REPORT OF EXAMINATION
OF THE
GEOVERA INSURANCE COMPANY
AS OF
DECEMBER 31, 2010

Filed March 28, 2012

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San Francisco, California
March 2, 2012

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

Dear Commissioner:

Pursuant to your instructions, an examination was made of

GEOVERA INSURANCE COMPANY

(hereinafter also referred to as the Company) at its home office located at 4820 Business Center Drive, Fairfield, California 94534.

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, 2006. This examination covers the period from January 1, 2007 through December 31, 2010. The examination was conducted in accordance with the National Association of Insurance Commissioners' Financial Condition Examiners' 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.

The examination was a coordinated examination and was conducted concurrently with other insurance entities in the holding company group, including Pacific Select Property Insurance Company, GeoVera Specialty Insurance Company, and GeoVera Security Insurance Company (AZ).

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; loss experience; accounts and records; statutory deposits; and sales and advertising.

SUBSEQUENT EVENTS

During 2010, the California Department of Insurance (CDI) initiated a review of certain underwriting and rating policies of the Company resulting in allegations of instances of noncompliance with applicable California insurance law. The Company received a proposed settlement from the CDI on February 15, 2011. In January 2012, the CDI and the Company reached final settlement terms, subject to approval by the Commissioner. The Company does not expect the ultimate resolution of this matter to materially exceed $1,025,000, which was accrued at December 31, 2011, or to have a material impact on its financial condition or results of operation.

COMPANY HISTORY

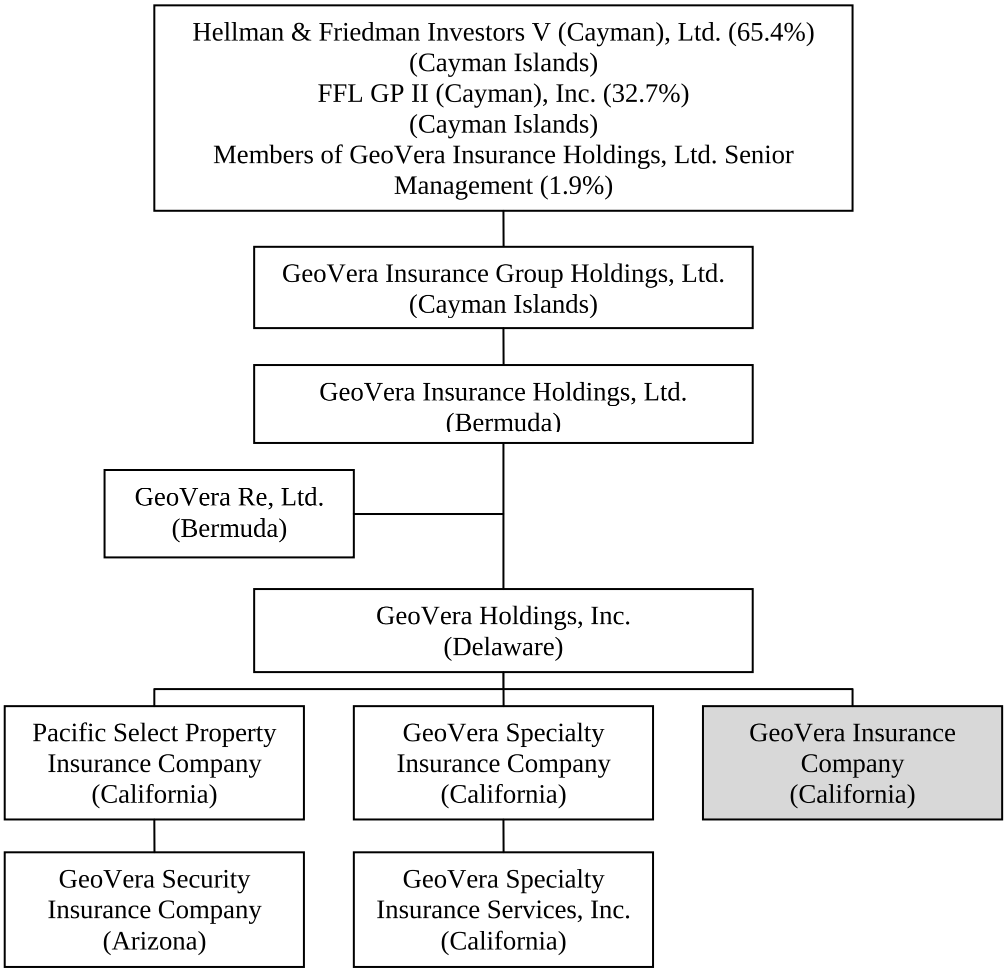
The Company paid the following ordinary and extraordinary cash dividends to its parent, GeoVera Holdings, Inc., during and subsequent to the examination period:

Year	Ordinary	Extraordinary	Total
2007	$ 4,743,320	$ 0	$ 4,743,320
2008	5,741,369	19,300,000	25,041,369
2009	4,822,335	6,792,000	11,614,335
2010	5,647,371	0	5,647,371
2011	9,666,564	0	9,666,564
Total	$30,620,959	$26,092,000	$56,712,959

The extraordinary dividends in 2008 and 2009 were approved by the California Department of Insurance pursuant to California Insurance Code Section 1215.5(g) on June 6, 2008 and December 9, 2009, respectively.

MANAGEMENT AND CONTROL

The Company is part of a holding company structure in which private equity investors, Hellman & Friedman Investors V (Cayman), Ltd. and FFL GP II (Cayman), Inc. are the ultimate controlling persons. The following is an abridged organizational chart depicting the Company within the holding company system as of December 31, 2010 (all ownership is 100% unless otherwise indicated):



Management and control of the Company is vested in a four-member board of directors elected annually. As of December 31, 2010, the directors and principal officers were as follows:

Directors

Name and Residence	Principal Business Affiliation
Kevin M. Nish Fairfield, California	President and Chairman of the Board Pacific Select Property Insurance Company, GeoVera Insurance Company, and GeoVera Specialty Insurance Company
Karen M. Padovese San Rafael, California	Chief Operating Officer Pacific Select Property Insurance Company, GeoVera Insurance Company, and GeoVera Specialty Insurance Company

Directors (continued)

Name and Residence	Principal Business Affiliation
Brian T. Sheekey Napa, California	Chief Financial Officer Pacific Select Property Insurance Company, GeoVera Insurance Company, and GeoVera Specialty Insurance Company
Michael J. Zukerman Piedmont, California	General Counsel and Secretary Pacific Select Property Insurance Company, GeoVera Insurance Company, and GeoVera Specialty Insurance Company

Principal Officers

Name	Title
Kevin M. Nish	President
Michael J. Zukerman	Senior Vice President, General Counsel, and Secretary
Brian T. Sheekey	Senior Vice President and Chief Financial Officer
Karen M. Padovese	Senior Vice President, Insurance Operations

Intercompany Agreements

Services Agreement: The Company has a services agreement with its parent, GeoVera Holdings, Inc. (GVH), which was approved by the California Department of Insurance (CDI) to be effective November 1, 2005. Under terms of this agreement, GVH provides the following services to the Company: financial reporting, tax compliance, treasury services, budget and cost accounting, human resources, payroll, electronic fund transfer, investments, legal, office services, actuarial services, marketing and corporate affairs services, computer services, policy administration including claims administration, graphic arts, and other additional services as needed. The Company reimburses GVH for the services rendered based on allocated cost with no profit factor. Effective August 10, 2006, the agreement was amended to reflect changes in invoice and payment terms. The CDI approved the amendment for use on July 28, 2006. The

Company's share of the costs paid during the examination period was $16.2 million, $18.8 million, $17.9 million, and $18.1 million in 2007, 2008, 2009, and 2010, respectively.

Tax Sharing Agreement: The Company's federal income tax return is filed on a consolidated basis with its parent company, GVH, and its affiliates, GeoVera Insurance Company, GeoVera Specialty Insurance Company, GeoVera Security Insurance Company, and GeoVera Specialty Insurance Services, Inc. pursuant to a Tax Sharing Agreement dated September 15, 2005 that was approved by the CDI on October 28, 2005. Under the terms of this agreement, GVH will prepare and file a consolidated federal tax return on behalf of the participants. The annual tax liability of the participants to the agreement is based on the participants' separate taxable income with credits for operating losses or other items used in the consolidated return. Each participant is required to pay its share of the consolidated tax liability to GVH no later than 40 days after the filing date of the consolidated federal income tax return.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2010, the Company was licensed to transact property and casualty insurance business in the District of Columbia and the following states:

Alabama	Indiana	Missouri	South Carolina
Alaska	Iowa	Montana	South Dakota
Arizona	Kansas	Nebraska	Texas
Arkansas	Kentucky	Nevada	Utah
California	Louisiana	New Jersey	Vermont
Colorado	Maine	North Dakota	Virginia
Delaware	Maryland	Oklahoma	Washington
Hawaii	Michigan	Oregon	West Virginia
Idaho	Minnesota	Pennsylvania	Wisconsin
Illinois	Mississippi	Rhode Island	Wyoming

The Company discontinued underwriting new and renewal residential homeowners' policies in Texas in September 2009 and March 2010, respectively. The Company finalized the withdrawal of its license from Texas in March 2011. In April 2011, the Company applied for a Certificate of Authority in Massachusetts.

