REPORT OF EXAMINATION
OF THE

GOLDEN EAGLE INSURANCE CORPORATION

AS OF
DECEMBER 31, 2008

Filed June 1, 2010

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Los Angeles, California
February 19, 2010

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

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

GOLDEN EAGLE INSURANCE CORPORATION

(hereinafter also referred to as the Company) at its statutory home office located at 525 B Street, San Diego, California 92101.

SCOPE OF EXAMINATION

The previous examination of the Company was made as of December 31, 2004. This examination covers the period from January 1, 2005 through December 31, 2008. 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, 2008, as deemed necessary under the circumstances.

This examination was conducted concurrently with the examination of the Company's affiliate, San Diego Insurance Company.

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

On July 20, 2009, the New Hampshire Insurance Department received a request from the Company to redomesticate from California to New Hampshire. A conditional approval from the California Department of Insurance was granted on November 18, 2009.

COMPANY HISTORY

The Company was incorporated under the laws of the State of California on July 9, 1997. It commenced business on August 22, 1997. The Company was organized as part of an agreement between Liberty Mutual Insurance Company (LMIC) and the California Department of Insurance (CDI) in connection with the liquidation of Golden Eagle Insurance Company.

The Company had the following dividends during the examination period:

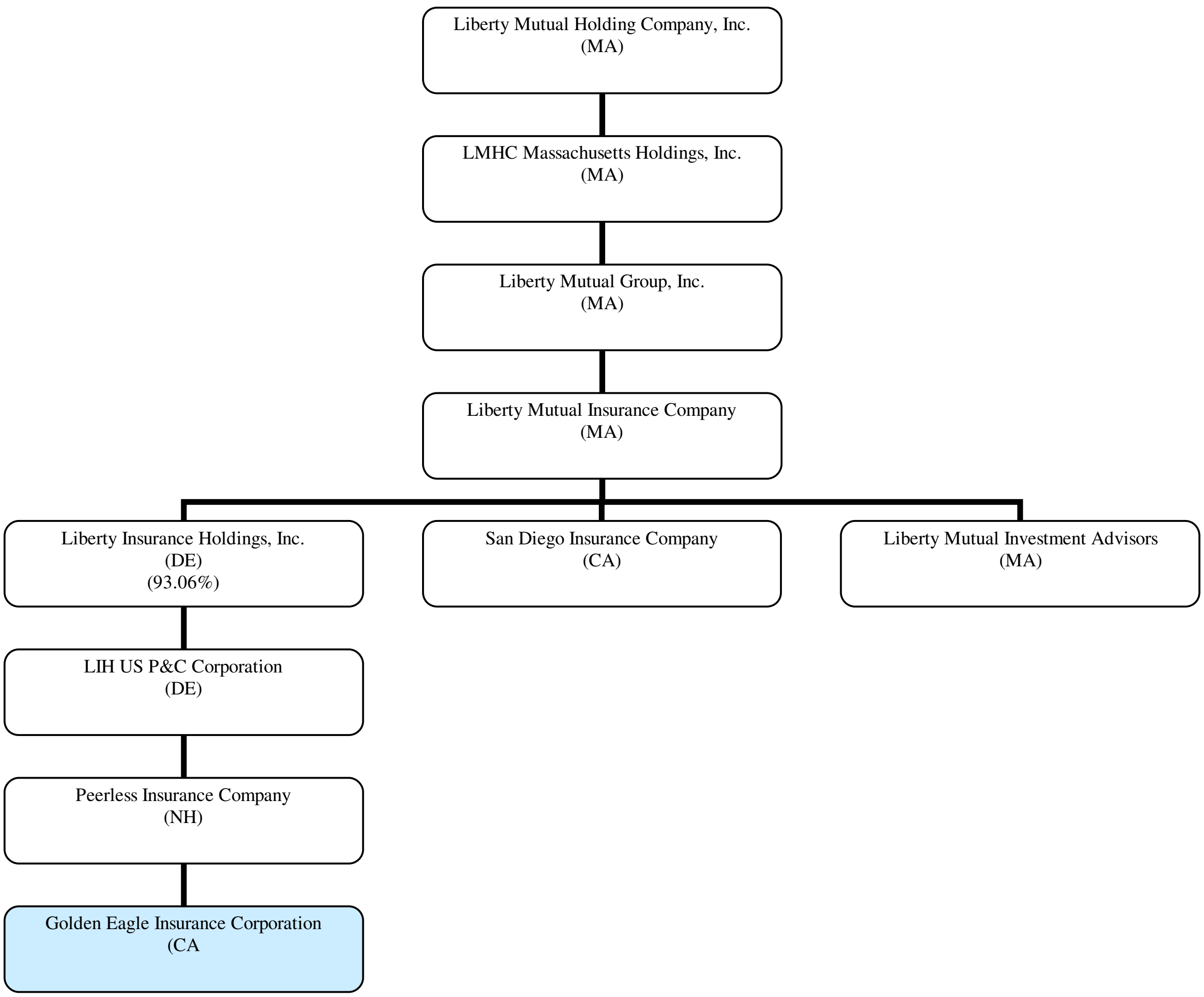
Date	Amount	Type of Dividend
August 2006	$28,725,000	ordinary
July 2008	$32,473,185	ordinary
July 2008	$64,770,971	extraordinary*

