

REPORT OF EXAMINATION
OF THE
VINTAGE INSURANCE COMPANY
AS OF
DECEMBER 31, 2007

Filed June 19, 2009

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San Francisco, California
June 15, 2009

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

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

VINTAGE INSURANCE COMPANY

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

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 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. This examination was conducted concurrently with the examinations of the Company's parent, Fireman's Fund Insurance Company, and the Company's affiliates, San Francisco Reinsurance Company and Associated Indemnity Corporation.

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; officers', employees' and agents' welfare and pension plans; growth of company; business in force by states; loss experience; and sales and advertising.

SUBSEQUENT EVENTS

The Fireman's Fund group of insurance companies (Group) underwent significant restructuring in August 2008. The Executive Committee of the Company's upstream affiliate, Allianz of America, Inc., made the decision to decentralize support services by aligning these services more closely with the operating companies. As a result, business functions that included Legal, Information Technology, Compliance, and Marketing were realigned so that these functions would be managed independently by Fireman's Fund Insurance Company and Allianz Life Insurance Company.

Additionally, specialty marine business was combined with Allianz Global Corporate & Specialty's (AGCS) global marine business into a new Allianz unit, AGCS Marine Insurance Company (AMIC), that will be managed by AGCS. Agribusiness, a major contributor to the Group's profitability in the last few years, is now operated as a dedicated unit. The other portions of Specialty Insurance were combined with Commercial Business to form a new commercial and specialty risks organization. As a result, the Group currently has two primary business units: Personal and Commercial.

COMPANY HISTORY

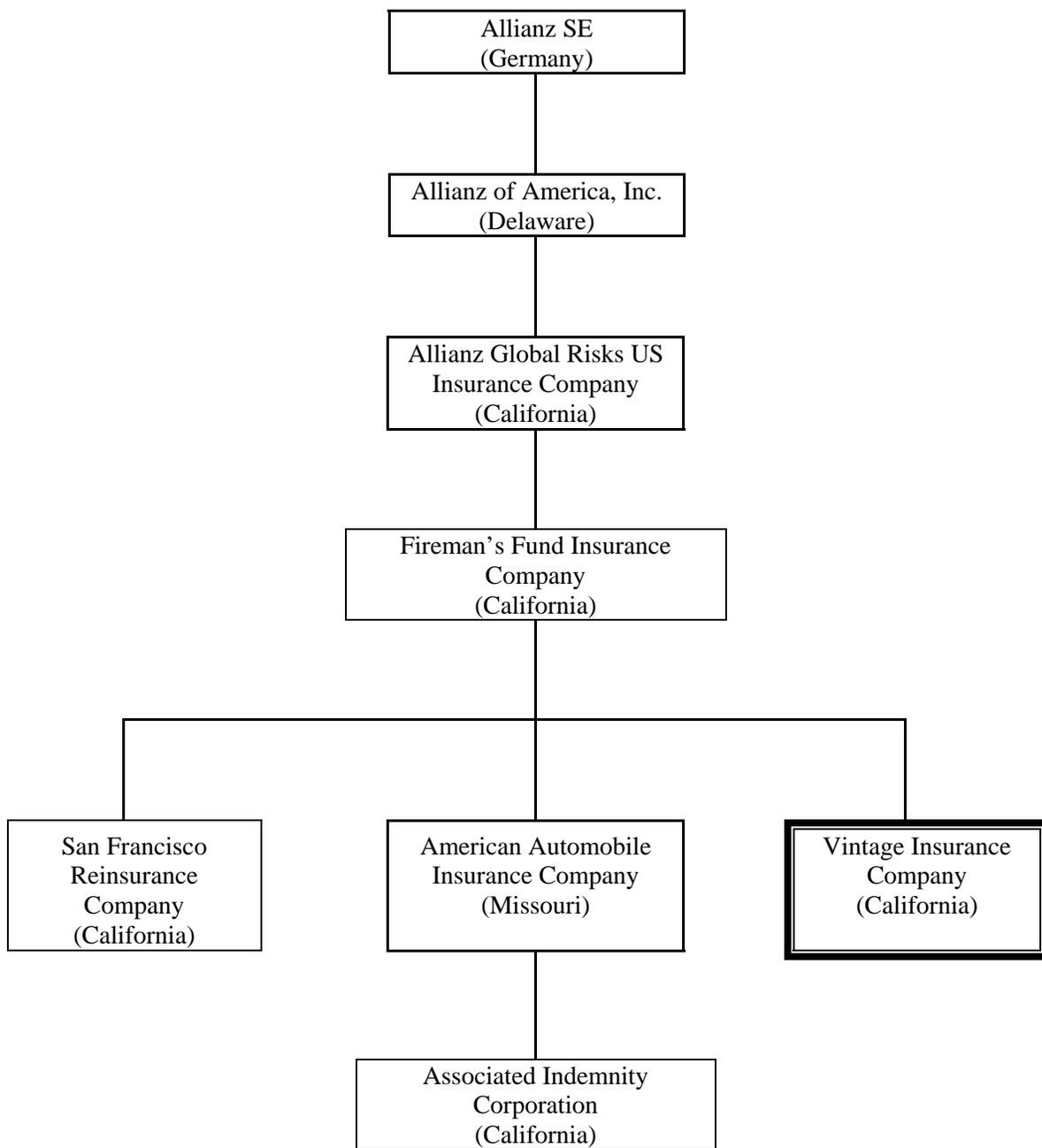
The Company was incorporated under the laws of California on May 10, 1989 as the San Francisco Automobile Insurance Company. Effective March 26, 1993, the current name was adopted. The Company has 10,000 shares of \$1,000 par value common stock authorized. As of December 31, 2007, 7,000 shares were issued and outstanding. All outstanding shares of the Company are owned by its parent, Fireman's Fund Insurance Company, a subsidiary of Allianz Global Risks US Insurance Company, which is wholly owned by Allianz of America, Inc. The ultimate parent of the Allianz group is Allianz SE.