During the examination period, the Company provided specialty homeowners insurance in Texas, dwelling and fire insurance in California, and residential earthquake insurance products on an admitted basis in California, Washington, and Oregon. The Company wrote $110,169,680 in direct written premiums in 2010, of which earthquake policies accounted for 98.1% and homeowners' multiple-peril policies accounted for 1.4%. California accounted for the majority of the direct premiums at 83% followed by Washington at 14%.

The residential earthquake policies have coverage limits up to $1,500,000 for homeowners and $500,000 for condominium owners. All policies are subject to predetermined exclusions, such as fire following an earthquake, sub-limits, such as $5,000 for swimming pool enclosures, and deductibles. Deductibles vary by state, with a range of 10% to 25% of a policy's coverage limit.

The Company's products are offered through approximately 3,300 independent agents and brokers and personal line agencies affiliated with financial institutions. The Company also directly sells to the public through its website and call center in Fairfield, California.

Except for its officers, the Company has no employees. The day-to-day operation of the Company is managed by GeoVera Holdings, Inc., and its employees in accordance with a services agreement. The Company's operations (underwriting, marketing, accounting, customer service, legal, and claim management) are based at its Fairfield, California home office. The Company also has an office in Sheboygan, Wisconsin where certain information technology employees are based, and a claims office in Tallahassee, Florida.

Under the terms of the inter-company reinsurance pooling agreement, most of the underwriting transactions of the Company are pooled, reapportioned, and then distributed to the members of the pool, as discussed under the caption "Reinsurance."

REINSURANCE

Intercompany Reinsurance Pooling Agreement

Effective January 1, 2010, the Company entered into an Amended and Restated Intercompany Reinsurance Pooling Agreement with its affiliates, Pacific Select Property Insurance Company (PSPIC), GeoVera Specialty Insurance Company, and GeoVera Security Insurance Company. Under the terms of this agreement, each pool participant cedes 100% of its net retained liability to PSPIC (pool leader) after giving effect to the external reinsurance agreements (refer to the section "Ceded" below) and the quota share reinsurance agreement with GeoVera Re, Ltd. (refer to the section "Affiliated Quota Share Agreement" below). PSPIC then cedes back to each pool participant a quota share of the adjusted net combined liability equal to the participant's respective pool participation percentage as follows:

Pool Member	Participation Percentage
Pacific Select Property Insurance Company (Pool Leader)	31.5%
GeoVera Insurance Company	36.5%
GeoVera Specialty Insurance Company	17.0%
GeoVera Security Insurance Company	15.0%
	100%

The agreement was approved by the California Department of Insurance (CDI) on June 16, 2010.

Affiliated Quota Share Agreement

The Company has a quota share reinsurance agreement with its Bermuda affiliate, GeoVera Re, Ltd. (GVRe). Under the terms of this agreement, the Company cedes, and GVRe accepts, a 60% quota share of the Company's net retained liabilities. The Company receives a 42.5% ceding commission on the business ceded under this agreement. The agreement was approved by the CDI on October 18, 2005.

On May 23, 2011, the Company submitted to the CDI a Form D prior notice of a material transaction pursuant to California Insurance Code Section (CICS) 1215.5(b)(3) informing the CDI of its intent to enter into Addendum No. 5 to the existing quota share reinsurance agreement with GVRe, changing the ceding commission rate from 42.5% to 48%. On December 22, 2011, the CDI approved Addendum No. 5 to this agreement for a period of one year (from March 1, 2011 through February 28, 2012). After the one year term, the ceding commission rate will revert to 42.5% until another rate is approved by the CDI.

Assumed

The Company had no assumed reinsurance during the examination period other than business assumed under the intercompany reinsurance pooling agreement described above.

