REPORT OF EXAMINATION

OF THE

ALLIANZ GLOBAL RISKS
US INSURANCE COMPANY
AS OF

DECEMBER 31, 2010

Filed June 11, 2012

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Los Angeles, California
March 1, 2012

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

Dear 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 primary location of its books and records, 225 West Washington Street, Chicago, Illinois 60601. The Company's statutory home office is located at 2350 Empire Avenue, Burbank, California 91504.

SCOPE OF EXAMINATION

We have performed a multi-state examination of the Company. The last examination was completed as of December 31, 2007. This examination covers the period from January 1, 2008 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.

This examination was conducted concurrently with the examination of the Company's wholly-owned subsidiaries, Allianz Underwriters Insurance Company, and Fireman's Fund Insurance Company, and the examination of AGCS Marine Insurance Company by the Illinois Department of Insurance. California served as the lead state in the coordinated examination.

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

Effective February 1, 2011, management of the fixed income portfolio of the Company was transferred to an affiliate, Pacific Investment Management Company, LLC pursuant to an investment management agreement approved by the California Department of Insurance on February 1, 2011.

During the second quarter of 2011, the Company received a subrogation recovery related to a settlement agreement with the aviation defendants resolving subrogation claims arising from the World Trade Center Disaster. The net recovery proceeds received during the quarter were approximately $330 million of which $232 million was recognized as a reduction to losses and loss adjustment expenses.

COMPANY HISTORY

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 by the same 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 required.

On June 25, 2009, the Company received approval from the CDI for a distribution from gross paid-in and contributed surplus consisting of the release and termination of the remaining cash contributions required under the agreement. Therefore, the permitted accounting practice relating to the Commitment is no longer required.

On January 1, 2010, Fireman's Fund Insurance Company (FFIC), a subsidiary of the Company, distributed all of the issued and outstanding shares of common stock of AGCS Marine Insurance Company, having a statutory book value of $156 million, to the Company.

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

Note	Description	Amount
	Balance at December 31, 2007	$ 3,627,164,752
(1)	Extraordinary dividends paid and capital contribution pass-through from AZSE to FFIC related to the FFIC Keep Well Commitment in 2008 resulting in an increase in equity in affiliate (FFIC)	(109,293,000)
(2)	Close out Keep Well Commitment, pass-through return of capital to AZSE from FFIC, and pass-through capital contribution from AZSE to FFIC in 2009	(457,274,269)
(3)	Distributions of surplus and pass-through of dividend from FFIC in 2010	(575,000,000)

Balance at December 31, 2010	$ 2,485,597,483

(1) During 2008, the Company received approval from the CDI to receive $300 million extraordinary dividends from FFIC and subsequently pay dividends of an equal amount to Allianz of America, Inc. (AZOA).

In May 2003, FFIC received a permitted accounting practice from the CDI in connection with two Keep Well Commitments issued by AZSE to provide for adverse development of FFIC's reserves relating to accident years 2003 and prior. Under the permitted accounting practice, FFIC recorded an intercompany receivable in the amount of the contribution generated by the Keep Well Commitments, thereby recognizing as an admitted asset the obligation of AZSE to provide surplus to FFIC (provided that sufficient security had been pledged). Concurrently, FFIC's gross paid-in and contributed surplus was increased by the same amount. As the commitment amount was deemed to be a capital contribution originating from AZSE, it was funded through the Company to FFIC. In 2008 as a result of adverse development related to accident years 2003 and prior an additional contribution of $191 million was funded through the Company to FFIC. FFIC's capital and surplus was increased by $191 million and the Company recorded a corresponding increase to its capital and to its equity investment in FFIC.

(2) During 2009, the Company's Keep Well Commitment with AZSE was terminated with a capital distribution of $125 million to close out the receivable and reduce surplus. There was no effect on the net income of the Company.

