

REPORT OF EXAMINATION
OF THE
FIREMAN'S FUND INSURANCE COMPANY
AS OF
DECEMBER 31, 2013

Filed June 8, 2015

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San Francisco, California
March 26, 2015

Honorable Dave Jones
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

FIREMAN'S FUND INSURANCE COMPANY

(hereinafter also referred to as the Company) at its statutory home office located at 777 San Marin Drive, Novato, California 94998.

SCOPE OF EXAMINATION

We have performed our multi-state examination of the Company. The previous examination of the Company was made as of December 31, 2010. This examination covers the period from January 1, 2011 through December 31, 2013. The examination was conducted in accordance with the National Association of Insurance Commissioners Financial Condition Examiners Handbook (Handbook). The Handbook requires the planning and performance of the examination to evaluate the Company's financial condition, to identify prospective risks, and to obtain information about the Company, including corporate governance, identification and assessment of inherent risks, and the evaluation of the system controls and procedures used to mitigate those risks. The examination also included an assessment of the principles used and the significant estimates made by management, as well as an evaluation of the overall financial statement presentation, and management's compliance with Statutory Accounting Principles and Annual Statement instructions. All accounts and activities of

the Company were considered in accordance with the risk-focused examination process.

This was a coordinated examination with California as the lead state of the Fireman's Fund Subgroup of the Allianz Insurance Group. It was conducted concurrently with other insurance entities in the subgroup and included participation from the following states: Illinois (IL), Missouri (MO), New Jersey (NJ), Ohio (OH), and Texas (TX). The entities are:

- American Automobile Insurance Company (MO)
- The American Insurance Company (OH)
- Associated Indemnity Corporation (CA)
- Chicago Insurance Company (IL)
- Fireman's Fund County Mutual Insurance Company (TX)
- Fireman's Fund Indemnity Corporation (NJ)
- Fireman's Fund Insurance Company of Ohio (OH)
- Interstate Fire & Casualty Company (IL)
- National Surety Corporation (IL)
- San Francisco Reinsurance Corporation (CA)

In addition to those items specifically commented upon in this report, other phases of the Company's operations were reviewed including the following areas that require no further comment: corporate records; fidelity bonds and other insurance; pensions, stock ownership and insurance plans; growth of company; and statutory deposits.

SUBSEQUENT EVENTS

On January 2, 2014, management and control of Fireman's Fund County Mutual Insurance Company (FFCM) was transferred by the Company and Standard General Agency, Inc. (SGA) to Government Employees Insurance Company (GEICO) pursuant to an Assignment Agreement dated October 21, 2013. Effective January 2, 2014, the Reinsurance Agreement dated February 16, 1967, effective January 1, 1967, as amended by Amendment No. 1 to Reinsurance Agreement dated June 10, 2002, between the Company as reinsurer and FFCM as ceding company, was terminated and replaced with an Indemnity Reinsurance Agreement effective as of January 2, 2014.

The new reinsurance agreement was effective at closing and was not entered into as an affiliate transaction. Also effective January 2, 2014, the Amended and Restated Service Agreement dated February 15, 1980, between the Company and SGA pertaining to delivery of services to FFCM was terminated, incident to the sale and transfer of control of FFCM to GEICO.

On September 17, 2014, the Company's ultimate parent, Allianz SE (AZSE), a European Company incorporated in the Federal Republic of Germany and the European Union, officially announced plans to reconfigure the Company (Reorganization Plan). As part of the Reorganization Plan, the Company's commercial property and casualty business will be integrated with Allianz Global Risks US Insurance Company, an Illinois corporation dba Allianz Global Corporate & Specialty North America (AGCS), which is one of several global corporate insurance companies of AZSE. The legal ownership of the Company and its direct subsidiaries will also be re-aligned through a transfer of ownership of the Company from Allianz of America, Inc. (AZOA) to AGCS. Prior to the transfer of the Company to AGCS, ownership of the Company's subsidiary, San Francisco Reinsurance Company (SFRe), a California company, will be transferred to AZOA. After the transfer of ownership, the Company's legacy asbestos and environmental, legacy worker's compensation, and legacy construction defect liabilities will be transferred to SFRe.

The transfer of the Company and its subsidiaries to AGCS, and the transfer of liabilities to and ownership of SFRe were filed as a series of transactions with the California Department of Insurance (CDI), with an effective date of January 1, 2015. The CDI issued non-disapproval letters for the filed transactions on December 15, 2014. The reorganization and transactions occurred in the following order:

- The Company entered into a reinsurance agreement with SFRe, by which the Company ceded and SFRe agreed to assume and reinsure on an indemnity basis, 100% of the Company's legacy asbestos and environmental liabilities for policies written prior to January 1, 1988, and all asbestos liabilities for policies

written between January 1, 1988 and December 31, 2003. The Company transferred outstanding reserves estimated at \$954 million as of December 31, 2014. The reinsurance premium equaled to the transferred reserves, with no surplus effect. The reinsurance agreement has a reinsuring limit of approximately \$1.6 billion.

- The Company made a capital contribution to SFRe in the amount of \$321 million in the form of cash and securities that constitute permitted investments under the California Insurance Code. After the infusion and the related reinsurance transactions with the Company, SFRe's policyholder's surplus was \$395 million, with an estimated Risk-Based Capital (RBC) ratio of 275%.
- The Company entered into an Intercompany Service Agreement with SFRe, whereby the Company provides personnel and services necessary for the operation and administration of SFRe's business, including claims handling and adjusting, controllers and treasury, accounting and finance, legal and tax, and technological services.
- The Company made an extraordinary dividend consisting of the transfer of ownership interest of all issued shares of common stock of SFRe with an approximate value of \$395 million to AZOA. SFRe became a direct subsidiary of AZOA. After the reinsurance agreement with SFRe, capital contribution to SFRe, and distribution of SFRe to AZOA, the Company's policyholder's surplus was approximately \$1.7 billion, with an RBC ratio of 323%. As a condition of approving the extraordinary dividend, CDI required, AZOA and SFRe to enter into an irrevocable Capital Commitment agreement, commencing January 1, 2015, and continuing as long as AZOA owns SFRe. AZOA has agreed to provide SFRe with additional capital contributions in such amounts as may be required in order for SFRe to maintain a minimum RBC ratio of 250%.
- The contribution of the Company's stock to AGCS did not result in any change of control or change in the ultimate shareholder of Associated Indemnity Corporation (AIC), a 100% subsidiary of the Company. AZSE continues to hold the ultimate control of 100% of the voting securities of AIC.

