action required to be taken hereunder in the event and to the extent that the taking of such action is prevented or delayed by war, revolution, insurrection, riot, civil commotion, etc., or any other cause whatever beyond its reasonable control.

- If custodian gains entry in a clearing corporation through an agent, there should be a written agreement between the custodian and the agent that the agent shall be subjected to the same liability for loss of securities as the custodian.

The Company is not in compliance with 215 ILCS 5/126.4B, which requires the Board of Directors, at least annually, as evidenced by formal resolution, that it has determined whether all investments have been made in accordance with delegations, standards, limitations and investment objectives prescribed by the Company's written investment plan.

As of December 31, 2009, the Board of Directors of First Nonprofit Insurance Company were not performing this process.

As of December 31, 2009, the Company maintained securities in investment accounts with Charles Schwab and William Blair and Company for periods in excess of 30 days. This is not in compliance with 50 Ill. Adm. Code 904.10, which requires that Securities not be in the custody of a registered dealer in securities for a period exceeding 30 days.

INFORMATION SYSTEMS REVIEW

The examiners performed a review of the Company's Information Technology General Controls (ITGC) and General Application Controls (GAC) as required by the 2010 NAIC *Financial Condition Examiners Handbook* (Examiners Handbook). The examiners reviewed the Company's responses to the Information Technology Planning Questionnaire (Examiners Handbook Exhibit C), which provides a high level overview of the Company's Information Technology environment. The examiners utilized the Exhibit C documentation to gain a basic understanding of the control environment. Based on that overview, the examiners developed a work program to determine which Information Technology risks to evaluate.

Based on the scope of the Information System (IS) examination, it appears that the Company has effective risk mitigation strategies/internal controls in place related to information system controls. This conclusion is based on the existence and application of the Company's policies and procedures in key areas related to Exhibit C, as well as effective risk assessment processes that were in place during the period from January 1, 2009 to December 31, 2009.

SCOPE OF EXAMINATION

This examination was conducted in conjunction with the full scope coordinated multi-state risk focused examination of the First Nonprofit Insurance Company, by the Illinois Department of Insurance, as the Lead State.

This examination covers the period of January 1, 2005, through December 31, 2009, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination. The examination was conducted at the Company's statutory home office in Chicago, Illinois.

The examination was conducted in accordance with the National Association of Insurance Commissioners ("NAIC") *Financial Condition Examiners Handbook* (Examiners Handbook). The Examiners Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company. In order to meet these objectives, we obtained information regarding the Company's corporate governance environment, identified and assessed inherent risks to which it is exposed and evaluated its system of internal controls and procedures used to mitigate those risks identified. The examination also included assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

FINANCIAL STATEMENTS

The following balance sheet, prepared from the books and records, reflects the Company's financial condition as of December 31, 2009. Financial exhibits and schedules supporting and supplementing the balance sheet follow in order. These statements were prepared in accordance with statutory accounting practices prescribed or permitted by the Illinois Department of Insurance.

Failure of items to add to the totals shown is due to dropping of amounts less than one dollar.

ASSETS

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$ 60,503,960		$ 60,503,960
Common stocks	37,655,047		37,655,047
Cash and short term investments	4,197,775		4,197,775
Subtotals, cash and invested assets	$ 102,356,782		$ 102,356,782
Investment income due and accrued	670,569		670,569
Premiums and considerations:			
Uncollected premiums and agents' balances in the course of collection	5,460,105	$ 239,000	5,221,105
Deferred premiums, installments booked but deferred and no yet due	12,880,058		12,880,058
Amounts recoverable from reinsurers	1,115,734		1,115,734
Net deferred tax asset	4,980,000	2,369,000	2,611,000
Electronic data processing equipment and software	1,288,792	999,666	289,126
Furniture and equipment	627,132	627,132	0
Receivable from parent, subsidiary and affiliates	131,442		131,442
Aggregate write-ins for invested assets:			
Other assets	2,196,955	2,175,057	21,898
Federal tax funding	250,000		250,000
Cash value of officers life insurance	2,506,953		2,506,953
	$ 134,464,522	$ 6,409,855	$ 128,054,667

LIABILITIES SURPLUS AND OTHER FUNDS

Losses		$ 28,235,374
Loss adjustment expenses		15,222,035
Other expenses		5,981,902
Taxes, licenses and fees, due and accrued		702,900
Current federal and foreign income taxes		1,496,000
Unearned premiums		21,315,128
Ceded reinsurance premiums payable		1,643,114
TOTAL LIABILITIES		$ 74,596,453
Common capital stock	$ 5,000,000	
Surplus notes	7,000,000	
Gross paid in and contributed surplus	36,100,525	
Unassigned funds (surplus)	5,357,689	
SURPLUS AS REGARDS POLICYHOLDERS		53,458,214
TOTALS		$ 128,054,667