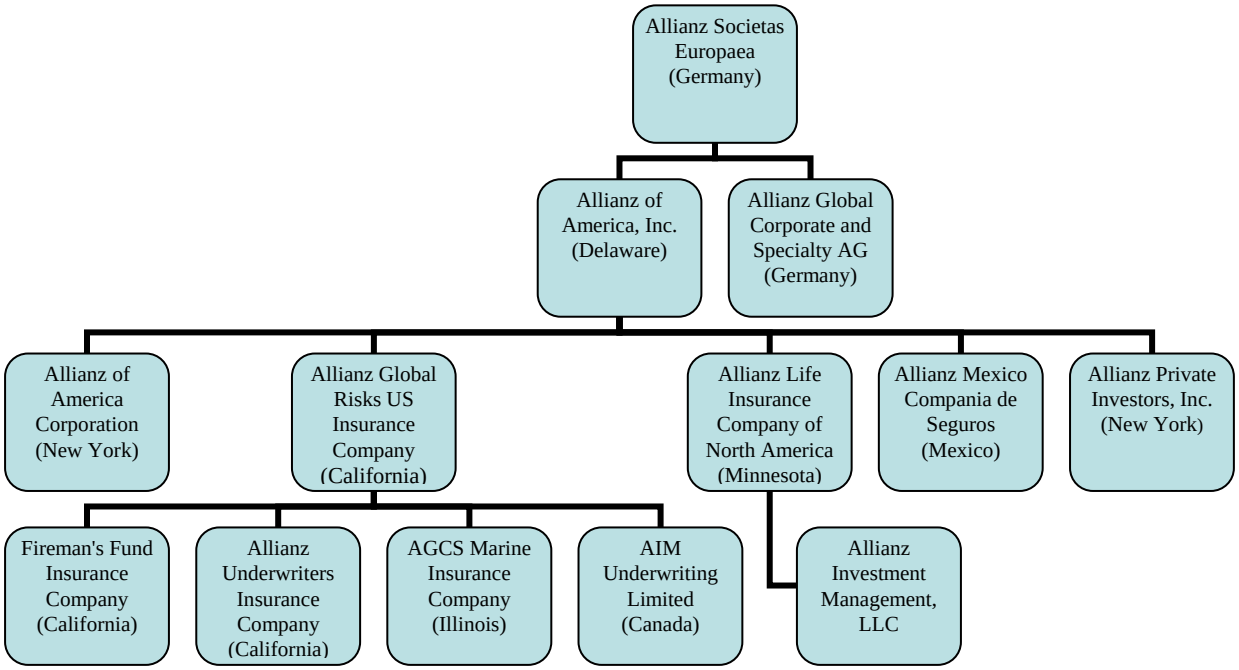
On November 25, 2009, the Company received approval from the CDI to effect a distribution of gross paid-in and contributed surplus to AZSE. The purpose of this distribution was a pass through of a return of capital from FFIC to AZSE. The Company recorded a reduction to the investment in subsidiary and corresponding surplus of $457 million with no effect on the net income of the Company.

During 2009, the Company received capital contributions of $142 million from AZSE as a pass-through contribution to FFIC.

(3) Through December 31, 2010, the Company has returned capital contributions to its parent, AZOA, in the amount of $575 million. A total of $425 million was paid as a pass through for a dividend from its subsidiary, FFIC and $150 million was a return of the Company's capital from surplus.

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%):



*There are many US and non US affiliates in the group which were not presented in the organizational chart due size limitations of the chart.

Management of the Company is vested in an eight-member board of directors elected annually. A listing of the members of the board and principal officers serving on December 31, 2010 follows:

Directors

Name and Residence	Principal Business Affiliation
Klaus O. Bick* Pullach, Germany	Chief Risk Officer Allianz Global Corporate and Specialty AG
Brigitte Bovermann Munich, Germany	President Allianz Societas Europaea
Andreas H. Henke Toronto, Canada	Retired
Chris F. Hirs Kusnacht, Switzerland	Chief Financial Officer Allianz Global Corporate and Specialty AG
Arthur E. Moossmann, Jr. New York, New York	Chief Underwriting Officer – Specialty Allianz Global Corporate and Specialty AG
Wolfgang Schatz Graefelfing, Germany	Retired
Carsten W. Scheffel Chicago, Illinois	Chief Executive Officer and President Allianz Global Risks US Insurance Company
Axel Theis Braierbrunn, Germany	Chairman of the Board and Chief Executive Officer Allianz Global Corporate and Specialty AG