- The transfer of ownership of SFRe's stock to AZOA did not result in any change of control or change in the ultimate shareholder of SFRe. There were no changes to the articles of incorporation or bylaws of SFRe, nor changes to SFRe's name, state of organization or statutory home office. AZSE continues to hold the ultimate control of 100% of the voting securities of SFRe.
- After implementation of the transactions described above, AZOA contributed the stock of the Company to AGCS. There were no changes to the capital structure, articles of incorporation or bylaws of the Company, nor changes to the Company's name, state of organization or statutory home office. AZSE continues to hold the ultimate control of 100% of the voting securities of the Company.
- Additionally, in December 2014, prior to the Company's capital contribution to SFRe and the extraordinary dividend of SFRe stock, AZOA funded an early settlement with the Company of a deferred tax asset of approximately \$394 million, consisting of a new operating loss carry forward arising under the Tax Reimbursement Agreement dated December 17, 1999, payable to the Company. The settlement resulted in a \$358 million (net of \$36 million adjustment to reduce admissible Deferred Tax Assets) increase to the Company's surplus. Following the settlement, the Company paid an ordinary dividend of \$247 million to AZOA, yielding a net increase of \$111 million to the Company's surplus at year end 2014.

On March 17, 2015, AZSE and the Company terminated the Keep Well Commitment and related Keep Well Trust by entering into a Keep Well Termination Agreement in exchange for a cash payment of approximately \$488 million. Under the Keep Well Commitment, AZSE had previously agreed to contribute capital to the Company up to a specified maximum in the event that net adverse development of carried reserves for accident years 2003 and prior exceeded \$150 million in any one calendar year beginning 2006 and later. On February 19, 2015, the CDI notified the Company that the CDI "does not disapprove" the Keep Well Termination Agreement between the Company and AZSE. On March 20, 2015, AZSE paid the Company \$488 million to fulfill AZSE's outstanding obligation under the terminated Keep Well Commitment.

On March 18, 2015, the CDI provided consent pursuant to California Insurance Code Section 1011(c) to a Master Transaction Agreement (MTA) originally executed December 18, 2014 and amended February 2, 2015, and related quota share reinsurance and other agreements between the Company and ACE American Insurance Company (ACE), a Pennsylvania company licensed in California. The transaction involves the sale of renewal rights for the Company's and its personal lines subsidiaries' new and existing high net worth personal insurance business and the transfer of associated assets and liabilities to ACE. ACE will assume all existing loss reserves and unearned premium reserves from the Company under two 100% quota share reinsurance agreements. The business to be transferred to ACE consists of private passenger automobile, liability, homeowners, and personal inland marine policies. The transaction is expected to close on April 1, 2015. The Company has submitted a commitment letter in which it commits to amending its Withdrawal Plan with respect to its personal lines automobile insurance to comply fully with Proposition 103. The Company was instructed to confirm the closing date, and the amount of consideration ultimately paid, as soon as possible following the occurrence of the closing date, and the calculation of the final consideration.

On March 6, 2015, the CDI approved the Company's request for accounting treatment of the above mentioned 100% quota share reinsurance agreements as property casualty run-off agreements in accordance with the Statement of Statutory Accounting Principles No. 62R, paragraphs 81(a) through (h) and 82 to 83.

COMPANY HISTORY

On January 2, 1991, Allianz of America, Inc. (AZOA), a U.S. subsidiary of Allianz SE (AZSE), purchased 100% of the capital stock of the Company. AZSE is the ultimate parent of the Fireman's Fund Group. AZSE operates on a worldwide basis through branch offices, subsidiaries and affiliated companies.

On November 1, 1997, the Company and its subsidiaries became a wholly-owned subsidiary of Allianz Insurance Company, a subsidiary of AZOA. Allianz Insurance Company, an Illinois company, changed its name to Allianz Global Risks US Insurance Company dba Allianz Global Corporate & Specialty US (AGCS) in 2003.

On December 31, 2012, AGCS distributed all outstanding shares of the Company's stock to AZOA. The Company and its subsidiaries were subsidiaries of AZOA until December 31, 2014. See the Subsequent Events section for details on the changes to ownership that occurred.

Capitalization

The Company is authorized to issue 1 million shares of Class A voting common stock with a par value of \$15 per share. As of December 31, 2013, there were 280,000 shares outstanding. All outstanding shares of the Company's stock were owned by AZOA.

As described in the foregoing Subsequent Events section of the report, the Keep Well Commitment between AZSE and the Company was terminated effective March 17, 2015. Capital contributions to paid-in surplus made to the Company for adverse loss development during the examination were as follows: \$191.3 million in 2011; and \$55.8 million in 2012.

On December 19, 2012, the Company made a capital contribution in the form of cash to its wholly-owned subsidiary, Fireman's Fund Insurance Company of Ohio (FFOH), in the amount of \$8 million.

On December 31, 2012, the Company received a capital contribution from AZOA in the amount of \$50 million. The contribution was recorded as paid-in surplus and an increase in receivable from parent, subsidiaries, and affiliates at December 31, 2012 in accordance with the Statement of Statutory Accounting Principles No. 72, paragraph 8.

Funds were received on February 8, 2013 in fulfillment of this capital contribution commitment.