Ceded

The following is a summary of the Company's reinsurance agreements as of December 31, 2010:

Treaty Type	Lines Covered	Reinsurer(s)	Company's Retention	Reinsurer's Limit
Catastrophe Excess of Loss	Monoline Residential Earthquake coverage in the states of California, Washington, and Oregon and Personal Lines business (i.e. Fire, Allied Lines, and Homeowners), excluding Admitted Homeowners business in the state of Texas	Unauthorized DaVinci Reinsurance Ltd. (Bermuda) - 20.00% Renaissance Reinsurance Ltd. (Bermuda) - 30.00% XL Re Ltd (Bermuda) - 10.00% ACE Tempest Reinsurance Ltd. (Bermuda) – 30%	$25 million any one loss occurrence	$25 million excess of $25 million any one loss occurrence
Catastrophe Excess of Loss				
Layer 1	Monoline Residential Earthquake coverage in the states of California,	Authorized Swiss Reinsurance America Corporation –	$50 million any one loss occurrence	$25 million excess of $50 million, any one loss

Treaty Type	Lines Covered	Reinsurer(s)	Company's Retention	Reinsurer's Limit
	Washington, and Oregon and Personal Lines business (i.e. Fire, Allied Lines, and Homeowners), excluding Admitted Homeowners business in the state of Texas	12.5% 11 other authorized reinsurers – 32.0% Unauthorized ACE Tempest Re, Ltd. – 12.5% 26 other unauthorized reinsurers – 43.0%		occurrence*
Layer 2	Monoline Residential Earthquake coverage in the states of California, Washington, and Oregon and Personal Lines business (i.e. Fire, Allied Lines, and Homeowners), excluding Admitted Homeowners business in the state of Texas	Authorized Swiss Reinsurance America Corporation – 12.5% 18 other authorized reinsurers – 32.55% Unauthorized ACE Tempest Re, Ltd. – 12.5% 23 other unauthorized reinsurers – 42.45%	$75 million any one loss occurrence	$150 million excess of $75 million, any one loss occurrence*
Layer 3	Monoline Residential Earthquake coverage in the states of California, Washington, and Oregon	Authorized Swiss Reinsurance America Corporation – 8.70% 35 other authorized reinsurers – 58.15% Unauthorized 26 other unauthorized reinsurers – 38.58%	$225 million any one loss occurrence	$425 million excess of $225 million, any one loss occurrence*
Earthquake Property Catastrophe Excess of Loss	Monoline residential earthquake coverage	Authorized Lloyd's of London (various) – 44.48% Unauthorized DaVinci Reinsurance Ltd. (Bermuda) - 16.67% Renaissance Reinsurance Ltd. (Bermuda) - 25.00%	$1 million any one loss occurrence. This coverage is only triggered after the Company has incurred an ultimate net loss in any one loss occurrence equal to or exceeding $400 million any one loss occurrence, inclusive of underlying	$30 million excess of $1 million any one loss occurrence

Treaty Type	Lines Covered	Reinsurer(s)	Company's Retention	Reinsurer's Limit
			catastrophe reinsurance.	
Third Event Catastrophe Excess of Loss	Monoline Residential Earthquake coverage in the states of California, Washington, and Oregon and Personal Lines business (i.e. Fire, Allied Lines, and Homeowners), excluding Admitted Homeowners business in the state of Texas	Authorized Lloyd's of London (various) – 30% Unauthorized Hiscox Insurance Company (Bermuda) Limited - 15.00% Torus Insurance (Bermuda) Limited - 5.00% Validus Reinsurance, Ltd. (Bermuda) - 10.00%	$25 million any one loss occurrence. No claim may be made under this contract until the Company's subject excess losses arising out of loss occurrences commencing during the term of this contract exceed $50 million in the aggregate.	$25 million excess of $25 million any one loss occurrence

**The Reinsurer will indemnify the Company for 100% of the loss arising from the Company's reinstatement premium calculation attributed to the First Layer and Second Layer of the Catastrophe Excess of Loss Reinsurance Contracts.*

<u>FINANCIAL STATEMENTS</u>

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2010

Underwriting and Investment Exhibit for the Year Ended December 31, 2010

Reconciliation of Surplus as Regards Policyholders from December 31, 2006 through December 31, 2010

Statement of Financial Condition
as of December 31, 2010

Assets	Ledger and Nonledger Assets	Assets Not Admitted	Net Admitted Assets	Notes
Bonds	$ 49,552,739	$	$ 49,552,739	
Cash and short-term investments	13,572,221		13,572,221	
Receivable for securities	82,780		82,780	
Investment income due & accrued	391,823		391,823	
Uncollected premiums and agents' balances in course of collection	5,779,247		5,779,247	
Deferred premiums, agents' balances and installments booked but deferred and not yet due	14,790,240		14,790,240	
Amount recoverable from reinsurers	2,428,517		2,428,517	
Current federal and foreign income tax recoverables and interest thereon	505,165		505,165	
Net deferred tax asset	5,207,315	217,463	4,989,852	
Guaranty funds receivable or on deposit	24,441		24,441	
Electronic data processing equipment and software	404,635		404,635	
Receivable from parent, subsidiaries and affiliates	539,532		539,532	
Aggregate write-ins for other than invested assets	603,433	38,277	565,156	
Total assets	$ 93,882,088	$ 255,740	$ 93,626,348	