Principal Officers

Name	Title
Carsten W. Scheffel**	Chief Executive Officer and President
Douglas R. Renn	Senior Vice President, Chief Financial Officer, and Treasurer
Brent A. Sorenson	Senior Vice President
Julie A. Garrison	Senior Vice President, General Counsel, and

Name	Title
	Secretary
Thomas E. Markee	Vice President and Controller

* Resigned as Board Member on September 1, 2011 and was replaced by Andreas Berger.
** Resigned as Chief Executive Officer and President on October 1, 2011 and was replaced by Hugh Burgess.

Management Agreements

Investment Advisory Agreement: Initially effective May 1, 1980, amended January 1, 1991, and assigned January 1, 1996, 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 agreement was not subject to prior approval by the California Department of Insurance (CDI). The following are the amounts paid by the Company for these services during the examination period:

Year	Amounts
2008	$416,384
2009	$637,774
2010	$750,386

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. Approval by the CDI was not required. The following are the amounts paid by the Company for these services during the examination period:

Year	Amounts
2008	$239,541
2009	$495,814
2010	$618,920

Amended and Restated Service Agreement: Effective January 1, 2008 the Company entered into a

Service Agreement by and between Allianz of America, Inc. (AZOA), Allianz of America Corporation, FFIC, Allianz Life Insurance Company of North America, Allianz Life and Annuity Company, and Allianz Private Equity Partners, Inc. Under the terms of the Agreement, AZOA provides the following services: managerial, operational, and strategic consulting, investment operations services, treasurer's operations, accounting and finance services, legal, tax, risk management, facilities, fixtures, furniture, office supplies, telephone, audit, technology and electronic data processing, underwriting support, claims holding services, and special project support. Reimbursement is based on actual costs. The agreement was approved by the CDI on August 26, 2008. The following are the amounts paid by the Company for these services during the examination period:

Year	Amounts
2008	$630,654
2009	$834,772
2010	$854,760

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 (AUIC) 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. In 2007, the Company received $13,000 as compensation for these services. However, as of 2008, the Company no longer charged AUIC for the services, but instead allocated expenses based on pooling percentages of 2% in 2008 and 2009 and 0% in 2010.

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 agreement was not subject to prior approval by the CDI. The following

are the amounts paid by the Company for these services during the examination period:

Year	Amounts
2008	$2,299,845
2009	$2,001,003
2010	$2,226,357

Intercompany Service Agreement: This agreement was effective January 1, 2009 and remains in effect until terminated. The Company agrees to provide and receive shared services with the following entities: Allianz Global Corporate & Specialty AG, Allianz Services (UK) Limited, Allianz Global Corporate & Specialty France, AIM Underwriting Limited, AGCS Marine Insurance Company, and Wm. H. McGee & Co., Inc. Services eligible to be provided or received include managerial, operational and strategic consulting services; treasurer's operations; accounting and finance services; legal matters; risk management functions; facilities, fixtures, furniture and supplies; corporate audit department functions; technological services; underwriting services; and claims handling services. This agreement was approved by the CDI on May 6, 2010. The following are the net amounts paid by the Company for these services during the examination period:

Year	Amounts
2009	$15,935,926
2010	$16,882,927

Tax Reimbursement Agreement: Since 1987, the Company and its parent have filed a consolidated federal income tax return under the terms of a Tax Reimbursement Agreement which was modified through a clarification agreement dated February 22, 1995. 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. The agreement was not subject to prior approval by the CDI. The Company made the following net tax recoveries and payments for the period under examination:

Year	Amounts
2008	$ (4,258,942)
2009	$20,903,738
2010	$ 3,148,280

TERRITORY AND PLAN OF OPERATION

The Company was licensed to write various property and casualty coverages in all 50 states, the District of Columbia, Puerto Rico, Guam, and Canada. Additionally, the Company is approved to write on a surplus lines basis in American Samoa, U.S. Virgin Islands, and the Northern Mariana Islands. During 2010, the Company wrote direct premiums of $874.9 million. Of the total direct written premium, $67.8 million (or 7.8%) was written in California, $67.0 million (or 7.7%) was written in Texas, $32.6 million (or 3.7%) was written in Illinois, $31.3 million (or 3.58%) was written in New York, and $26.1 million (or 3.0%) was written in Michigan. The Company wrote no more than 3% of its direct business in any one of the remaining states. Approximately 27% of direct premiums written originated in Canada for 2010.

The Company's property and casualty lines have focused in two specialties; global business and special property coverage. 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 conducted as a reinsurer. The majority of the alien-assumed business is commercial property business written by and assumed from alien affiliates. Special property coverage 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.

The Company also writes aviation business that is generated by a network of independent brokers and Allianz Aviation Managers, LLC, an affiliate through which aviation business is written. All the claims processing is handled at the Company's offices. Property and casualty claims are handled in the Chicago and Burbank offices while aviation claims are handled in New York, Chicago, Denver, and Atlanta. Underwriting and policy maintenance is also handled in the Company's home office

and at its branch offices located in Atlanta, Chicago, and New York. All administration and claims processing for business written in the Canada branch is handled in the Toronto office.

REINSURANCE

Reinsurance Pooling Agreement

Effective January 1, 2010, the Company, Allianz Underwriters Insurance Company (AUIC) and AGCS Marine Insurance Company (AMIC) entered into an amended Intercompany pooling agreement. The agreement was approved by the California Department of Insurance on September 16, 2010. The purpose of the agreement is to pool, through reinsurance, the results of underwriting operations between the three companies. Under the terms of the agreement, the Company assumes 100% of the following (net of other reinsurance) from AUIC and AMIC: 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 20% is retroceded to AMIC.

Total net incurred loss of $625 million relating to the September 11, 2001, World Trade Center Disaster for accident year 2001 was not pooled in the original or amended Intercompany pooling agreement.

Assumed

In addition to the reinsurance pooling agreement with its subsidiaries, the Company also assumes reinsurance from its foreign affiliates and non-affiliated third parties as part of its global property and energy business (global business). As of year-end 2010, the Company assumed premium of approximately $176.4 million and carried loss and loss adjustment expense reserves of $140.4 million. The assumed global business was written as facultative reinsurance.

Ceded

The Company has designed its reinsurance program to limit its retention to €50 million for all property risks insured, $30 million for Energy exposures, €25 million for Engineering, and $10 million for Marine. The Company also has additional protection through a Stop Loss agreement which attaches when the Company's net loss ratio exceeds 80%. In addition to the reinsurance pooling agreement, the Company's reinsurance program is summarized as follows:

Type of Contract	Reinsurer's Name	Coverage	Company's Retention	Reinsurer's Limits
All Lines				
Stop Loss	Unauthorized Allianz Global Corporate & Specialty AG, Munich	All Lines		Reinsurer 100% Liable when the Net Earned Loss Ratio is 80%
Terrorism Excess of Loss	Allianz Global Corporate & Specialty AG, Munich	All Lines	$200 million	$175 million XS $200 million
Net Excess of Loss	Allianz Global Corporate & Specialty AG, Munich	All Lines	**Per Risk Property**: €50 million **Per Energy:** $30 million **Per Engineering**: €25 million **Per Marine:** €10 million **CAT Americas:** $100 million **CAT Excl America:** €65 million	**Per Risk Property:** €250 million XS €50 million **Per Energy:** $120 million XS $30 million **Per Engineering**: €125 million XS €25 million **Per Marine:** €290 million XS €10 million **CAT Americas:** $650 million XS $100 million **CAT Excl America:** €435 million XS €65 million
Aviation Lines				
Major Risk XS	Unauthorized Allianz Global Corporate & Specialty AG, Munich	Aviation	$35 million	$490 million XS $35 million
Liability Risk XS	Allianz Global Corporate & Specialty AG, Munich	Aviation	$10 million	$540 million XS $10 million
Hull Risk XS	Allianz Global Corporate & Specialty AG, Munich	Aviation	$10 million	$65 million XS $10 million
Hull War Risk XS	Allianz Global Corporate & Specialty AG, Munich	Aviation	$10 million	US $65 million XS $10 million
Top Risk	Allianz Global Corporate & Specialty AG, Munich	Aviation	$300 million	US $250 million XS $300 million