The Company received cash dividends from the following subsidiaries in 2012 and 2013:

<u>Company</u>	<u>2012</u>	<u>2013</u>
The American Insurance Company	\$ 0	\$31,000,000
National Surety Corporation	\$ 0	\$14,000,000
Life Sales, LLC	\$ 438,867	\$ 329,160

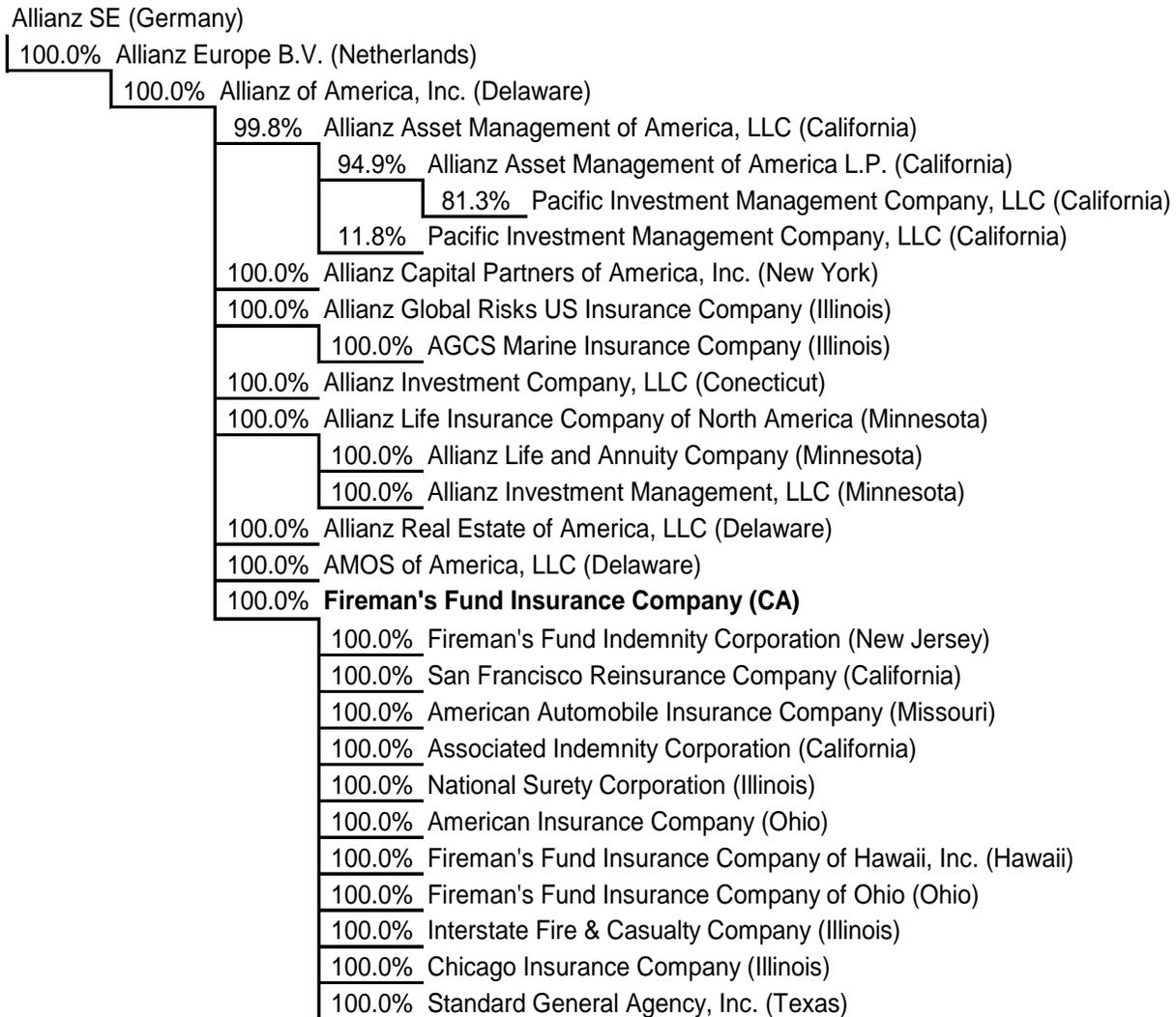
Dividends Paid to Parent

On December 11, 2013, the Company paid an extraordinary cash dividend to its sole shareholder, AZOA in the amount of \$350 million. The Company was authorized to proceed with the transaction by the California Department of Insurance on November 25, 2013.

On December 31, 2014, the Company paid an ordinary dividend in the amount of \$247 million to AZOA.

MANAGEMENT AND CONTROL

The Company is a member of an insurance holding company system, of which Allianz SE (AZSE) is the ultimate controlling entity. AZSE is incorporated in the Federal Republic of Germany and the European Union. The following is an abridged chart of the holding company system at December 31, 2013:



The six members of the board of directors, who are elected annually, manage the business and affairs of the Company. Following are members of the board and principal officers of the Company serving at December 31, 2013:

Directors

<u>Name and Location</u>	<u>Principal Business Affiliation</u>
Gary C. Bhojwani ^(a) Excelsior, Minnesota	Chairman of the Board, Member of the Board of Management, Allianz SE
Dale E. Lauer ^(b) Bellevue, Washington	Retired Independent Member of the Board

<u>Name and Location</u>	<u>Principal Business Affiliation</u>
Michael P. Sullivan ^(c) Edina, Minnesota	“Of Counsel”, Gray Plant Mooty Independent Member of the Board
D. Andrew Torrance ^(d) Sausalito, California	President and Chief Executive Officer Fireman’s Fund Insurance Company
Kevin E. Walker ^{(e)(f)} Novato, California	Senior Vice President, Chief Financial Officer, and Treasurer Fireman’s Fund Insurance Company
Marna C. Whittington Yorklyn, Delaware	Retired Independent Member of the Board

Principal Officers

<u>Name</u>	<u>Title</u>
D. Andrew Torrance ^(d) Eric Brandt ^(g)	President and Chief Executive Officer Senior Vice President, Chief Claims and Risk Services Officer
Antonio Derossi	Senior Vice President, Chief Operations Officer
Douglas E. Franklin ^(g) Christian Kortebein ^(g) Sally B. Narey ^(h)	Senior Vice President, Chief Risk Officer Senior Vice President, Chief Actuary Senior Vice President, General Counsel, and Secretary
Kevin E. Walker ^{(e)(f)}	Senior Vice President, Chief Financial Officer, and Treasurer
David M. Zona ⁽ⁱ⁾	Senior Vice President, Chief Underwriting Officer
Kathleen O. Zortman ^(j)	Senior Vice President, Chief Field Executive

The following changes in management occurred subsequent to the examination date:

- (a) Effective January 1, 2015, Chris Fischer Hirs was elected to the Board and was named Chairman of the Board, replacing Gary C. Bhojwani.
- (b) Effective January 1, 2014, David L. Conway was elected to the Board, replacing Dale E. Lauer.
- (c) Effective January 1, 2014, Ronald M. Clark was elected to the Board, replacing Michael P. Sullivan.