Liabilities, Surplus and Other Funds				
Losses			$ 5,574,572	(1)
Reinsurance payable on paid losses and loss adjustment expenses			2,268,614	
Loss adjustment expenses			2,345,422	(1)
Commissions payable, contingent commissions and other similar charges			1,121,530	
Other expenses			426,346	
Taxes, licenses and fees			29,800	
Unearned premiums			18,557,684	
Advance premiums			2,587,901	
Ceded reinsurance premiums payable			20,148,344	
Remittances and items not allocated			204	
Payable to parent, subsidiaries and affiliates			1,051,202	
Aggregate write-ins for liabilities			8,541,988	
Total Liabilities			62,653,607	
Common capital stock		$ 5,000,000		
Gross paid-in and contributed surplus		10,000,000		
Unassigned funds (surplus)		15,972,741		
Surplus as regards policyholders			30,972,741	
Total liabilities, surplus and other funds			$ 93,626,348	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2010

Statement of Income

Underwriting Income		
Premiums earned		$ 28,461,473
Deductions:		
Losses incurred	$ 7,740,543	
Loss expenses incurred	3,351,948	
Other underwriting expenses incurred	7,168,978	
Total underwriting deductions		18,261,469
Net underwriting gain		10,200,004
Investment Income		
Net investment income earned	$ 1,670,512	
Net realized capital gain	1,494,637	
Net investment gain		3,165,149
Other Income		
Net loss from agents' or premium balances charged off	(37,483)	
Finance and service charges not included in premiums	219,445	
Aggregate write-in for miscellaneous income	(5,612)	
Total other income		176,350
Net income before federal and foreign income taxes incurred		13,541,503
Federal and foreign income taxes incurred		3,874,939
Net income		$ 9,666,564

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2009		$ 27,441,094
Net income	$ 9,666,564	
Change in net unrealized capital gains	(32,294)	
Change in net deferred income tax	(700,335)	
Change in nonadmitted assets	245,083	
Dividends to stockholders	(5,647,371)	
Change in surplus as regards policyholders for the year		3,531,647
Surplus as regards policyholders, December 31, 2010		$ 30,972,741

Reconciliation of Surplus as Regards Policyholders
from December 31, 2006 through December 31, 2010

	Gain in Surplus	Loss in Surplus	
Surplus as regards policyholders, December 31, 2006, per Examination			$ 47,460,516
Net income	$ 30,228,008	$	
Net unrealized capital losses		32,295	
Change in net deferred income tax	168,424		
Change in nonadmitted assets		6,882	
Dividends to stockholders		47,046,395	
Aggregate write-ins for gains and losses in surplus	201,365		
Total gains and losses	$ 30,597,797	$ 47,085,572	
Net decrease in surplus as regards policyholders			(16,487,775)
Surplus as regards policyholders, December 31, 2010, per Examination			$ 30,972,741

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

A Casualty Actuary from the California Department of Insurance reviewed the Statement of Actuarial Opinion and Analysis of Loss and Loss Adjustment Expense Unpaid Liability as of December 31, 2010 prepared by the Company's independent actuary and concurred with the conclusion that the reserves as of December 31, 2010 are reasonable.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

None.

Previous Report of Examination

Management and Control – (Page 4): It was recommended that the Company disclose the ultimate controlling parent in Schedule Y of the Annual Statement in compliance with Statements of Statutory Accounting Principles No. 25, paragraph 2c. The Company's ultimate controlling parent is now properly disclosed in Schedule Y of the Annual Statement.

Management and Control (Page 4): It was recommended that the Company comply with California Insurance Code Section 1104 and not extend loans to its directors and officers whether directly or indirectly. No loans were extended to directors or officers during the examination period.

Accounts and Records (Page 12): It was recommended that the Company institute controls to ensure that its Annual Statement Schedule P is accurate and complete. The Company has complied with this recommendation.

Comments on Financial Statement Items – Uncollected Premiums and Agents' Balances in Course of Collection (Page 17): It was recommended that installment premiums booked but deferred and not yet due be reported in the Annual Statement under "Deferred premiums, agents' balances and installments booked but deferred and not yet due." Installment premiums booked but deferred and not yet due are now properly reported in the Annual Statement.

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/____________________
Ber Vang, CFE, AES, CISA
Examiner-In-Charge
Senior Insurance Examiner (Supervisor)
Department of Insurance
State of California