Allianz SE (formerly Aktiengesellschaft Holding) is a European Company incorporated in the Federal Republic of Germany and the European Union. It was incorporated as Allianz Versicherungs Aktiengesellschaft in Berlin, Germany on February 5, 1890 and converted to a

European Company on October 13, 2006. Allianz SE operates on a worldwide basis through branch offices, subsidiaries and affiliated companies.

MANAGEMENT AND CONTROL

The Company is a member of an insurance holding company system. Allianz SE (doing business as a Societas Europaea company), formerly Allianz Aktiengesellschaft, is a European Company incorporated in the Federal Republic of Germany and the European Union. Allianz SE is the ultimate controlling entity. The chart on the following page depicts the interrelationship of the Company and its California subsidiaries within the holding company system (all ownership is 100%):



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, 2007:

Directors

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Bruce F. Friedberg Novato, California	Senior Vice President and Chief Actuary Fireman's Fund Insurance Company
Louise Jordan ^(a) San Rafael, California	Senior Vice President and Controller Fireman's Fund Insurance Company
Charles M. Kavitsky ^(b) Tiburon, California	Chairman, President and Chief Executive Officer Fireman's Fund Insurance Company
Jill E. Paterson ^(c) Tiburon, California	Executive Vice President and Chief Financial Officer Fireman's Fund Insurance Company
Cynthia L. Pevehouse ^(d) Tiburon, California	Senior Vice President and Secretary Fireman's Fund Insurance Company
Linda E. Wright ^(e) Tiburon, California	Senior Vice President and Treasurer Fireman's Fund Insurance Company

Principal Officers

<u>Name</u>	<u>Title</u>
Charles M. Kavitsky ^(b)	President and CEO
Jill E. Paterson ^(c)	Executive Vice President and Chief Financial Officer
Louise Jordan ^(a)	Senior Vice President and Controller
Cynthia L. Pevehouse ^(d)	Senior Vice President and Secretary
Linda E. Wright ^(e)	Senior Vice President and Treasurer