- (d) Effective January 1, 2015, D. Andrew Torrance was replaced by Arthur E. Moosmann Jr. as President and Chief Executive Officer of the Company.
- (e) Effective January 1, 2015, Kevin E. Walker was named as the head of Allianz Runoff Management US and impending Chief Executive Officer of SFRé. He remains Senior Vice President, Chief Financial Officer, and Treasurer for the Company while reporting to Arthur E. Moosmann Jr. during the transition period.
- (f) Effective September 26, 2014, Eric Brandt resigned his position and Kevin Walker took over the duties of Chief Claims and Risk Services Officer while also performing his duties as the Chief Financial Officer. Effective January 1, 2015, the Chief Claims and Risk Services Officer title was changed to Regional Head of Claims and Terry Campbell was subsequently appointed to serve in that position.
- (g) Effective August 15, 2014, Douglas E. Franklin, Senior Vice President, Chief Risk Officer was named Chief Actuary, replacing Christian Kortebein.
- (h) Effective January 1, 2015, Julie A. Garrison replaced Sally B. Narey as Senior Vice President, General Counsel and Secretary.
- (i) Effective January 1, 2015, David M. Zona's role changed to Zone Lead Northeast.
- (j) Following the September 17, 2014 announcement concerning the re-configuration of the Company, Kathleen O. Zortman's role was changed to President of Personal Insurance.

Management Agreements

Tax Reimbursement Agreement: Effective December 17, 1999, between Allianz of America, Inc. (AZOA), the Company, and its subsidiaries for the purpose of clarifying an agreement that was in effect since 1991. Under the terms of this Agreement, the tax liability of the Company and its subsidiaries are computed as if each member filed a separate stand-alone return. AZOA was the party primarily responsible for filing and making all tax payments on behalf of the Company and its subsidiaries. Subsequent to the examination date, for the year ended December 31, 2014, AZOA agreed to waive its right to defer reimbursement of tax benefit on losses not utilized on separate company basis with respect to losses incurred through September 30, 2014. Pursuant to this waiver, AZOA paid the Company \$394 million for the benefit of the Company's losses utilized on a consolidated basis.

Service Agreements: Effective January 1, 1982, the Company entered into a service agreement to provide staff support and investment services to San Francisco Reinsurance Company (SFRé). This agreement was last amended on September 30, 1994, in regard to the investment fees only.

Effective January 1, 2008, the First Amended and Restated Service Agreement between AZOA, AZOA Services Corporation, the Company, Allianz Global Risks US Insurance Company dba Allianz Global Corporate & Specialty North America (AGCS), Allianz Life and Annuity Company, Allianz Life Insurance Company of North America (AZLNA) and Allianz Private Equity Partners, Inc. (each a "Group Member") which superseded and replaced the former Service Agreement, effective March 6, 2006, between AZOA, Allianz of America Corporation (formerly known as AZOA Services Corporation), the Company, AGCS and Allianz Life Insurance Company of North America (each collectively "Group Member"). The First Amended and Restated Service Agreement added two additional parties, Allianz Private Equity Partners, Inc. and Allianz Life and Annuity Company, updates the schedule of authorized intercompany services, adds an offset provision per statutory accounting principles, and authorizes each Group Member to provide ad hoc consultation and support services on an intermittent basis of limited duration. Each Group Member agrees to provide services for any requesting Group Member necessary for that Group Member's continuing operation. Any Group Member can decline to provide requested services if it would interfere with Group Member's ability to meet its obligations to its policyholders or would otherwise adversely affect the performing Group Member. Each Group Member must reimburse other Group Members for direct and directly allocable expenses attributable to recipient Group Member, plus a reasonable charge for overhead. The California Department of Insurance (CDI) issued a non-disapproval letter for the transaction on August 26, 2008..

Effective January 1, 2013, the Second Amended and Restated Group Service Agreement amended the First Amended and Restated Group Service Agreement. The Second Amended and Restated Group Service Agreement was approved by CDI on March 26, 2013. This Agreement was amended again by the Amendment to Second Amended and Restated Group Service Agreement effective July 1, 2013. These two Amendments added Allianz Capital Partners of America, Inc., AGA Service Company, Allianz Real Estate of America LLC and AMOS of America LLC as parties to the Agreement. Additionally, language was added to allow for international transfer pricing rules and regulations and to permit noninsurance subsidiaries of the parties to be

eligible to receive services without becoming a party to this Agreement. The CDI issued a non-disapproval letter for the amendments on July 1, 2013.

Effective January 1, 2012, the Company entered into an intercompany service agreement with seven of its wholly-owned subsidiaries to replace the servicing provisions in the parties' intercompany pooling agreement, which was amended and restated and replaced with a Second Amended and Restated Intercompany Reinsurance Agreement effective as of the same date. The CDI issued a non-disapproval letter for the transaction on February 23, 2012.

Investment Management Agreement: Effective February 1, 2011, the Company and Pacific Investment Management Company, LLC (PIMCO), as service provider, entered into an Investment Management Agreement whereby PIMCO agrees to provide investment management services for fixed income investments for and on behalf of the Company and selected subsidiaries. This Agreement was amended by the First Amendment to Investment Management Agreement effective January 1, 2013, which simplified the fee structure and updated the list of accounts and subsidiaries. The CDI issued a non-disapproval letter for the transaction on January 17, 2013.

