

REPORT OF EXAMINATION
OF THE
ALLIANZ GLOBAL RISKS US
INSURANCE COMPANY
AS OF
DECEMBER 31, 2007

Participating State
and Zone:

California

Filed June 24, 2009

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Los Angeles, California
June 15, 2009

Honorable Alfred W. Gross
Chairman of the NAIC Financial
Condition Subcommittee
Commissioner of Insurance
Virginia Bureau of Insurance
Richmond, Virginia

Honorable Morris Chavez
Secretary, Zone IV-Western
Superintendent of Insurance
New Mexico Department of Insurance
Santa Fe, New Mexico

Honorable Steve Poizner
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Chairman, Secretary and Commissioner:

Pursuant to your instructions, an examination was made of the

ALLIANZ GLOBAL RISKS US INSURANCE COMPANY

(hereinafter also referred to as the Company) at its home office located at 2350 Empire Avenue, Burbank, California 91504.

SCOPE OF EXAMINATION

The previous examination of the Company was made as of December 31, 2003. This examination covers the period from January 1, 2004 through December 31, 2007. The examination was made pursuant to the National Association of Insurance Commissioners' (NAIC) plan of examination. This examination was conducted concurrently with the examination of the Company's wholly-owned subsidiaries, Allianz Underwriters Insurance Company (AUI) and Fireman's Fund Insurance Company (FFIC). The examination included a review of the Company's practices and procedures, an examination of management records, tests and analyses of detailed transactions within the examination period, and an evaluation of the assets and a determination of liabilities as of December 31, 2007, as deemed necessary under the circumstances.

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: fidelity bonds and other insurance; officers', employees' and agents' welfare and pension plans; growth of company; business in force by states; accounts and records; and sales and advertising.

SUMMARY OF SIGNIFICANT FINDINGS

As a result of this examination, surplus as regards policyholders as of December 31, 2007 has been reduced by \$363.5 million to \$3.2 billion. The reduction in surplus was due to increases in Fireman's Fund Insurance Company 's (FFIC) losses and loss adjustment expense reserves, primarily related to asbestos and environmental reserves, from the examination of FFIC which was conducted concurrently with this examination. As a result of the examination, FFIC's common stock carrying value has been reduced by \$363.5 million.

SUBSEQUENT EVENTS

On July 16, 2008, the Company restructured and relocate its Actuarial, Claims, Finance, Human Resources, Internal Audit, Reserve Flow Underwriting, Reserve Flow Operations and part of its Business and Operational Support from Burbank, California to Chicago, Illinois. The purpose of the relocation is to enhance coordination, communication and customer focus.

On August 11, 2008, the Allianz Group indicated that they intend to merge the marine portfolio of Fireman's Fund Insurance Company (FFIC), the Company and AUIC, to create one unified global marine insurance organization named Allianz Global Corporate and Specialty (AGCS). The Company has presented this plan to the California Department of Insurance for review and approval.

COMPANY HISTORY

The Company is wholly-owned by Allianz of America, Inc. (AZOA). Effective November 1, 1997, AZOA contributed its investments in Fireman's Fund Insurance Company (FFIC), Jefferson Insurance Company (JIC) and Allianz Underwriters Insurance Company (AUIC) to the Company. The aggregate book value of the contribution was \$2.9 billion. Under this new organizational structure, FFIC and AUIC continue to report directly to AZOA. JIC was sold as of July, 2007.

Effective July 9, 2003, the Company changed its name from Allianz Insurance Company to Allianz Global Risks US Insurance Company.

Effective September 28, 2001, a Keep Well Commitment (Commitment) was issued by Allianz Societas Europaea (AZSE), the ultimate parent of the Company. Under the terms of the Commitment, AZSE agreed to contribute sufficient cash to permit the Company to meet its payment obligations with respect to losses incurred as a result of the September 11, 2001 attack on the World Trade Center and the U.S. Pentagon buildings. In conjunction with the Commitment, the Company recorded a recoverable due from AZSE in the amount of \$625 million (\$575 million in 2001 and \$50 million in 2002) and credited Gross Paid-In and Contributed Surplus in a like amount. The Commitment was approved by the California Department of Insurance (CDI) on December 27, 2001 under the terms of a Permitted Accounting Practice, and has been approved each year subsequent to 2001.

Additionally, the Commitment was to be secured by a pledge of marketable securities valued at 120% of the aggregate amount of the collateral amount. Dresdner Bank, a subsidiary of AZSE, in accounts maintained by AZSE and its affiliate, AZ-Arges, holds the pledged securities in trust.