* approved by the CDI on June 18, 2009

On October 28, 2008, the CDI accepted Peerless Insurance Company's (PIC) and LMIC's application for exemption from California Insurance Code Section 1215.2 change in control of ownership requirements. The Company then became a wholly-owned subsidiary of PIC, a New Hampshire domiciled company. On December 31, 2008, the Company contributed 100% of its subsidiary, San Diego Insurance Company, to LMIC valued at $59,443,565. This transaction was approved by the CDI of November 19, 2008.

MANAGEMENT AND CONTROL

The following abridged organizational chart, which is limited to the Company's parent along with its subsidiary insurance companies, depicts the Company's relationship within the holding company system:



(*) all ownership is 100% unless otherwise noted

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, 2008 follows:

Directors

Name and Residence	Principal Business Affiliation
John Dereck Doyle Southborough, Massachusetts	Senior Vice President and Comptroller Liberty Mutual Group
Michael Joseph Fallon Bedford, Massachusetts	Chief Financial Officer Liberty Mutual Agency Markets
Joseph Anthony Gilles Medway, Massachusetts	Manager of Strategy and Operations Liberty Mutual Agency Markets
Scott Rhodes Goodby Marblehead, Massachusetts	President of Regional Companies Group Liberty Mutual Agency Markets
Gary Richard Gregg Milton, Massachusetts	President Liberty Mutual Agency Markets
Christopher Charles Mansfield Dedham, Massachusetts	General Counsel Liberty Mutual Group

Principal Officers

Name	Title
Gary Richard Gregg	President and Chief Executive Officer
Dexter Robert Legg	Secretary
Michael Joseph Fallon	Treasurer and Chief Financial Officer
Anthony Alexander Fontanes	Chief Investment Officer
Scott Rhodes Goodby	Chief Operating Officer
Joseph Anthony Giles	Executive Vice President

Management Agreements

Service Agreement: The Company entered into a Service Agreement with Peerless Insurance Company (PIC) and other affiliates, effective December 31, 2007. The agreement allows all parties in the agreement to provide services related to management functions, including marketing and advertising, information system, payroll and human resources, actuarial, accounting and financial, consulting and other services the parties in the agreement may request. Under the terms of the agreement, the Company pays PIC each quarter the amount equal to the cost which PIC incurred during the previous quarter which relates directly or indirectly to such services, less any revenue received from other sources. All expenses are allocated between PIC and the participating companies in the pool in accordance with the pooling percentages as indicated in the reinsurance section of this report. The Company will pay such amount 30 days after receiving the invoice for that period after taking into account any prior period adjustments. The California Department of Insurance (CDI) approved this agreement on January 8, 2008. For 2005, 2006, 2007, and 2008 the fees paid by the Company to PIC were $5,246,978, $6,129,122, $8,064,832, and $2,961,163, respectively.

Management Services Agreement: The Company is a party to a Management Services Agreement with the Liberty Mutual Insurance Company (LMIC), effective August 21, 1997. LMIC provides investment management and administrative services. Under the terms of this agreement, settlements are made at the end of each quarter, and payments due are to be made within 45 days of the end of the quarter. Amounts charged to the Company are aggregated along with other companies who are members of the PIC pool and charged to PIC by LMIC. PIC settles the aggregate balance, and charges the members of the PIC pool in accordance with the pooling percentages as indicated in the reinsurance section of this report. No fees were charged the Company during the examination period. The CDI approved this agreement in June 2001.

Tax Sharing Agreement: The Company and its affiliates are part of a consolidated federal income tax agreement with its ultimate parent, Liberty Mutual Holding Company Inc., amended effective September 22, 2008. The allocation of tax is based upon separate return calculations with inter-company tax balances normally settled in the quarter subsequent to the filing of the consolidated return. The CDI approved the amendment on September 5, 2008.