Investment Advisory Agreement: Effective August 25, 2011, the Company and Allianz Investment Management, LLC (AIM) entered into an Investment Advisory Agreement whereby the Company retained AIM as an investment advisor to provide investment advisory services, investment operations service and support, investment analysis and oversight and evaluation of the Company's investment managers. The CDI issued a non-disapproval letter for the transaction on June 25, 2013.

Master Services and Software Cost Reimbursement Agreement (MSA): Effective January 11, 2011, the Company and Allianz Managed Operations and Services SE (AMOS) entered into a Master Services and Software Cost Reimbursement Agreement covering software and software related services to be provided to or performed for the Company, as detailed in Schedules to be attached to the MSA with Schedule 1 covering

SAP Software and related services. The Company and AMOS added Schedule 2, pursuant to which the Company would license all SAS Institute Inc. ("SAS") software through AMOS under a Program Products License Agreement effective March 2013. The Company and AMOS added Schedule 3 effective August 2013 for the allocation of software license and service fees with Risk Management Solutions, a catastrophe modeling company. The agreement was approved by CDI on August 7, 2013.

Related Party Transactions

- 1) The Company, in accordance with the requirements of the State of Connecticut, authorized a guarantee for SFRe as follows: as long as the Company controls SFRe, the combined capital and surplus will be maintained at or above \$4.0 million. Subsequently, this guarantee was terminated due to the distribution of outstanding shares of SFRe to AZOA as discussed in the Subsequent Events section of this report.
- 2) On September 30, 2012, American Standard Lloyd's Insurance Company (ASL), a Texas Lloyd's plan insurer, converted into a Texas Capital Stock Insurance company owned by The American Insurance Company (The American), a wholly owned subsidiary of the Company, and changed its name to American Standard Insurance Company (ASIC). As part of this conversion, the Lloyd's underwriters revoked the powers of attorney appointing Standard Insurance Agency, Inc. as attorney-in-fact for ASL effective September 30, 2012. Effective immediately following the conversion, ASIC merged with and into The American on September 30, 2012 with The American as the surviving company.
- 3) On November 27, 2012, the CDI approved the distribution of the Company's common stock by its sole shareholder, AGCS to AZOA, with a value equal to the Company's policyholder's surplus as of the effective date of the distribution. The Company's policyholder surplus was \$2.5 billion when the Company's stock was distributed to AZOA on December 31, 2013.
- 4) On November 30, 2012, Fireman's Fund Insurance Company of Louisiana (FFLA), a wholly-owned subsidiary of the Company, merged with and into the Company and

FFLA ceased to exist as a separate legal entity. All assets and liabilities of FFLA were assumed by the Company.

- 5) On December 19, 2013, the Company received a payment of interest in the amount of \$118,014 on the \$1.6 million Surplus Debenture dated as of December 1, 2011, from Fireman's Fund County Mutual Insurance Company (FFCM), pursuant to regulatory approval received from the Texas Commissioner of Insurance dated December 4, 2013. Subsequently, this Surplus Debenture was terminated on January 2, 2014, since on that same day the management and control of FFCM was transferred by the Company and Standard General Agency, Inc. to Government Employees Insurance Company pursuant to an Assignment Agreement dated October 21, 2013. Prior to the transfer, FFCM was wholly-owned by SGA, which continues to be wholly-owned by the Company.
- 6) On December 19, 2012, the Company made a capital contribution in the form of cash to its wholly-owned subsidiary, Fireman's Fund Insurance Company of Ohio (FFOH) in the amount of \$8.0 million.
- 7) On December 20, 2012, SGA settled outstanding promissory notes with the Company in the amount of \$2.6 million.
- 8) On December 31, 2012, the Company received a capital contribution commitment from AZOA in the amount of \$50.0 million. The capital contribution commitment was recorded as an admitted adjustment to capital surplus paid-in and an increase in receivable from parent, subsidiaries, and affiliates at December 31, 2012 in accordance with the Statement of Statutory Accounting Principles No. 72, paragraph 8. On February 8, 2013, the Company received funds in fulfillment of this capital contribution commitment.
- 9) On January 15, 2013, the Company acquired six mortgage loans from an affiliate, AZLNA, in an arms-length transaction. The six loans with a total principal balance of \$62.0 million were acquired for \$65.4 million, resulting in \$3.5 million of premium to be amortized over the life of the loans in accordance with SSAP No. 37, paragraph 9. The Company also paid \$68,874 for accrued interest.
- 10) In the third quarter of 2013, the Company settled a large asbestos claim on behalf of its subsidiary, Chicago Insurance Company (ChIC). ChIC has external third party

reinsurance on the claim, which must be collected before it can fully reimburse the Company for the claim payment. As a result, the Company has non-admitted \$24.1 million in intercompany receivables with ChIC that are in excess of 90 days past due.

TERRITORY AND PLAN OF OPERATION

The Company's operations were conducted jointly with its subsidiaries at its home office in Novato, California. As of December 31, 2013, the underwriting operations of the Company's group of insurance companies (Group) were conducted through its three business units: Commercial, Personal, and Crop. In 2013, the Group ceased writing direct premium in Crop business (largely outside of California).

The Company operated throughout the United States and Puerto Rico through approximately 2,379 agent/broker locations, and is licensed in all 50 states and the District of Columbia. As of December 31, 2013, the Company predominately wrote in California (40%), New York (15%), Florida (7%), Texas (4%), and Louisiana (3%). The majority of the Company's direct premiums were concentrated in homeowners multiple peril (29%), other liability - occurrence (18%), inland marine (12%), commercial multiple peril (9%), and private passenger auto physical damage (5%).