As of December 31, 2007, the balance of the Commitment was \$152.2 million (recorded as an intercompany receivable). The value of the pledged securities totaled \$223.6 million, or 147% of the aggregate amount of the collateral amount. The securities were held at Dresdner Bank.

The following is a reconciliation of the gross paid-in and contributed surplus account and a brief discussion, for the period under Examination:

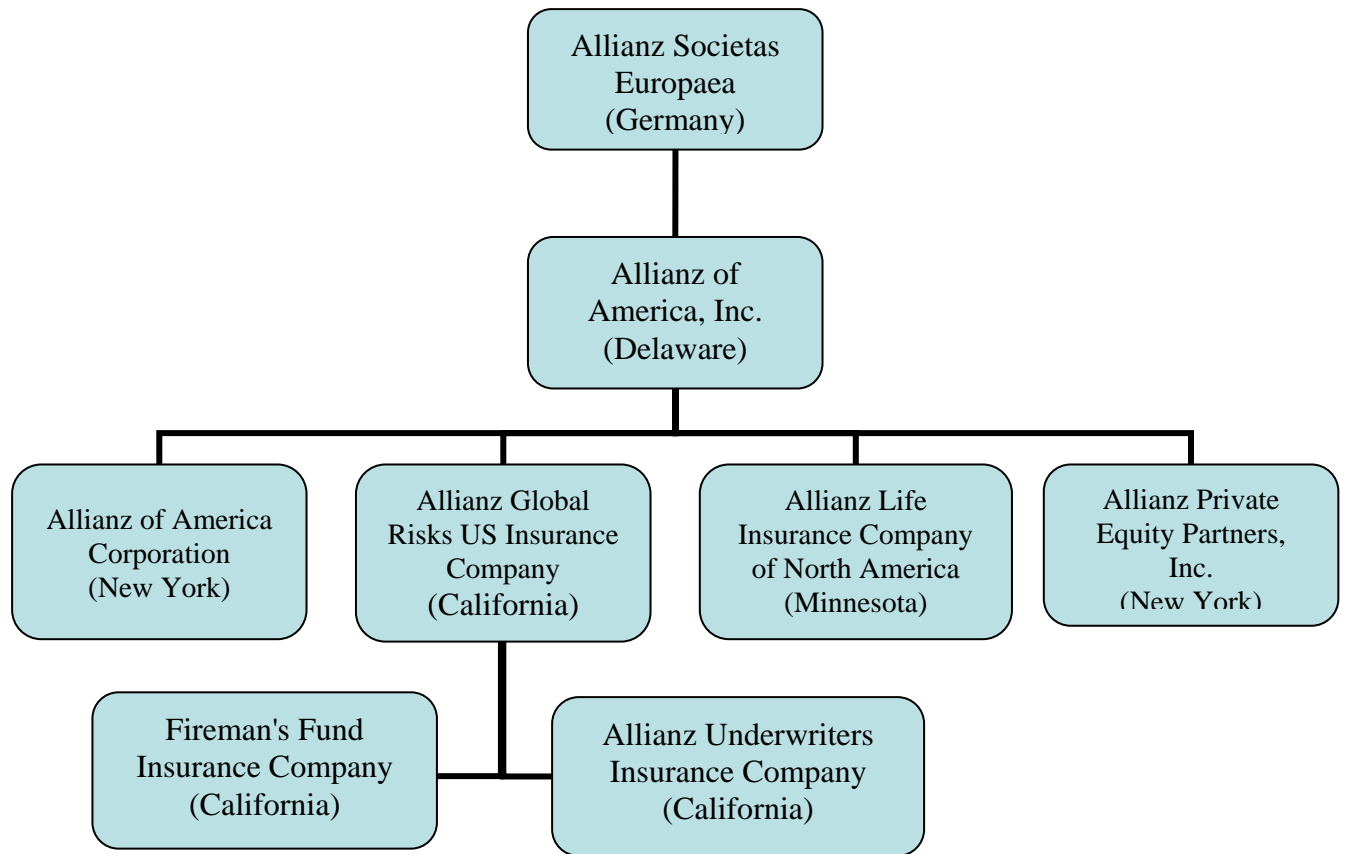
Note	Description	Amount
(1)	Reduction of Surplus – 2004	\$ (404,452,006)
(2)	Fireman’s Fund Insurance Company (FFIC) recorded a surplus and intercompany receivable in March 31, 2005	92,984,000
(3)	FFIC – non-cash extraordinary dividend to the Company totaling \$720 million	(720,000,000)
(4)	FFIC paid an extraordinary cash dividend to the Company totaling \$725 million	(725,000,000)
(5)	FFIC paid an extraordinary cash dividend to the Company totaling \$750 million	<u>(750,000,000)</u>
	Balance at December 31, 2007	<u>\$ 2,506,468,000</u>