C$ = Canadian Dollar; € = Euro

The Company also has a branch in Canada (AGR-US Canada Branch) with its own reinsurance program.

Type of Contract	Reinsurer's Name	Coverage	Company's Retention	Reinsurer's Limits
Net Excess of Loss	Allianz Global Corporate & Specialty AG, Munich	All Lines	**Per Risk Property:** €50 million **Per Energy:** $30 million **Per Engineering:** €25 million **CAT Americas:** $100 million **CAT Excl America:** €65 million **Canadian Liability**: C$52.5 million **Marine** €10 million	**Per Risk Property:** €250 million XS €50 million **Per Energy:** US $120 million XS $30 million **Per Engineering**: €125 million XS €25 million **CAT Americas:** US $650 million XS $100 million **CAT Excl America:** €435 million XS €65 million **Canadian Liability:** C$172.5 million XS C$52.5 million **Marine** €290 million XS €10 million
Stop Loss	Allianz Global Corporate & Specialty AG, Munich	All Lines		100% Liable when the Net Earned Loss Ratio is 100% subject to a maximum of 75 points of Loss Ratio
Quota Share – US Reverse Flow 100%	Allianz Global Corporate & Specialty AG, Munich	All Lines		**As per the above Net Excess of Loss**
Major Risk XOL	Allianz Global Corporate & Specialty AG, Munich	Aviation	$35 million	$490 million XS $35 million
Liability Risk Excess	Allianz Global Corporate & Specialty AG, Munich	Aviation	$10 million	$540 million XS $10 million
Hull Risk Excess	Allianz Global Corporate & Specialty AG, Munich	Aviation	$10 million	$65 million XS $10 million
Hull War Surplus	Allianz Global Corporate & Specialty AG, Munich	Aviation	$10 million	$65 million XS $10 million

C$ = Canadian Dollar; € = Euro

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, 2007 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	$ 1,860,252,898	$	$ 1,860,252,898	
Common stocks	2,915,006,502	50,374	2,914,956,128	
Cash and short-term investments	172,270,520		172,270,520	
Other invested assets	536,407	171,822	364,585	
Receivable for securities	41,688		41,688	
Aggregate write-ins for invested assets	12,674,646		12,674,646	
Investment income due and accrued	16,705,034		16,705,034	
Premiums and agents' balances in course of collection	244,087,346	22,093,092	221,994,254	
Premiums, agents' balances and installments booked but deferred and not yet due	71,624,940		71,624,940	
Amount recoverable from reinsurers	74,278,992		74,278,992	
Funds held by or deposited with reinsured companies	3,220,833		3,220,833	
Net deferred tax asset	160,178,758	53,175,842	107,002,916	
Guaranty funds receivable or on deposit	1,462,760		1,462,760	
Electronic data processing equipment and software	2,448,209	2,448,209	0	
Furniture and equipment, including health care delivery assets	6,185,416	6,185,416	0	
Receivable from parent, subsidiaries and affiliates	10,146,199	2,771,749	7,374,450	
Aggregate write-ins for other than invested assets	20,188,295	622,061	19,566,234	
Total assets	$ 5,571,309,443	$ 87,518,565	$ 5,483,790,879	