Subsequent to the examination date, the Group's operations have changed significantly through the Company's reorganization activities. Refer to the Subsequent Events section for details on the transactions. The Group's plan of operation after the sale of its Personal Insurance to ACE American Insurance Company, which will close as scheduled on April 1, 2015, is to integrate its remaining Commercial Insurance into Allianz Global Risks US Insurance Company dba Allianz Global Corporate & Specialty North America, creating one face to market under the Allianz brand. The Fireman's Fund brand which has been in existence for more than 150 years will be phased out over the course of 2015.

LOSS EXPERIENCE

A review of the Company's loss experience during the examination period disclosed net underwriting losses and net losses as follows:

Year	Net Underwriting Gain/(Loss)	Net Income/(Loss)
2011	(\$458,314,874)	(\$42,901,756)
2012	(\$1,052,611,607)	(\$814,832,282)
2013	(\$96,446,580)	\$237,388,063
2014*	(\$606,249,214)	\$62,926,656

*Subsequent to the examination period

Contributing to the underwriting losses were catastrophe losses, and adverse development related to asbestos and environmental and workers' compensation. During 2012, the Company's operating results were also affected by Superstorm Sandy, weather related crop, and commercial insurance related losses.

The corrective actions taken by the Company to reduce the amount of underwriting losses incurred in the future are discussed in the Subsequent Events section of this report. The main corrective actions involve the integration of the Company's commercial insurance with Allianz Global Risks US Insurance Company dba Allianz Global Corporate & Specialty North America, and the transfer of the Company's legacy asbestos and environmental, workers' compensation, and construction defect liabilities to San Francisco Reinsurance Company.

REINSURANCE

Intercompany Reinsurance Agreement

The Company is the lead insurer in an Intercompany Reinsurance Pooling Agreement with seven affiliates (hereinafter also referred to as the participants). Under the terms of this Agreement dated January 1, 1999 and subsequent amendments, the participants ceded and the Company assumed 100% of the participants' business generated from underwriting operations. The cessions from the participants were combined with the Company's business, resulting in the pooled balance allocated to each participant in the pool.

Effective January 1, 2012, the Company and the pooling participants entered into a Second Amended and Restated Intercompany Reinsurance Agreement (Amended Pooling Agreement). Under the Amended Pooling Agreement, each participant continues to cede 100% of its insurance business to the Company; however, nothing is retroceded back to the participants, resulting in the Company retaining 100% of the pooled amount. The Agreement authorizes and empowers the Company to: collect and receive all premiums, adjust and pay all losses, reinsure or cancel any and all policies and contracts of insurance, and act as though the policies and contracts of insurance and reinsurance were issued by the Company. It further provides for the complete sharing of all income and expenses of the pooled business, with the exception of the investment operations, liabilities for federal income tax, or other items not relating to the underwriting operations of the parties. Accounts are required to be settled quarterly.

Members of the intercompany pool at December 31, 2013 were as follows:

NAIC #	Company	State of Domicile
21873	Fireman's Fund Insurance Company	CA
21849	American Automobile Insurance Company	MO
21857	The American Insurance Company	OH
21865	Associated Indemnity Corporation	CA
21881	National Surety Corporation	IL
22810	Chicago Insurance Company	IL
22829	Interstate Fire & Casualty Company	IL
39640	Fireman's Fund Insurance Company of Ohio	OH

Other Intercompany Reinsurance Arrangement

Prior to the pooling of business among the participating companies, certain other business is assumed and/or ceded between the Company and other affiliated companies. These companies do not participate in the pool. Instead, these affiliates receive a 3.25% commission fee and reimbursement of expenses. The Company assumes all business written by the following subsidiaries:

- Fireman's Fund Indemnity Corporation
- Fireman's Fund Insurance Company of Hawaii, Inc.

In addition, the Company has a variety of reinsurance arrangements other than pooling with the following affiliates:

- Allianz SE
- AGCS Marine Insurance Company
- Allianz Global Risks US Insurance Company
- Fireman's Fund County Mutual Insurance Company (FFCM)
- San Francisco Reinsurance Company

Refer to the Subsequent Events section of this examination report for modifications to or additional reinsurance agreements entered into as a result of the Company's reorganization activities and the transfer of ownership of FFCM.

Assumed

In addition to intercompany agreements, the Company assumed business from pools and associations and from various nonaffiliated companies under several reinsurance agreements.

Crop Insurance

The Company entered into various reinsurance agreements with Rural Community Insurance Company (RCIC) for federally insured Multiple Peril Crop Insurance (MPCI) and other crop peril coverages, which were in place July 1, 2009 to June 30, 2012 for MPCI and December 31, 2012 for the other peril coverages. Under the fronting agreements, the Company wrote policies which were issued in states where RCIC was not licensed. The written business was 100% ceded to RCIC. RCIC serves as the lead insurer, ceding a percent of the premiums to the Federal Government as calculated under the Standard Reinsurance Agreement with the Federal Government. The Company, as lead reinsurer, assumes from RCIC 50% of the premium not ceded to the Federal Government.

Effective July 1, 2012, the Company and RCIC entered into three new reinsurance contracts: MPCI Quota Share Reinsurance Agreement, Livestock Quota Share Reinsurance Agreement, and Crop Hail and Named Peril Quota Share Reinsurance Agreement. Under these contracts, the Company assumes a 20% share of the premium and liabilities retained by RCIC.