STATEMENT OF INCOME

UNDERWRITING INCOME

Premiums earned		$ 41,447,215
Losses incurred	$ 14,752,121	
Loss expense incurred	7,790,922	
Other underwriting expenses incurred	17,512,345	
		40,055,388
Net underwriting gain		1,391,827

INVESTMENT INCOME

Net investment income earned	1,206,422	
Net realized capital gains	62,605	
Net investment gain		1,269,027

OTHER INCOME

Finance and service charges not included in premiums	(4,928)	
Miscellaneous income	5,528	
Total other income		600
Net income before federal and foreign income tax		$ 2,661,454
Federal and foreign income taxes incurred		1,727,618
Net income		$ 933,836

CAPITAL AND SURPLUS

Capital and Surplus as of December 31, 2008		$ 52,289,336
GAINS AND (LOSSES) IN SURPLUS		
Net income	$ 933,836	
Change in net unrealized capital gains	1,877,604	
Change in net deferred income tax	1,105,000	
Change in nonadmitted assets	(2,758,252)	
Guarantee fund certificate payment	(735,000)	
Change in prepaid pension expense	745,690	
Change in surplus as regards policyholders for the year		1,168,878
Capital and Surplus as of December 31, 2009		$ 53,458,214

CASH FLOW

Cash from Operations		
Premiums collected net of reinsurance	$ 39,436,945	
Net investment income	1,542,764	
Miscellaneous income	600	
Total		$ 40,980,309
Benefits and loss related payments	8,612,722	
Commissions, expenses paid and aggregate write-ins for deductions	21,973,429	
Federal & Foreign Income tax paid	1,296,430	
Total		31,882,581
Net cash from operations		9,097,728
Cash from Investments		
Proceeds from investments sold, matured or repaid:		
Bonds	21,597,100	
Stocks	2,442,310	
Net gains on cash equivalents and short-term investments	32	
Total investment proceeds		24,039,442
Cost of investments acquired (long-term only):		
Bonds	26,365,027	
Stocks	6,971,275	
Miscellaneous applications	1	
Total investments acquired		33,336,303
Net Cash from Investments		(9,296,861)
Cash from Financing and Miscellaneous Sources		
Cash Provided:		
Other cash (applied)	(2,802,667)	2,802,667
Reconciliation of Cash and Short-Term Investments		
Net change in cash, and short-term investments		$ (3,001,800)
Cash and short-term investments:		
Beginning of year		7,199,575
End of year		$ 4,197,775

RECONCILIATION OF EXAMINERS' CHANGES IN UNASSIGNED FUNDS

ASSETS

ASSETS:	Annual Statement	Examination Report	Increase or (Decrease) in Surplus
Common stocks	$ 40,162,000	$ 37,655,047	$ (2,506,953)
Cash value of officers' life insurance	0	2,506,953	2,506,953
Net change in surplus			$ 0
Surplus as regards policyholders per annual statement			53,458,214
Surplus as regards policyholders per examination report			$ 53,458,214

EXPLANATION OF EXAMINERS' CHANGES TO SURPLUS

ASSETS

Common stock **$ 37,655,047**

The above balance is $2,506,953 less than the amount reported in the Company's filed 2009 Annual Statement. The Company reported $2,506,953 in cash surrender value of corporate owned life insurance policies as common stock in the 2009 Annual Statement. In accordance with the NAIC Annual Statement Instructions, the cash surrender values of corporate owned life insurance should be reported on Page 2, Line 23 as an aggregate write-in for other than invested assets. This amount has been reclassified from Common Stock to the Aggregate Write-in for Other Than Invested Assets- Cash Value of Officers' Life Insurance.

Cash value of officers' life insurance **$ 2,506,953**

The above amount is $2,506,953 more than the amount reported in the Company's filed 2009 Annual Statement. As noted above, the difference is the reclassification of the cash surrender value of corporate owned life insurance incorrectly reported as common stock.

ACKNOWLEDGMENT

The following examiners from the Illinois Department of Insurance participated on this examination:

Virginia Godek, CFE	Supervisor
Tom Karas, CFE	Examiner-in-Charge
Valera Williams	Field Managing Examiner
Anita Reikalas	Staff Examiner
Julie Rachford	Actuarial Examiner
Patrick McCrimmon	IT Examiner

Individuals from INS Regulatory Insurance Services, Inc. assisted on this examination.