- In April 2004, the Company received \$63 million from AZOA and declared a pass through distribution to FFIC. The Company received approval from CDI to treat this as a capital contribution.
- On November 23, 2004, the Company received a distribution of gross paid-in and Contributed surplus from FFIC in the aggregate amount of \$495 million comprised of 5,339,806 shares of preferred stock of Allianz Life Insurance Company of North America (Allianz Life) with a statutory value of \$215 million along with two intercompany notes assigned to FFIC with an aggregate statutory value from Allianz Insurance Company of Canada and \$180 million note issued by Allianz Nederland NV, a subsidiary of AZAG.

- The Company, in turn, declared a pass through distribution of a \$280 million preferred share dividend (with \$100 million payable to Allianz Life (an affiliate) and \$180 million payable to AZOA and a \$187 million common dividend to AZOA, resulting in \$28 million as an unrealized capital gain.
- All the above transactions were reflected as gross paid-in and contributed surplus in 2004 (\$404.5 million)
- On March 31, 2005, FFIC recorded a surplus contribution and intercompany receivable in the amount of \$92.9 million. FFIC recognized in the first quarter of 2005 this additional \$92.9 million in adverse development as of December 31, 2004 under the same Keep Well Agreement.
- In November 2005, the CDI approved the FFIC's request for a non-cash extraordinary dividend to the Company totaling \$720 million in the form of four promissory notes from Allianz SE or its subsidiaries.
- In December 2006, FFIC paid an extraordinary cash dividend to the Company totaling \$725 million. The CDI approved this transaction in October 2006.
- In December 2007, FFIC paid an extraordinary cash dividend to the Company totaling \$750 million. The CDI approved this transaction in October 2007. The cash distribution of \$750 million were declared and paid out as dividends to AZOA during 2007.

MANAGEMENT AND CONTROL

The Company is a wholly-owned subsidiary of Allianz of America, Inc. (AZOA), a Delaware holding company. The ultimate controlling entity is Allianz Societas Europaea. The following abridged organizational chart depicts the Company's relative position within the holding company structure (all ownership is 100%):



Management of the Company is vested in a six-member board of directors elected annually. A listing of the members of the board and principal officers serving on December 31, 2007 follows:

Directors

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Axel Theis Baierbrunn, Germany	Chairman of the Board, CEO Allianz Global Corporate and Specialty
Klaus O. Bick Bavaria, Germany	Chief Risk Officer Allianz Global Corporate and Specialty
Jan R. Carendi Munich, Germany	Senior Vice President Allianz Societas Europaea
Brigitte Bovermann Munich, Germany	NAFTA Markets / Global Lines Allianz Societas Europaea
Wolfgang H. Schatz Chicago, Illinois	President and Chief Executive Officer Allianz Global Risks US Insurance Company
Wilfred Verstraete Munich, Germany	Chief Financial Officer Allianz Global Corporate and Specialty

Principal Officers

<u>Name</u>	<u>Title</u>
Wolfgang H. Schatz	President and Chief Executive Officer
Norbert A. Lommer*	Senior Vice President, Chief Financial Officer and Treasurer
Carsten W. Scheffel	Senior Vice President
Brent A. Sorenson	Senior Vice President
Julie A. Garrison	Vice President, General Counsel and Secretary
Edman Lee-Chin**	Vice President and Controller

* Resigned as Chief Financial Officer and Treasurer on January 1, 2008 and replaced by Douglas R. Renn.

** Retired as Vice President and Controller on January 1, 2009 and replaced by Thomas Markee.

Management Agreements

Investment Advisory Agreement: Effective May 1, 1980 and amended January 1, 1991, the Company appointed Allianz Investment Corporation, an affiliate, as its investment advisor with respect to the management of its investment portfolio. Compensation is based on the assets under supervision. The following are the amount paid by the Company for these services during the examination period:

<u>Year</u>	<u>Amounts</u>
2004	\$347,666
2005	\$413,223
2006	\$336,592
2007	\$345,774

Service Agreement: Effective April 1, 1991, the Company entered into a Service Agreement with its subsidiary, Fireman's Fund Insurance Company (FFIC), in which FFIC provides legal, risk management, corporate audit functions, loss control, premium audit functions, and mainframe computer resources. Reimbursement is based on actual costs. The following are the amount paid by the Company for these services during the examination period:

<u>Year</u>	<u>Amounts</u>
2004	\$60,742
2005	\$93,296
2006	\$25,764
2007	\$27,448