Liabilities, Surplus and Other Funds				
Losses and loss adjustment expenses			$ 1,000,816,129	(1)
Reinsurance payable on paid loss expenses			137,177,936	
Commissions payable, contingent commissions and other similar charges			2,701,441	
Other expenses			48,808,162	
Taxes, licenses and fees			7,824,946	
Current federal and foreign income taxes			32,361,106	
Unearned premiums			470,862,286	
Ceded reinsurance premiums payable			26,326,901	
Funds held by company under reinsurance treaties			7,322,397	
Amounts withheld or retained by company for account of others			1,903,389	
Provision for reinsurance			28,655,194	
Payable to parent, subsidiaries and affiliates			8,529,107	
Payable for securities			72,009,072	
Aggregate write-ins for liabilities			1,468,176	
Total liabilities			1,846,766,242	
Common capital stock		$ 10,000,000		
Preferred capital stock		191,489		
Gross paid in and contributed surplus		2,485,597,483		
Unassigned funds (surplus)		1,141,235,665		
Surplus as regards policyholders			3,637,024,637	
Total liabilities, surplus and other funds			$ 5,483,790,879	

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

Statement of Income

Underwriting Income		
Premiums earned		$ 915,376,561
Deductions:		
Losses expenses	$ 551,863,386	
Loss adjustment expenses incurred	101,216,594	
Other underwriting expenses incurred	255,661,300	
Total underwriting deductions		908,741,280
Net underwriting gain		6,635,281
Investment Income		
Net investment income earned	$ 660,942,237	
Net realized capital gain	13,429,974	
Net investment gain		674,372,211
Other Income		
Net loss from agents' or premium balances charged off	$ (195,139)	
Aggregate write-ins for miscellaneous income	10,727,680	
Total other income		10,532,541
Net income before federal and foreign income taxes		691,540,033
Federal and foreign income taxes incurred		32,751,774
Net income		$ 658,788,259

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2009		$ 3,850,297,852
Net income	$ 658,788,259	
Change in net unrealized capital losses	(357,435,756)	
Change in net unrealized foreign exchange capital gain	5,144,314	
Change in net deferred income tax	(8,071,892)	
Change in nonadmitted assets	54,413,641	
Change in provision for reinsurance	10,059,068	
Surplus adjustments: Paid-in	(575,000,000)	
Aggregate write-ins for gains and losses in surplus	(1,170,847)	
Change in surplus as regards policyholders for the year		(213,273,215)
Surplus as regards policyholders, December 31, 2010		$ 3,637,024,637

Reconciliation of Surplus as Regards Policyholders
from December 31, 2007 through December 31, 2010

Surplus as regards policyholders, December 31, 2007 per Examination			$ 3,218,507,708
	Gain in Surplus	Loss in Surplus	
Net income	$ 864,346,649	$	
Net unrealized capital gains	575,934,728		
Change in net foreign exchange capital losses	25,863,558		
Change in net deferred income tax		73,511,691	
Change in nonadmitted assets	161,426,944		
Change in provision for reinsurance	34,621,386		
Surplus adjustments: Paid-in		1,141,567,269	
Aggregate write-ins for gains and losses in surplus		28,597,376	
Total gains and losses	$ 1,662,193,265	$ 1,243,676,336	
Net increase in surplus as regards policyholders			418,516,929
Surplus as regards policyholders, December 31, 2010, per Examination			$ 3,637,024,637

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

The California Department of Insurance (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, 2010. 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.

The Company engaged an actuarial firm to perform a full ground-up analysis of its asbestos and environmental reserves (A&E) as of December 31, 2008. The firm was also engaged to update the environmental claim study using data as of March 31, 2011. The study was reviewed by the CDI consulting actuary and the results were incorporated into his analysis.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

None.

Previous Report of Examination

Corporate Records (Page 10): It was recommended that the Company implement procedures in its board meetings to ensure compliance with California Insurance Code (CIC) Section 735 and 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. The Company complied with these recommendations.

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/_____
Constance J. Korte, CFE,
Examiner-In-Charge
Department of Insurance
State of California