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

- ^(a) Louise Jordan transferred to Allianz SE in Munich, Germany in June 2008. Jeffery Johnson, Assistant Controller, was promoted to Vice President and Controller.
- ^(b) Charles Kavitsky was elected as Chairman of the Board effective January 1, 2008. In January, 2009 the Company announced that Mr. Kavitsky will retire effective July 31, 2009. Michael LaRocco was named President and Chief Executive Officer effective March 17, 2008.
- ^(c) Jill Paterson was elected Treasurer effective October 28, 2008. Her current title is Executive Vice President, Chief Financial Officer and Treasurer.
- ^(d) Cynthia Pevehouse was elected Executive Vice President, General Counsel and Secretary at Allianz of America Corporation. Sally Narey replaced Ms. Pevehouse as Senior Vice President, General Counsel and Secretary effective September 8, 2008.
- ^(e) Linda Wright was replaced as Treasurer by Jill Paterson effective October 28, 2008.

Management Agreements

Management Agreement: Effective September 16, 1994, the Company and its parent, Fireman's Fund Insurance Company (FFIC) entered into a management agreement to provide the Company with all personnel, material, facilities and services necessary to transact the business of insurance. Except as otherwise provided and as amended January 8, 1991, the Company agrees to pay FFIC a fee equal to actual expenses. The Company shall be responsible for all payments, commissions, expense, taxes and fees.

Tax Reimbursement Agreement: Effective December 17, 1999, the Company entered into a tax reimbursement agreement for the purpose of clarifying an agreement that was in effect since 1991. The Tax Reimbursement Agreement was between Allianz of America, Inc. (AZOA) and its affiliates, including the Company. Under this agreement, the tax liability of the Company will be computed as if it filed a separate, stand-alone return. AZOA is the party primarily responsible for filing and making all tax payments on behalf of the Company.

Investment Management Services Agreement: The Company entered into an investment services agreement with FFIC effective July 1, 1994. Under the provisions of the agreement, FFIC agrees to provide investment services, including counsel and advice on formulation of programs; management of the Company's assets; provision of facilities, including administrative, accounting, and clerical necessary to support these services.

TERRITORY AND PLAN OF OPERATION

In 2003, the Company ceased writing new business. All existing business is being renewed either through the Company or other Fireman's Fund companies. Previously, the Company wrote primarily private passenger automobile business in the State of California.

REINSURANCE

The impact of reinsurance to this Company is minimal as it ceased writing new business in 2003. Premium activity consists of a small amount of adjustments on previously written private passenger auto liability and auto physical damage policies.

ACCOUNTS AND RECORDS

Information Systems Controls

During the course of the examination, a review was made of the Company's general controls over its information systems. As a result of this review, several low risk 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 system controls.

Federal Income Taxes

Currently the methodology being used for measuring temporary book/tax differences is not in compliance with Statement of Statutory Accounting Principles (SSAP) No. 10, paragraph 6.a. which states "Temporary differences are identified and measured using a balance sheet approach whereby statutory and tax basis balance sheets are compared." The Company currently uses an income statement approach where the current year non-taxable amounts are added/subtracted from last year's cumulative timing difference. The updated cumulative timing difference is used to support the deferred tax asset or liability. The balance sheet approach is preferred in order to assure completeness and accuracy of the deferred tax inventories, particularly where the tax basis calculations are complicated and are developed over several years. It is recommended that the Company identify and measure temporary differences using a balance sheet approach in compliance with SSAP No. 10, paragraph 6.a.