Executive and Professional Service Agreement: This agreement was effective January 1, 1993 and is subject to annual renewal. Under the terms of the agreement, the Company provides Allianz Underwriters Insurance Company with the services of its Chairman and Executive Vice President of Finance, at an annual rate of compensation equal to a fixed percentage of their salaries including secretarial and support staff. The Company also provides the following departmental services: actuarial, accounting, administrative, corporate affairs, communications, financial, internal audit,

electronic data processing, and property and casualty claims services. The following are the amount received by the Company as compensation for these services during the examination period:

<u>Year</u>	<u>Amounts</u>
2004	\$264,800
2005	\$392,836
2006	\$158,000
2007	\$ 13,000

Contract for Property Loss Control Services: This agreement was effective April 1, 1995 and is subject to annual renewal. Under the terms of the agreement with its affiliate, Allianz Risk Consultants, Inc. (ARC), ARC provides on-site property loss control services with respect to certain accounts. The Company pays ARC an amount equal to an hourly charge based upon ARC's cost to provide such services. The following are the amounts paid by the Company for these services during the examination period:

<u>Year</u>	<u>Amounts</u>
2004	\$6,079,944
2005	\$7,730,670
2006	\$8,415,356
2007	\$8,734,547

Tax Reimbursement Agreement: The Company and its parent file a consolidated federal income tax return under the terms of a Tax Reimbursement Agreement. The Company's tax liability, under the terms of this agreement, is the same as it would have been had it filed on a separate stand-alone basis.

CORPORATE RECORDS

California Insurance Code (CIC) Section 735 states that the Company must inform the board of directors of the receipt of the examination report. The board should be informed of the report both in the form first formally prepared by the examiners and in the form as finally settled and officially filed by the commissioner. The board must also enter that fact in the board minutes. A review of the board minutes disclosed that, while the officially filed report was presented to the board, the first formally prepared draft by the examiners was not. It is recommended that the Company implement procedures in its board meetings to ensure future compliance with CIC Section 735.

The Company's board actions regarding the authorization and approval of investments did not satisfy the requirements of California Insurance Code (CIC) Sections 1200 and 1201. The Company's minutes failed to provide any general statement pertaining to its investments, which is in violation of CIC Section 1200. In addition, specific references to amounts, facts, and the values of the securities were not included as required under CIC Section 1201. It is recommended that the Company implement procedures to ensure compliance with CIC Section 1200 and 1201.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2007, the Company was licensed to write various property and casualty coverages in all 50 states, the District of Columbia and Puerto Rico. The Company is also a reinsurer of business written in other countries. During 2007, the Company wrote direct premiums of \$873.0 million. Of the total direct premiums written, \$76.9 million or (8.8%) was written in California, \$67.2 million or (7.7%) was written in Texas, \$37.8 million or (4.3%) was written in Florida and \$32.4 million or (3.7%) was written in Illinois. The Company wrote no more than 3% of its direct business in any one of the remaining 46 states. During 2007 the Company had assumed reinsurance premiums of \$134.3 million.

The Company's marketing efforts have been in two specialties, global business and special property coverages. Global business consists of commercial property and casualty business. Insurance coverage for business in the United States is written on a direct basis, while insurance coverage in

other countries is as a reinsurer. The majority of the alien-assumed business is commercial property business written by and assumed from alien affiliates. Special property coverages consists of builders' risks for large construction operations and most property risks in the surplus lines market on a primary, excess or full-limits basis.

Business is generated by approximately 50 independent agents and brokers. All the claims processing is handled at the Company's home office in Burbank, California. Underwriting and policy maintenance is also handled in the Company's home office and at its branch offices located in Atlanta, Georgia; Chicago, Illinois; and New York, New York.

LOSS EXPERIENCE

The following is a summary of the Company's loss experience, as reported by the Company, for the last four years:

Description	Year/Amounts (000 Omitted)			
	2007	2006	2005	2004
Net Premiums Earned	\$ 208,714	\$ 69,761	\$ 30,478	\$ 38,049
Net Losses and Loss Expenses Incurred	123,805	30,767	68,710	40,228
Net Other Underwriting Expense Incurred	58,284	21,369	14,899	21,357
Net Income (Loss) from Underwriting	\$26,625	\$17,625	\$(53,130)	\$(23,537)
Net Investment Income (Loss)	90,393	58,784	56,368	62,135
Net Income (Loss)	\$92,645	\$86,078	\$9,245	\$30,386

As reflected in the previous page, earned premiums declined from 2004 to 2005 as policies expired and not renewed since the Company ceased to write in the US casualty market in 2002. In 2006, the

Company began writing aviation business through its affiliate Allianz Aviation Manager which caused the premium increase from the prior year. In 2007, the Company's aviation business continued to grow. The increased in incurred loss and loss allocated expense in 2005 was due primarily to Hurricanes Katrina, Rita and Wilma. The increase in incurred losses and loss adjustment expenses in 2007 was due to both the continued expansion of aviation business and the assumption of liabilities associated with sale of Jefferson Insurance Company, a New York Company and Monticello Insurance Company, a Delaware Company.