Service Agreement: The Company entered into a Service Agreement with its affiliate, San Diego Insurance Company (SDIC) effective August 21, 1997. Under the terms of this agreement, the Company agreed to provide SDIC with accounting, tax, and auditing services, as well as services related to claims administration. The Company has also agreed to provide SDIC with personnel, office space, equipment, and supplies in order for SDIC to conduct its operations. Under the terms of the agreement, the net amount owed shall be determined not less frequently than quarterly, and shall be paid upon presentation of invoices covering the settlement after the close of the period to which the determination applies. During the period under examination no services were provided by the Company to SDIC, consequently no payments were made by SDIC to the Company. The agreement was deemed approved by the CDI on December 4, 2007.

Investment Management Agreement: The Company entered into an Investment Management Agreement with LMIC, effective December 19, 2007. Under this agreement LMIC provides investment management services to the Company. The CDI approved this agreement on November 29, 2007, and approved the amendment to the agreement on August 28, 2008. The Company pays LMIC, monthly, based on the month ending total market value multiplied by a rate of .0000283 for the debt securities; and the beginning plus month ending market value, divided by two, multiplied by a rate of .000283 for equity securities. For 2005, 2006, 2007, and 2008 the fees paid by the Company to LMIC were $218,203, $235,274, $278,079, and $279,876, respectively.

Investment Management Agreement: Effective May 1, 2000, the Company entered into an Investment Management Agreement with Liberty Mutual Investment Advisors (LMIA). Under this agreement LMIA provides investment management services to the Company. For 2005 the fees paid by the Company to LMIA were $6,676. No further fees were paid to LMIA. The agreement did not provide for timely settlement of amounts owed, with a specified due date as required by the Statements of Statutory Accounting Principles (SSAP) No. 25 as amended by SSAP No. 96. It is recommended that the Company amend its Investment Management Agreement with LMIA to include all provisions required by SSAP No. 25 as amended by SSAP No. 96, and file an amended agreement with the CDI in accordance with CIC Section 1215.5(b).

Cash Management Agreement: The Company entered into a Cash Management Agreement with LMIA effective January 28, 2000. The management fee, along with the LMIA's expenses associated with providing cash management services for the Company is settled on a quarterly basis. The management fee is the average amount of liquid assets in the liquidity pool multiplied by an annual rate of .0000283. For 2005, 2006, 2007, and 2008 the fees paid by the Company to LMIA were $6,676, $1,774, $6,340, and $3,514, respectively.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2008, the Company was licensed to transact multiple lines of property and casualty insurance. The Company is licensed in the states of Arizona and California.

In 2008, the Company wrote $124.8 million of direct premiums. Of the direct premiums written, 99.4% or $124.1 million was written in California and the remainder in Arizona.

During 2008, the Company wrote the following lines; commercial multiple peril (non-liability), 32.7%; commercial multiple peril (liability), 29.5%; other liability, 18.5%; other commercial auto liability, 13.7%; and commercial auto physical damage, 4.3%. These five lines encompass 98.7% of the Company's total direct writings. The Company's business is produced by independent agents and brokers.

REINSURANCE

Intercompany Reinsurance Pooling Agreement

The Company is a member of an intercompany reinsurance pooling agreement with Peerless Insurance Company (PIC) as the lead company. Under this agreement the members cede 100% of all of the business, net of reinsurance, to PIC. PIC retrocedes an allocated portion back to the participants, after reinsurance, based on the percentages prescribed in the agreement.

The participants in the intercompany reinsurance pooling agreement, and their respective participation percentages as of December 31, 2008 were as follows:

Pool Participant	Percentage
Peerless Insurance Company	42
The Ohio Casualty Insurance Company	34
Indiana Insurance Company	8
Golden Eagle Insurance Corporation	7
Peerless Indemnity Insurance Company	5
Netherlands Insurance Company	3
American Fire and Casualty Company	1
Total	100

Assumed

In connection with the Conservation and Rehabilitation Agreement of Golden Eagle Insurance Company, the Company entered into a 100% quota share reinsurance and claims administration agreement. Under this agreement the Company assumed liabilities from the Golden Eagle Insurance Company Trust, the successor to the conserved Golden Eagle Insurance Company, in the amount of $9.1 million on known case loss reserves and loss adjustment expenses.

