REPORT OF EXAMINATION

OF THE

GEOVERA SPECIALTY 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 SPECIALTY 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 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

In November 2010, the Company received notice of litigation, styled as a class action, alleging that the Company wrongfully withheld payment for overhead and profit from certain claims paid, usually where three or more trades were involved. The suit, named *Henry Ayotte, et al vs. USF&G Insurance Company and the Travelers Companies*, involved dates of loss of October 24, 2005 and prior, when the Company was owned by its former parent, the Travelers Companies (Travelers). The plaintiffs attempted to certify the suit as a class action with a class period of October 2005 to present; therefore, involving the Company along with Travelers. On May 26, 2011, the United States District Court for the Southern District of Florida dismissed the litigation with prejudice.

On October 24, 2011, the Company received an ordinary dividend from its wholly-owned subsidiary, GeoVera Specialty Insurance Services, Inc. in the amount of $1.45 million.

COMPANY HISTORY

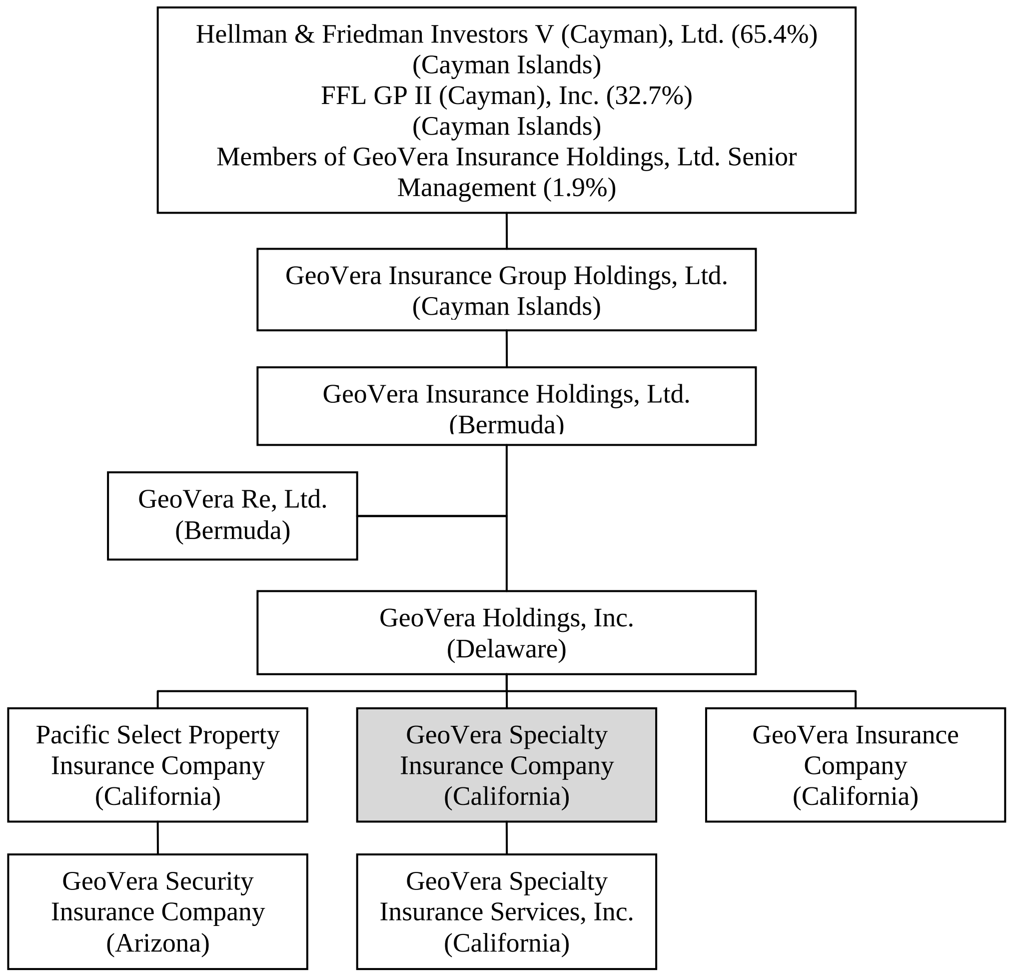
The Company paid the following ordinary and extraordinary cash dividends to its parent, GeoVera Holdings, Inc., during and subsequent to the examination period:

Year	Ordinary	Extraordinary	Total
2007	$2,090,575	$ 0	$2,090,575
2008	2,756,967	1,000,000	3,756,967
2009	2,358,436	4,000,000	6,358,436
2010	1,189,694	0	1,189,694
2011	3,802,402	0	3,802,402
Total	$12,198,074	$5,000,000	$17,198,074

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

Directors (continued)

Name and Residence	Principal Business Affiliation
Karen M. Padovese San Rafael, California	Chief Operating Officer Pacific Select Property Insurance Company, GeoVera Insurance Company, and GeoVera Specialty Insurance Company
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) 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 $16.8 million, $19.3 million, $17.8 million, and $18.6 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, Pacific Select Property Insurance Company, GeoVera 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.

Brokerage Services Agreement: The Company has a service agreement with its subsidiary, GeoVera Specialty Insurance Services, Inc. (GVSIS), formerly known as F&G Specialty Insurance Services, Inc., to provide administrative brokerage services, effective November 1, 2005. Pursuant to the terms of the agreement, GVSIS provides certain administrative, claim and specialty insurance services as a licensed surplus line broker to the Company. The Maryland Administrative Department originally approved the agreement on October 27, 2005. The California Department of Insurance approved the agreement as part of the approval of the Company's application for redomestication, effective January 1, 2007.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2010, the Company was licensed to transact property and casualty insurance business in California, Maryland, Oregon, and South Dakota and was an approved surplus lines carrier in the District of Columbia, Puerto Rico, U.S. Virgin Islands and the following states:

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

The Company specializes in writing homeowners' insurance and predominately markets homeowners' products in Alabama, Florida, Louisiana, South Carolina, and Texas on a non-admitted (surplus lines) basis. The homeowners' products are multi-peril policies covering property and liability losses for homeowners, renters, and condominium owners. The products cover losses to the home and its contents, insure against personal liability claims and provide for reimbursement of certain medical expenses. The Company also writes earthquake policies, which are subject to predetermined exclusions, sub-limits, and deductibles. The dwelling limits range from $50,000 to $750,000, depending on the state. Deductibles vary by risk location, ranging from 1% to 10%, subject to a $1,000 minimum. In 2010, approximately 99% of the direct business written was on a non-admitted (surplus line) basis.

During 2010, the Company wrote direct premiums of $127,661,315, of which 37% was written in Florida, 20% in Alabama, 17% in Texas, and 15% in Louisiana. Homeowners' multiple peril policies comprised 98% of the total direct premiums written during 2010.

The Company's products are offered through 140 contracted producers and surplus lines' wholesalers. The main wholesaler for the Company, Hull & Company, is located in Fort Lauderdale, Florida. In 2010, 56% of the Company's business was produced by Hull & Company.

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 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

On December 1, 2008, the Company assumed non-admitted homeowners premium of $3.6 million (representing approximately 2,400 policies) from Louisiana Citizens Property Insurance Corporation (Louisiana Citizens). On March 1, 2009, policies assumed from Louisiana Citizens were renewed as direct business so long as policyholders elected the Company as their insurance carrier on renewal.