For the year ended December 31, 2008, the Company reported a net underwriting gain of \$79.1 million and a net income of \$142.6 million.

REINSURANCE

Reinsurance Pooling Agreement

Effective January 1, 1987, the Company and Allianz Underwriters Insurance Company (AUIC) entered into a reinsurance pooling agreement. The purpose of the agreement is to pool, through reinsurance, the results of underwriting operations between the two companies. Under the terms of the agreement, the Company assumes 100% of the following (net of other reinsurance) from AUIC: unearned premium reserves; claim reserves (including losses and loss adjustment expenses); reserves for incurred but not reported losses; net written premiums; net payment of losses; loss adjustment expenses; and underwriting expenses. These amounts, together with amounts directly attributable to the Company, represent the pooled business of which 5.2% is retroceded to AUIC. Effective September 30, 2003, under the new Gross Pooling Agreement, the Company assumes 100% of the gross business of AUIC, AUIC transfers all its ceded reinsurance to the Company and after combining all such business and reserves, the Company cedes 2% of the combined net results back to AUIC. The total net incurred loss of \$625 million relating to the September 11, 2001, World Trade Center disaster for accident year 2001 is not pooled.

Assumed

Other than the reinsurance pooling agreement with its subsidiary, the Company assumes reinsurance through its foreign affiliates in its global property and energy business (global business). As of year-end 2007, the Company assumed premium of approximately \$134.3 million and carried loss and loss adjustment expense reserves of \$347.0 million. The assumed global business was written through facultative reinsurance.

Ceded

The Company has designed its reinsurance program to limit its retention to \$30 million for all property risks insured with the exception of builders' risk, which the Company retains €15 million. In addition to the reinsurance pooling agreement, the Company's reinsurance program is summarized as follows:

Type of Contract	Reinsurer's Name	Coverage	Reinsurer's Limits	Company's Retention
Property Lines				
Property Quota Share	Allianz Global Corporate & Specialty AG, Munich	Property	90% of \$300 million	10% of \$300 million
Property Lines (Builders' Risk)				
Technical Quota Share	Allianz Global Corporate & Specialty AG, Munich	Builders Risk	90% of €150 million	10% of €150 million
Casualty Lines				
Casualty Quota Share (Reverse Flow)	Allianz Global Corporate & Specialty AG, Munich	Liability	100% of \$10 million	0% of \$10 million
Energy (includes property coverage for drilling plant, oil refinery, power plant, etc.)				
Energy Quota Share	Allianz Global Corporate & Specialty AG, Munich	Property	100% of \$150 million	0% of \$150 million
Aviation Lines				
Major Risk XS	Various through Aon	Aviation	100% of \$275 million excess \$35 million	\$35 million
Liability Risk XS	Various through Marsh & Allianz Global Corporate & Specialty AG, Munich	Aviation	100% of \$290 million excess \$10 million	\$10 million
Hull Risk XS	Various through Marsh & Allianz Global Corporate & Specialty AG, Munich	Aviation	100% of \$40 million excess \$10 million	\$10 million
War Risk XS	Various through Marsh	Aviation	100% of \$40 million excess \$10 million	\$10 million
Clash Cover	Various through JLT Re	Aviation	100% of \$30 million excess \$20 million	\$20 million

Type of Contract	Reinsurer's Name	Coverage	Reinsurer's Limits	Company's Retention
Hull War Surplus	Various	Aviation	100% of \$9.5 million surplus \$500 thousand	\$500 thousand
Third Party War Liability Write back Quota Share	Various	Aviation	100% of \$250 million excess \$50 million	\$50 million
All Lines				
Terrorism Quota Share	Allianz Global Corporate & Specialty AG, Munich	All Lines	90% of loss after TRIA reimbursement	10% of loss after TRIA reimbursement
Joint Aggregate Terrorism Excess of Loss	Allianz Global Corporate & Specialty AG, Munich	All Lines	66.67% of \$150 million	50% of \$250 million plus 33.3% of \$75 million
Net Excess of Loss	Allianz Global Corporate & Specialty AG, Munich	All Lines	Per Risk Property: \$27.5 million Per Risk Technical: €3 million Per Occurrence Property: \$45 million Per Occurrence Technical: €1 million CAT Americas: \$28.250 million CAT Excl America: €20 million Mega CAT: €50 million CAT Bond: \$15 million UK Flood & US/Canada earthquake (excl California) only	Per Risk Property: \$2.5 million Per Risk Technical: €2 million CAT Americas: \$6.750 million CAT Excl America: €5 million Mega CAT: €47.5 million CAT Bond: \$26.25 million UK Flood & US/Canada earthquake (excl California) only