Ceded

Other than intercompany reinsurance agreements, reinsurance is placed through the Company for its group of insurance companies (Group). All members of the Group, either individually or collectively, may utilize the reinsurance of the various contracts that are in effect. The major principal treaties, coverages, retentions and limits in effect during the examination period are listed as follows:

<u>Line of Business and Type of Contract</u>	<u>Reinsurer's Name</u>	<u>Company's Retention</u>	<u>Reinsurer's Limit</u>
<u>Casualty:</u>			
<u>Per Risk Excess of Loss</u>			
First Layer	5 domestic, foreign and alien companies	\$15 million each and every loss/risk	\$10 million in excess of \$15 million each and every loss/risk
Second Layer	5 domestic, foreign and alien companies	\$25 million each and every loss/risk	\$25 million in excess of \$25 million each and every loss/risk
<u>Property:</u>			
<u>Property Catastrophe Excess of Loss – has limits not retentions</u>			
		<u>Company's Limit</u>	
Under Layer	Allianz Re, Dublin Ltd.	\$250 million each and every occurrence	\$50 million in excess of \$250 million
First layer	Allianz Re, Dublin Ltd.	\$300 million each and every occurrence	\$100 million in excess of \$300 million
Second Layer	Allianz Re, Dublin Ltd.	\$400 million each and every occurrence	\$150 million in excess of \$400 million
Third Layer	Allianz Re, Dublin Ltd.	\$550 million each and every occurrence	\$250 million in excess of \$550 million
Fourth Layer	Allianz Re, Dublin Ltd.	\$800 million each and every occurrence	\$400 million in excess of \$800 million
Fifth Layer	Allianz Re, Dublin Ltd.	\$1.2 billion each and every occurrence	\$200 million in excess of \$1.2 billion
Mega Catastrophe	Allianz Re, Dublin Ltd.	\$1.4 billion each and every occurrence	\$700 million in excess of \$1.4 billion
<u>Property Per Risk XOL</u>			
		<u>Company's Retention</u>	
First Layer	4 domestic, foreign and alien companies	\$15 million plus 85% of \$10 million excess \$15 million each and every loss / occurrence(s) /one event	15% of \$10 million excess \$15 million, each and every loss/occurrence(s)/one event, no more than \$25 million

<u>Line of Business and Type of Contract</u>	<u>Reinsurer's Name</u>	<u>Company's Retention</u>	<u>Reinsurer's Limit</u>
Second Layer	8 domestic, foreign and alien companies, led by Allianz Re, Dublin Ltd.	\$25 million plus 5% of \$25 million excess \$25 million each and every loss / occurrence(s) /one event	95% of \$25 million excess \$25 million, each and every loss/occurrence(s)/one event, no more than \$50 million
Third Layer	11 domestic, foreign and alien companies, led by Allianz Re, Dublin Ltd.	\$50 million plus 5% of \$50 million excess \$50 million each and every loss / occurrence(s) /one event	95% of \$50 million excess \$50 million, each and every loss/occurrence(s)/one event, no more than \$100 million
Fourth Layer	7 domestic, foreign and alien companies, led by Allianz Re, Dublin Ltd.	\$50 million plus 5% of \$50 million excess \$100 million each and every loss / occurrence(s) /one event	95% of \$50 million excess \$100 million, each and every loss/occurrence(s)/one event, no more than \$150 million
Fifth Layer	7 domestic, foreign and alien companies, led by Allianz Re, Dublin Ltd.	\$100 million plus 5% of \$50 million excess \$150 million each and every loss / occurrence(s) /one event	95% of \$50 million excess \$100 million, each and every loss/occurrence(s)/one event, no more than \$200 million
<u>Commercial Line Property Semi-Automatic Facility Contract of Reinsurance</u>	9 domestic, foreign and alien companies	\$200 million each and every loss/risk	\$330 million in excess of \$200 million each and every loss/risk
<u>Entertainment: Entertainment Excess of Loss</u>			
First layer	8 domestic, foreign and alien companies led by Allianz Re, Dublin Ltd.	\$15 million each and every loss/risk, plus 5% of \$10 million excess of \$15 million	95% of \$10 million excess \$15 million, each and every loss/risk, not to exceed \$10 million per occurrence; limited to \$40 million
Second layer	9 domestic, foreign and alien companies led by Allianz Re, Dublin Ltd.	\$25 million each and every loss/risk, plus 5% of \$25 million excess of \$25 million	95% of \$25 million excess \$25 million, each and every loss/risk, not to exceed \$25 million per occurrence; limited to \$50 million
Third layer	8 domestic, foreign and alien companies led by Allianz Re, Dublin Ltd.	\$50 million each and every loss/risk, plus 5% of \$50 million excess of \$50 million	95% of \$50 million excess \$50 million, each and every loss/risk, not to exceed \$50 million per occurrence, limited to \$100 million

<u>Line of Business and Type of Contract</u>	<u>Reinsurer's Name</u>	<u>Company's Retention</u>	<u>Reinsurer's Limit</u>
Fourth Layer	6 domestic, foreign and alien companies led by Allianz Re, Dublin Ltd.	\$100 million each and every loss/risk, plus 6.5% of \$50 million excess of \$100 million	93.5% of \$50 million excess \$100 million, each and every loss/risk, not to exceed \$50 million per occurrence; limited to \$100 million
<u>Entertainment Facultative Reinsurance</u>	6 domestic, foreign and alien companies	\$150 million each and every loss, each production	\$100 million in excess of \$150 million each and every loss, each production

ACCOUNTS AND RECORDS

Information Systems Controls

During the course of the examination, a review was conducted of the Company's general controls over its information systems. As a result of this review, several findings were noted in controls over logical security. These findings were presented to the Company, along with recommendations to strengthen its controls. The Company should evaluate the recommendations and make appropriate changes to strengthen its information systems controls.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2013

Underwriting and Investment Exhibit for the Year Ended December 31, 2013

Reconciliation of Surplus as Regards Policyholders from December 31, 2010 through December 31, 2013