Ceded

As of December 31, 2008, reinsurance recoverables for all ceded reinsurance totaled $290.7 million or 160.7% of surplus as regards policyholders. The ceded reinsurance recoverables include affiliated admitted reinsurers balance of $289.3 million, or 98.5%, and $4.4 million recoverables from unaffiliated admitted reinsurers, or 1.5% of the total reinsurance recoverables.

ACCOUNTS AND RECORDS

The Company failed to file its 2007 unclaimed property report with the State of California Controller's Office on a timely basis, as required under the California Code of Civil Procedure, Part 3, Title 10, Chapter 7, Article 3, (California Unclaimed Property Act) Section 1530. It is recommended that the Company implement procedures to ensure compliance with the filing requirements of the California Unclaimed Property Act Section 1530.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2008

Underwriting and Investment Exhibit for the Year Ended December 31, 2008

Reconciliation of Surplus as Regards Policyholders
from December 31, 2004 through December 31, 2008

Reconciliation of Examination Changes as of December 31, 2008

Statement of Financial Condition
as of December 31, 2008

Assets	Ledger and Nonledger Assets	Assets Not Admitted	Net Admitted Assets	Notes
Bonds	$ 700,709,044	$	$ 700,709,044	
Stocks:				
Preferred Stocks	23,100		23,100	
Common stocks	35,228,178		35,228,178	
Cash cash equivalents, and short-term investments	55,150,762		55,150,762	
Interest income due and accrued	8,261,265		8,261,265	
Premiums and considerations:				
Uncollected premiums and agents' balances in course of collection	16,248,715	1,804,378	14,444,337	
Deferred premiums, agents' balances and installments booked but deferred and not yet due	111,875,933	393,403	111,482,530	
Accrued retrospective premiums	2,357,653	211,979	2,145,674	
Reinsurance:				
Amounts recoverable from reinsurers	259,649		259,649	
Net deferred tax asset	56,011,000	33,913,973	22,097,027	
Guaranty funds receivable or on deposit	554,195		554,195	
Electronic data processing equipment and software	1,997	698	1,299	
Furniture and equipment	5,094	5,094		
Aggregate write-ins for other than invested assets	6,895,274	41,526	6,853,748	
Total assets	$ 993,581,859	$ 36,371,051	$ 957,210,808	

Liabilities, Surplus and Other Funds

Losses		$ 413,714,835	(1)
Reinsurance payable on paid losses and loss adjustment expenses		21,635,179	
Loss adjustment expenses		94,736,410	(1)
Commissions payable, contingent commissions and other similar charges		11,259,985	
Other expenses		13,815,801	
Taxes, licenses and fees		8,557,672	
Current federal and foreign income taxes		2,859,445	
Unearned premiums		177,063,114	
Advance premium		1,155,502	
Dividends declared and unpaid: Policyholders		251,331	
Amounts withheld or retained by company for account of others		780,512	
Drafts outstanding		2,538,606	
Payable to parent, subsidiaries and affiliates		2,638,151	
Aggregate write-ins for liabilities		29,066,433	(2)
Total liabilities		780,072,976	
Common capital stock	$ 2,600,000		
Gross paid-in and contributed surplus	162,189,768		
Unassigned funds (surplus)	12,348,064		
Surplus as regards policyholders		177,137,832	
Total liabilities, surplus and other funds		$ 957,210,808	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2008

Statement of Income

Underwriting Income		
Premiums earned		$ 418,689,237
Deductions:		
Losses incurred	$ 219,261,300	
Loss adjustment expenses incurred	45,383,332	
Other underwriting expenses incurred	145,261,695	
Total underwriting deductions		409,906,327
Net underwriting gain		8,782,910
Investment Income		
Net investment income earned	$ 48,775,368	
Net realized capital gains	2,187,595	
Net investment gain		50,962,963
Other Income		
Net loss from agents' or premium balances charged off	$ (1,649,582)	
Finance and service charges not included in premiums	345,221	
Aggregate write-ins for miscellaneous income	(4,592,578)	
Total other income		(5,896,939)
Net income before dividends to policyholders and before federal income taxes		53,848,934
Dividends to policyholders		2,733,319
Federal income taxes incurred		9,829,945
Net income		$ 41,285,670

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2007		$ 312,420,403
Net income	$ 41,285,670	
Net unrealized capital losses	(15,180,388)	
Change in net deferred income tax	8,852,383	
Change in non-admitted assets	(14,698,654)	
Surplus adjustments: Paid in	(59,443,565)	
Dividends to stockholders	(97,244,156)	
Aggregate write-ins for gains in surplus	1,146,139	
Change in surplus as regards policyholders		(135,282,571)
Surplus as regards policyholders, December 31, 2008		$ 177,137,832