€= Euro

Effective December 31, 2003, the Company entered into a Net Excess of Loss Reinsurance Agreement with its affiliate Allianz Global Corporate & Specialty AG covering property lines, builders risk and catastrophe cover for America and worldwide. This agreement replaced the Stop Loss Reinsurance Agreement which expired on December 30, 2003. This agreement remains in force as of December 31, 2007.

Allianz Insurance Company Canada became a US branch of the Company effective December 15, 2004 and is now known as AGR Canada (Branch of AGR US). AGR Canada has its own reinsurance program.

AGR US, Canada Branch:

2007 Program

Type of Contract	Reinsurer's Name	Coverage	Reinsurer's Limits	Company's Retention
Net Excess of Loss (Five Layers)	Munich Reinsurance Company of Canada	Property, Engineering & Liability	1 st – CAD 1 million 2 nd – CAD 3 million 3 rd – CAD 5 million 4 th – CAD 10 million 5 th – CAD 40 million	CAD 1 million
40% Quota Share	Munich Reinsurance Company of Canada	Property, Engineering & Liability	40% of covered business Limit per risk - CAD 100 million - CAD 100m PML - CAD 80 million	60% of covered business Limit per risk - CAD 100 million - CAD 100m PML - CAD 80 million
Property Surplus	Munich Reinsurance Company of Canada	Property & Engineering	- CAD 320 million - CAD 160m PML	CAD 100 million
Aggregate Excess of Loss	Munich Reinsurance Company of Canada	Property, Engineering, Liability, Auto and Accident & Sickness and Aviation	Subject to a maximum of 50% of the Net Earned Loss Ratio	100% of the Ultimate Net Loss Ratio up to 80% and then 130% and over.
Quota Share Reserve Flow AGR US – LOE	Munich Reinsurance Company of Canada	Property, Engineering, Energy and Liability	100% Limit any one risk - CAD 250 million - CAD 125m PML - CAD 125 million - CAD 62.5 million	0%, and the Co shall not cause itself in any year to be reinsured against more than 75% of the risks insured by it in its policies in Canada
Quota Share	Elvia Reiseversicherungs- Gesellschaft, AG	All policies underwritten and issued by the Administrator	Proportional Layer –50% CAD 500,000 Excess Layer – 100% CAD \$9 million	Proportional Layer - 50% CAD \$500,000 Excess Layer – NIL
Aviation Quota Share	Munich Reinsurance Company of Canada	Aviation except underwritten by AIM	100% Obligatory General Aviation Risk CAD \$200 million	0%, and the Co shall not cause itself in any year to be reinsured against more than 75% of the risks insured by it in its policies in Canada
General Aviation Quota Share	Partners Re SA - 33.34% Swiss Re Canada - 33.33% (through Marsh Ltd.)	Aviation underwritten by AIM	Hulls – CAD 1 million Liability CAD 5 million	33.33% of obligatory general aviation insurance u/w by AIM
Automobile Excess of Loss (2 Layers)	Various through Guy Carpenter	Commercial Auto	1 st – \$1.5 million 2 nd - \$7.5 million	CAD \$1 million
Entertainment Quota Share	Munich Reinsurance Company of Canada	Entertainment Property and Liability	100% Maximum 200 million Euro	0%, and the Co shall not cause itself in any year to be reinsured against more than 75% of the risks insured by it in its

Type of Contract	Reinsurer's Name	Coverage	Reinsurer's Limits	Company's Retention
				policies in Canada

CAD = Canadian Dollar

As of year-end 2007, the Company established a reserve for unrecoverable reinsurance in the amount of \$72 million which was comprised mainly of losses and incurred but not reported (IBNR) reserves of the insolvent reinsurers. During 2007, the Company also wrote off \$14 million of reinsurance recoverable from various non-affiliated authorized and unauthorized reinsurers.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2007

Underwriting and Investment Exhibit for the Year Ended December 31, 2007

Reconciliation of Surplus as Regards Policyholders
from December 31, 2003 through December 31, 2007