Statement of Financial Condition
as of December 31, 2013

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 6,564,825,370	\$	\$6,564,825,370	
Common stocks	1,025,699,344	5,662,164	1,020,037,180	
Mortgage loans on real estate: first liens	284,923,921		284,923,921	
Cash and short-term investments	(66,619,041)	1,001,515	(67,620,556)	
Other invested assets	71,281,361		71,281,361	
Receivable for securities	324,291		324,291	
Investment income due and accrued	63,796,964		63,796,964	
Premiums and considerations:				
Premiums and agents' balances in course of collection	811,764,849	20,770,959	790,993,890	
Deferred premiums, agents' balances and installments booked but deferred and not yet due	90,988,770	1,205,199	89,783,571	
Accrued retrospective premiums	10,103,697	1,005,724	9,097,973	
Reinsurance:				
Amount recoverable from reinsurers	88,428,304		88,428,304	
Funds held by or deposited with reinsured companies	2,863,062		2,863,062	
Net deferred tax asset	615,165,201	292,368,582	322,796,619	
Guaranty funds receivable or on deposit	330,546		330,546	
Electronic data processing equipment and software	26,314,879	22,436,515	3,878,364	
Furniture and equipment	15,403,106	15,403,106	0	
Receivable from parent, subsidiaries and affiliates	39,997,706	24,067,451	15,930,255	
Aggregate write-ins for other than invested assets	<u>613,956,078</u>	<u>31,890,070</u>	<u>582,066,008</u>	
 Total assets	 <u>\$10,259,548,408</u>	 <u>\$ 415,811,285</u>	 <u>\$9,843,737,123</u>	
 <u>Liabilities, Surplus and Other Funds</u>				
Losses			\$ 5,119,800,837	(1)
Reinsurance payable on paid loss and loss adjustment expenses			133,616,423	
Loss adjustment expenses			652,760,164	(1)
Commissions payable, contingent commissions and other similar charges			72,741,644	
Other expenses			166,736,496	
Taxes, licenses and fees			22,875,239	
Current federal and foreign income taxes			14,577,493	
Unearned premiums			1,093,665,510	
Advance premiums			(163,474)	
Ceded reinsurance premiums payable			(13,052,199)	
Funds held by company under reinsurance treaties			31,164,937	
Amounts withheld or retained by company for account of others			1,632,910	
Provision for reinsurance			17,555,642	
Payable for securities			1,043,632	
Aggregate write-ins for liabilities			<u>50,129,429</u>	
 Total liabilities			 7,365,084,683	
Common capital stock	\$ 4,200,000			
Gross paid-in and contributed surplus		1,773,602,897		
Unassigned funds (surplus)		<u>700,849,543</u>		
Surplus as regards policyholders			<u>2,478,652,440</u>	
 Total liabilities, surplus and other funds			 <u>\$9,843,737,123</u>	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2013

Statement of Income

Underwriting Income

Premiums earned		\$2,653,522,834
Deductions:		
Losses incurred	\$ 1,548,475,598	
Loss adjustment expenses incurred	271,362,053	
Other underwriting expenses incurred	<u>930,131,763</u>	
Total underwriting deductions		<u>2,749,969,414</u>
Net underwriting loss		(96,446,580)

Investment Income

Net investment income earned	\$ 327,065,282	
Net realized capital gain	<u>7,344,371</u>	
Net investment gain		334,409,653

Other Income

Net loss from agents' or premium balances charged off	\$ (2,398,827)	
Aggregate write-ins for miscellaneous income	<u>(8,665,316)</u>	
Total other income		<u>(11,064,143)</u>
Net income before dividends to policyholders, and before federal and foreign income taxes		226,898,930
Dividends to policyholders		<u>1,728,004</u>
Net income after dividends to policyholders, and before federal and foreign income taxes		225,170,926
Federal and foreign income taxes incurred		<u>(12,217,137)</u>
Net income		<u>\$ 237,388,063</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2012		\$2,522,133,192
Net income	\$ 237,388,063	
Change in net unrealized capital losses	(20,189,426)	
Change in net unrealized foreign exchange capital losses	(1,311,422)	
Change in net deferred income tax	(44,536,806)	
Change in nonadmitted assets	41,896,175	
Change in provision for reinsurance	3,870,104	
Surplus adjustments:		
Paid-in	55,775,000	
Dividends to stockholders	(350,000,000)	
Aggregate write-ins for losses in surplus	<u>33,627,560</u>	
Change in surplus as regards policyholders for the year		<u>(43,480,752)</u>
Surplus as regards policyholders, December 31, 2013		<u>\$2,478,652,440</u>

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

The California Department of Insurance (CDI) retained an independent Consulting Actuary pursuant to authority granted in California Insurance Code Section 733, to evaluate the loss and loss adjustment expense reserves (loss reserves) as of December 31, 2013. In addition, a Senior Casualty Actuary with the CDI reviewed the work of the Consulting Actuary. Based on the analyses performed by the Consulting Actuary and the CDI Senior Casualty Actuary, the CDI has determined that the loss and loss adjustment expense reserves as reported by the Company are reasonable and have been accepted for the purposes of this examination.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Accounts and Records – Information Systems Controls (Page 23): As the result of the review of the Company's information systems controls, recommendations for improving these controls were presented to the Company. The Company should evaluate these recommendations and make appropriate changes to strengthen its controls over its information systems.

Previous Report of Examination

Management and Control – Management Agreements (Page 11): It was recommended that the Company notify the California Department of Insurance (CDI) at least 30 days prior to entering into intercompany agreements with its affiliates. It was also recommended that the Company implement procedures to ensure compliance with California Insurance Code (CIC) Section 1215.5(b)(4). The Company has complied with this recommendation.

Management and Control – Related Party Transactions (Page 12): It was recommended that the Company notify the CDI at least 30 days prior to entering into agreements with its affiliates. It was also recommended that the Company implement procedures to ensure compliance with CIC Section 1215.5(b)(4). The Company has complied with this recommendation.

Accounts and Records – Information Systems Controls (Page 22): As the result of the review of the Company's information systems controls, recommendations for improving these controls were presented to the Company. It was recommended that the Company should evaluate these recommendations and make appropriate changes to strengthen its controls over its information systems. The Company had implemented changes to strengthen some of its controls; however, as noted above in the Accounts and Records section, improvements are still needed.

Comment on Financial Statement Items – Taxes, Licenses and Fees (Page 27) – It was recommended the Company review its Vehicle Fraud Assessment filings and submit additional fees to the CDI. It was also recommended the Company comply with CIC Section 1872.8(a). The Company has complied with this recommendation.

ACKNOWLEDGMENT

Acknowledgment is made of the cooperation and assistance extended by the Company's officers and employees during the course of this examination.

Respectfully submitted,

_____/s/_____

Shawn Towchik, CFE
Examiner-In-Charge
Contract Examiner
Department of Insurance
State of California