The Company had no other 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, 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% 11 other authorized reinsurers – 32.0% Unauthorized ACE Tempest Re, Ltd. – 12.5% 26 other unauthorized reinsurers – 43.0%	$50 million any one loss occurrence	$25 million excess of $50 million, any one loss 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	$225 million any one loss occurrence	$425 million excess of $225 million, any one loss occurrence*

Treaty Type	Lines Covered	Reinsurer(s)	Company's Retention	Reinsurer's Limit
		reinsurers – 58.15% Unauthorized 26 other unauthorized reinsurers – 38.58%		
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 catastrophe reinsurance.	$30 million excess of $1 million any one loss occurrence
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.*

FINANCIAL STATEMENTS

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	$ 25,917,799	$	$ 25,917,799	
Cash and short-term investments	7,865,376		7,865,376	
Receivable for securities	8,337		8,337	
Investment income due & accrued	227,022		227,022	
Uncollected premiums and agents' balances in course of collection	7,409,396	6,416	7,402,980	
Deferred premiums, agents' balances and installments booked but deferred and not yet due	4,956,162		4,956,162	
Amount recoverable from reinsurers	11,228,239		11,228,239	
Current federal and foreign income tax recoverables and interest thereon	132,750		132,750	
Net deferred tax asset	2,611,162	110,646	2,500,516	
Electronic data processing equipment and software	419,815		419,815	
Furniture and equipment	44,641	44,641	-	
Receivable from parent, subsidiaries and affiliates	5,627,603		5,627,603	
Aggregate write-ins for other than invested assets	58,130	21,809	36,321	
Total assets	$ 66,506,432	$ 183,512	$ 66,322,920	
Liabilities, Surplus and Other Funds				
Losses			$ 2,596,371	(1)
Reinsurance payable on paid losses and loss adjustment expenses			1,056,614	
Loss adjustment expenses			1,092,392	(1)
Commissions payable, contingent commissions and other similar charges			522,355	
Other expenses			192,543	
Taxes, licenses and fees			41,929	
Unearned premiums			8,643,305	
Advance premiums			3,609,140	
Ceded reinsurance premiums payable			20,729,580	
Remittances and items not allocated			6,329	
Payable to parent, subsidiaries and affiliates			835,722	
Aggregate write-ins for liabilities			5,181,124	
Total liabilities			44,507,404	
Common capital stock		$ 5,000,000		
Gross paid-in and contributed surplus		13,013,114		
Unassigned funds (surplus)		3,802,402		
Surplus as regards policyholders			21,815,516	
Total liabilities, surplus and other funds			$ 66,322,920	

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

Statement of Income

Underwriting Income

Premiums earned		$ 13,256,028
Deductions:		
Losses incurred	$ 3,605,182	
Loss expenses incurred	1,561,179	
Other underwriting expenses incurred	3,338,976	
Total underwriting deductions		8,505,337
Net underwriting gain		4,750,691

Investment Income

Net investment income earned	$ 646,437	
Net realized capital gain	222,361	
Net investment gain		868,798

Other Income

Net loss from agents' or premium balances charged off	$ (17,451)	
Finance and service charges not included in premiums	102,206	
Aggregate write-in for miscellaneous income	(2,614)	
Total other income		82,141
Net income before federal and foreign income taxes		5,701,630
Federal and foreign income taxes incurred		1,789,693
Net income		$ 3,911,937

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2009		$ 19,202,808
Net income	$ 3,911,937	
Change in net unrealized capital gains	(8,614)	
Change in net deferred income tax	(176,146)	
Change in nonadmitted assets	75,225	
Dividends to stockholders	(1,189,694)	
Change in surplus as regards policyholders for the year		2,612,708
Surplus as regards policyholders, December 31, 2010		$ 21,815,516

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			$ 20,957,070
Net income	$ 13,701,832	$	
Net unrealized capital losses		8,615	
Change in net deferred income tax		369,139	
Change in nonadmitted assets	841,528		
Dividends to stockholders		13,395,672	
Aggregate write-ins for gains and losses in surplus	88,512		
Total gains and losses	$ 14,631,872	$ 13,773,426	
Net increase in surplus as regards policyholders			858,446
Surplus as regards policyholders, December 31, 2010, per Examination			$ 21,815,516

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.

Accounts and Records – (Page 13): 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 the 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