Reconciliation of Examination Changes as of December 31, 2007

Statement of Financial Condition
as of December 31, 2007

<u>Assets</u>	Ledger and No ledger <u>Assets</u>	Assets Not Admitted	Net Admitted <u>Assets</u>	<u>Notes</u>
Bonds	\$1,143,942,798	\$	\$1,143,942,798	
Preferred stocks	6,043,692		6,043,692	
Common stocks	3,012,457,111	363,453,000	2,649,004,111	(1)
Cash and short-term investments	27,465,471		27,465,471	
Other invested assets	21,204,737	2,214,053	18,990,684	
Receivable for securities	84,501		84,501	
Investment income due and accrued	12,972,331		12,972,331	
Premiums and agents' balances in course of collection	150,437,902	45,748,081	104,689,821	
Premiums, agents' balances and installments booked But deferred and not yet due	7,388,511		7,388,511	
Reinsurance: Amounts recoverable from reinsurers	100,702,193		100,702,193	
Funds held by or deposited with reinsured companies	3,324,700		3,324,700	
Current federal and foreign income tax recoverable	1,675,682		1,675,682	
Net deferred tax asset	234,988,449	179,008,007	55,980,442	
Guaranty funds receivable or on deposit	1,267,144		1,267,144	
Electronic data processing equipment and software	2,815,655	2,815,655	0	
Furniture and equipment, including health care delivery assets	12,231,690	12,231,690	0	
Receivable from parent, subsidiaries and affiliates	34,747,565		34,747,565	
Aggregate write-ins for other than invested assets	<u>183,017,528</u>	<u>6,928,023</u>	<u>176,089,505</u>	
Total assets	<u>\$4,956,767,660</u>	<u>\$ 612,398,509</u>	<u>\$4,344,369,151</u>	
 <u>Liabilities, Surplus and Other Funds</u>				
Losses			\$ 517,387,823	(2)
Loss adjustment expenses			143,969,956	(2)
Other expenses			17,076,387	
Taxes, licenses and fees			22,181,977	
Current federal and foreign income taxes			657,416	
Unearned premiums			147,164,227	
Ceded reinsurance premiums payable			85,832,698	
Funds held by company under reinsurance treaties			5,657,784	
Amounts withheld or retained by company for account of others			23,445,367	
Provision for reinsurance			63,276,580	
Net adjustments in assets and liabilities due to foreign exchange rates			3,708,500	
Payable to parent, subsidiaries and affiliates			12,238,784	
Payable for securities			151,215	
Aggregate write-ins for liabilities			<u>83,112,729</u>	(3)
Total liabilities			1,125,861,443	
Common capital stock		\$ 10,000,000		
Preferred capital stock		191,489		
Gross paid-in and contributed surplus		3,627,164,752		
Unassigned funds (surplus)		<u>(418,848,533)</u>		
Surplus as regards policyholders			<u>3,218,507,708</u>	
Total liabilities, surplus and other funds			<u>\$4,344,369,151</u>	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2007

Statement of Income

Underwriting Income

Premiums earned \$ 208,714,128

Deductions:

Losses incurred \$ 121,312,886
Loss expense incurred 19,994,386
Other underwriting expenses incurred 58,284,026

Total underwriting deductions 199,591,298

Net underwriting gain 9,122,830

Investment Income

Net investment income earned \$ 60,342,631
Net realized capital gains 30,050,729

Net investment gain 90,393,360

Other Income

Net loss from agents' balances charged off \$ (38,076)
Aggregate write-ins for miscellaneous income (24,551,279)

Total other income (24,589,355)

Net income before federal income taxes 74,926,835

Federal income taxes incurred (215,690)

Net income \$ 75,142,525

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2006 \$ 3,631,518,407

Net income \$ 75,142,525
Change in net unrealized capital gains 263,204,283
Change in net unrealized foreign exchange capital gain 5,381,167
Change in net deferred income tax (35,278,635)
Change in nonadmitted assets 38,144,861
Change in provision for reinsurance (10,158,514)
Surplus adjustments: paid in (750,000,000)
Aggregate write-ins for gains in surplus 553,614

Change in surplus as regards policyholders (413,010,699)

Surplus as regards policyholders, December 31, 2007 \$ 3,218,507,708

Reconciliation of Surplus as Regards Policyholders
from December 31, 2003 through December 31, 2007

Surplus as regards policyholders, December 31, 2003, per Examination			\$2,726,830,673
	<u>Gain in Surplus</u>	<u>Loss in Surplus</u>	
Net income	\$ 200,850,679	\$	
Change in net unrealized capital gains	2,851,764,407		
Change in net unrealized foreign exchange capital loss		140,522	
Change in net deferred income tax		72,838,072	
Change in nonadmitted assets	55,427,457		
Change in provision for reinsurance		37,610,262	
Surplus adjustments: Paid-in		2,506,468,006	
Aggregate write-ins for gains in surplus	<u>691,354</u>		
Totals	<u>\$3,108,733,897</u>	<u>\$2,617,056,862</u>	
Net increase in surplus as regards policyholders			<u>419,677,035</u>
Surplus as regards policyholders, December 31, 2007, per Examination			<u>\$3,218,507,708</u>