Reconciliation of Surplus as Regards Policyholders
from December 31, 2004 through December 31, 2008

Surplus as regards policyholders, December 31, 2004, per Examination			$ 263,887,248
	Gain in Surplus	Loss in Surplus	
Net income	$ 106,440,574		
Net unrealized capital loss		10,728,380	
Change in nonadmitted assets		21,931,472	
Change in deferred income tax	23,176,050		
Surplus adjustments: Paid-in		59,443,565	
Stockholder dividends		125,969,156	
Aggregate write-ins for gains in surplus	1,706,533		
Totals	$ 131,323,157	$ 218,072,573	
Net decrease in surplus as regards policyholders for the examination			(86,749,416)
Surplus as regards policyholders, December 31, 2008, per Examination			$ 177,137,832

Reconciliation of Examination Changes
as of December 31, 2008

Liabilities	Per Company	Per Examination	Surplus Increase (Decrease)	Notes
Aggregate write-ins for liabilities	$ 25,348,233	$ 29,066,433	$ (3,718,200)	(2)
Net decrease to surplus as regards policyholders			$ (3,718,200)	
Surplus as Regards Policyholders, December 31, 2008 per Company			180,856,032	
Surplus as Regards Policyholders, December 31, 2008 per Examination			$ 177,137,832	

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

The actuarial firm of Milliman and Associates was retained by the New Hampshire Department of Insurance (NHDI) for the purpose of determining the reasonableness of the Peerless Insurance Company pool loss and loss adjustment expense reserves. Based on the analysis by Milliman and Associates, and the review of their work by a Casualty Actuary from the California Department of Insurance, the Company's December 31, 2008 reserves for losses and loss adjustment expenses were determined to be reasonable for the purposes of this examination.

The Company classifies loss adjustment expenses for participation in voluntary and involuntary market pools by calendar year as Defense Containment Cost. This classification is contrary to Statements of Statutory Accounting Principles (SSAP) No. 55, paragraph 5, which states that loss adjustment expenses for participation in voluntary and involuntary market pools if reported by calendar year should be classified as Adjusting and Other. It is recommended that the Company comply with SSAP No. 55, paragraph 5.

(2) Aggregate Write-ins for Liabilities

The Company failed to correctly calculate the minimum reserve requirements as stated in CIC Section 11558 by neglecting to include its other liabilities line in its calculation of minimum reserve for the years 2006 and 2007. The minimum reserve requirement was found to be deficient by $3,718,200. This amount has been reflected as an adjustment in the Company's surplus as regards to policyholders. It is recommended that the Company implement procedures to ensure future compliance with CIC Section 11558. It is further recommended that the Company incorporate the Product Liability line of business into its calculation of the Excess of Statutory Reserves over Statement Reserves.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Management Agreements – Investment Management Agreement (Page 6): It is recommended that the Company amend its Investment Management Agreement with Liberty Mutual Investment Advisors (LMIA) to include all provisions required by Statement of Statutory Accounting Principles (SSAP) No. 25 as amended by SSAP No. 96, and file this agreement with the California Department of Insurance (CDI) in accordance with California Insurance Code (CIC) Section 1215.5(b).

Accounts and Records (Page 9): It is recommended that the Company implement procedures to ensure compliance with the filing requirements of the California Unclaimed Property Act Section 1530.

Losses and Loss Adjustment Expense (Page 14): It is recommended that the Company comply with SSAP No. 55, paragraph 5.

Aggregate Write-Ins for Liabilities (Page 14): It is recommended that the Company implement procedures to ensure future compliance with California Insurance Code (CIC) Section 11558. It is further recommended that the Company incorporate the Product Liability line of business into its calculation of the Excess of Statutory Reserve over Statement Reserve.

Previous Report of Examination

Corporate Records (Page 4): It was recommended that the Company implement procedures in its board meetings to ensure compliance with CIC Sections 735, 1200, and 1201. The Company has implemented procedures to comply with CIC Sections 735, 1200, and 1201.

Accounts and Records (Page 8): It was recommended that the Company maintain documentation to support all financial statement accounts. The current documentation is prepared in sufficient detail as to allow a full and complete audit trial.

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/______________________
Gint Prismantas, CFE
Examiner-In-Charge
Senior Insurance Examiner
Department of Insurance
State of California