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

Statement of Financial Condition
as of December 31, 2007

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$ 16,477,867	\$	\$ 16,477,867
Other invested assets	3,184,909		3,184,909
Investment income due and accrued	138,965		138,965
Net deferred tax asset	<u>2,163</u>	<u>2,061</u>	<u>102</u>
Total assets	<u>\$ 19,803,904</u>	<u>\$ 2,061</u>	<u>\$ 19,801,843</u>
 <u>Liabilities, Surplus and Other Funds</u>			
Losses			\$ 15,000
Loss adjustment expenses			18,000
Other expenses			(12)
Taxes, licenses and fees			(272)
Current federal and foreign income taxes			545,093
Unearned premiums			(340)
Payable to parent, subsidiaries and affiliates			<u>4,485</u>
Total liabilities			581,954
Common capital stocks		\$ 7,000,000	
Gross paid in and contributed surplus		3,000,000	
Unassigned funds (surplus)		<u>9,219,889</u>	
Surplus as regards policyholders			<u>19,219,889</u>
Total liabilities, surplus and other funds			<u>\$ 19,801,843</u>

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

Statement of Income

Underwriting Income

Premiums earned		\$ 10,092
Deductions:		
Losses incurred	\$ (92,534)	
Loss expenses incurred	(605,602)	
Other underwriting expenses incurred	<u>(210)</u>	
Total underwriting deductions		<u>(698,346)</u>
Net underwriting gain		708,438

Investment Income

Net investment income earned	\$ <u>925,057</u>	
Net investment gain		<u>925,057</u>
Net income before federal income taxes		1,633,495
Federal and foreign income taxes incurred		<u>548,428</u>
Net income		<u>\$ 1,085,067</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2006		\$ 18,136,584
Net income	\$ 1,085,067	
Change in net deferred income tax	(23,295)	
Change in nonadmitted assets	<u>21,533</u>	
Change in surplus as regards policyholders for the year		<u>1,083,305</u>
Surplus as regards policyholders, December 31, 2007		<u>\$ 19,219,889</u>

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

Surplus as regards policyholders, December 31, 2003 per Examination			\$ 17,141,193
	<u>Gain in Surplus</u>	<u>Loss in Surplus</u>	
Net income	\$ 2,088,801	\$	
Change in net deferred income tax	2,806		
Change in nonadmitted assets	<u> </u>	<u>12,911</u>	
Total gains and losses	<u>\$ 2,091,607</u>	<u>\$ 12,911</u>	
Net increase in surplus as regards policyholders			<u>2,078,696</u>
Surplus as regards policyholders, December 31, 2007, per Examination			<u>\$ 19,219,889</u>

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Accounts and Records – Information System Controls (Page 7): 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 controls over its information systems.

Accounts and Records – Federal Income Taxes (Page 7): It is recommended that the Company identify and measure temporary differences using a balance sheet approach in compliance with Statement of Statutory Accounting Principles No. 10, paragraph 6.a.

Previous Report of Examination

Accounts and Records - Information Systems Controls (Page 6): It was recommended that the Company evaluate the recommendations from the Information Systems review and make appropriate changes to strengthen its information system controls. The Company has implemented changes to strengthen its controls over information systems.

Comments on Financial Statement Items – Bonds (Page 11): It was recommended the Company revise its Custodial Agreement with Mellon Trust of California to include provisions recommended by the NAIC Financial Examiners Handbook. It was also recommended the Company submit the revised Agreement to the California Department of Insurance (CDI) for approval. The Company amended its custodial agreement to comply with NAIC recommendations. The revised agreement was approved by the CDI on January 25, 2006.

Comments on Financial Statement Items – Common Stocks and Other Invested Assets (Page 12): It was recommended that the Company classify Allianz Cash Pool, LLC as Other Invested Assets and report it in Schedule BA. The Company has complied with this recommendation.

Comments on Financial Statement Items – Losses and Loss Adjustment Expenses (Page 12): The Company recorded correcting entries in the second quarter of 2004. It was recommended the Company implement controls to ensure that its financial statements are free from material misstatement. The Company has implemented controls to ensure that loss and loss adjustment reserves are properly stated.

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/_____
Gordon M. Curtis, CFE, CISA
Examiner-In-Charge
Department of Insurance
State of California