Reconciliation of Examination Changes
as of December 31, 2007

	<u>Per Company</u>	<u>Per Examination</u>	<u>Surplus Increase (Decrease)</u>	<u>Notes</u>
<u>Assets:</u>				
Common stocks	\$ 3,012,457,111	\$ 2,649,004,111	\$ (363,453,000)	(1)
<u>Liabilities:</u>				
Aggregate write-ins for liabilities	65,610,119	83,112,729	<u>(17,502,600)</u>	(3)
Net decrease to surplus as regards policyholders			\$ (380,955,600)	
Surplus as Regards Policyholders, December 31, 2007 per Company			<u>3,599,463,308</u>	
Surplus as Regards Policyholders, December 31, 2007 per Examination			<u>\$ 3,218,507,708</u>	

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Common Stocks

The Company owns all of the outstanding shares of Fireman's Fund Insurance Company (FFIC) and carried its common stock investment in FFIC as of year-end 2007 at \$3.01 billion using the statutory equity method. Based on the results of the concurrent examination of FFIC by the California Department of Insurance (CDI), the Company's common stock carrying value has been reduced by \$363, 453,000.

(2) Losses and Loss Adjustment Expenses

The CDI, pursuant to California Insurance Code (CIC) Section 733(g), retained an independent actuary for the purpose of providing a full actuarial evaluation of the Company's loss and loss adjustment expense reserves as of December 31, 2007. Based on the analysis by the independent actuary and a review of the work by a Casualty Actuary from the CDI, the Company's reserves for losses and loss adjustment expenses were determined to be reasonably stated and have been accepted for purposes of this examination report.

Roman Catholic Archdiocese Claims: The Company has exposure relating to claims filed against the Roman Catholic Archdiocese of Orange County Archdiocese (OCA) and Los Angeles (RCALA) as well as claims relating to the All American Boys Choir (AABC). The majority of the claims relates to the RCALA and is for accident years from 1978 to 1985 and includes approximately 160 claimants. All of the claims filed against the OCA, RCALA and AABC allege abuse during one or more of the Company's policy periods.

On December 5, 2004, the Company settled the OCA claims for \$100 million. OCA paid 50.567% and the insurance carriers (including the Company) collectively paid 49.433%. The Company had two policies and each policy paid \$500,000 for a total of \$1.0 million.

As of year end 2007 the Company has paid approximately \$62.0 million to settle its portion of the \$650 million settlement by the Roman Catholic Archdiocese of Los Angeles and its insurers. The Company was one of the many insurers.

(3) Excess of Statutory Reserves over Statement Reserves

The Company did not record the \$17.5 million minimum reserve requirements for loss and loss adjustment expenses. Pursuant to California Insurance Code (CIC) Section 11558, “The minimum reserve requirements prescribed by the commissioner in regulations promulgated pursuant to CIC Section 923.5 for outstanding losses and loss expenses for each of the most recent three years for coverages included in the lines of business described in the annual statement as liability other than automobile bodily injury, and for automobile liability bodily injury, shall be not less than 60 percent of earned premiums during each year less the amount already paid for losses and expenses incidental thereto incurred during each such year.”

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Corporate Records (Page 10): It is recommended that the Company (1) implement procedures in its board meetings to ensure compliance with California Insurance Code (CIC) Section 735, (2) implement procedures in its board minutes to ensure compliance with CIC Sections 1200 and 1201 regarding the approval of investments and document in its minutes the approval of all significant events and transactions.

Previous Report of Examination

Permitted Accounting Practices – (Page 5): It was recommended that the Company comply with SSAP No. 1 and disclose its permitted accounting practices in all future financial statements.

The Company has complied with this recommendation.

Management Agreement - (Page 8): It was recommended that the Company prepare and submit a written agreement to the California Department of Insurance for approval in compliance with California Insurance Code Section 1215.5. The Company has complied with this recommendation.

Provision for Reinsurance – Page (24): It is recommended that the Company discontinue the practice of selling past due and nonadmitted reinsurance recoverables unless it is done in strict compliance with SSAP No. 18. The Company has complied with this recommendation.

ACKNOWLEDGEMENT

The courtesy and cooperation extended by the Company's officers and employees during the course of this examination are hereby acknowledged.

Respectfully submitted,

/S/

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Examiner-In-Charge
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