

**STATE OF WASHINGTON
OFFICE OF THE INSURANCE
COMMISSIONER**



FINANCIAL EXAMINATION
of

**Unigard Indemnity Company
Bellevue, Washington**

NAIC CODE 25798
DECEMBER 31, 2007

**Participating State:
Washington**

Order No. 09-44
Unigard Indemnity Company
Exhibit A

SALUTATION

Seattle, Washington
April 17, 2009

The Honorable Mike Kreidler, Commissioner
Washington State Office of the Insurance Commissioner (OIC)
Insurance Building-Capitol Campus
302 Sid Snyder Avenue SW, Suite 200
Olympia, WA 98504

The Honorable Alfred W. Gross, Commissioner
Chair, NAIC Financial Condition (E) Committee
Virginia Bureau of Insurance
Commonwealth of Virginia
PO Box 1157
Richmond, VA 23219

The Honorable Morris Chavez, Superintendent
Secretary, NAIC Western Zone
New Mexico Insurance Division
PO Drawer 1269
Santa Fe, NM 87501

Dear Commissioners and Superintendent:

In accordance with your instructions, and in compliance with the statutory requirements of RCW 48.03.010, an examination was made of the corporate affairs and financial records of

Unigard Indemnity Company

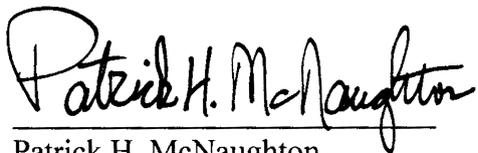
of

Bellevue, Washington

hereinafter referred to as "UID" or the "Company," at the location of its home office, 15805 NE 24th Street, Bellevue, Washington 98008-2409. This report is respectfully submitted showing the condition of the Company as of December 31, 2007.

CHIEF EXAMINER'S AFFIDAVIT

I hereby certify I have read the attached Report of the Financial Examination of Unigard Indemnity Company of Bellevue, Washington. This report shows the financial condition and related corporate matters as of December 31, 2007.



Patrick H. McNaughton
Chief Examiner

4-17-09

Date

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SCOPE OF THE EXAMINATION

This examination covers the period January 1, 2003 through December 31, 2007 and comprises a comprehensive review of the books and records of the Company. The examination followed the statutory requirements contained in the Washington Administrative Code (WAC), the Revised Code of Washington (RCW), and the guidelines recommended by the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook (FCEH). The examination included identification and disposition of material transactions and events occurring subsequent to the date of examination that were noted during the examination.

Corporate records, external reference materials, and various aspects of the Company's operating procedures and financial records were reviewed and tested during the course of this examination and are commented upon in the following sections of this report. In addition, the Company's certified public accountant's (CPA's) work papers were reviewed and utilized, where possible, to facilitate efficiency in the examination.

INSTRUCTIONS

The examiners reviewed the Company's filed 2007 NAIC Annual Statement as part of the statutory examination. This review was performed to determine if the Company completed the NAIC Annual Statement in accordance with the NAIC Annual Statement Instructions and to determine if the Company's accounts and records were prepared and maintained in accordance with Title 48 RCW, Title 284 WAC, and the NAIC Statements of Statutory Accounting Principles (SSAP) as contained in the NAIC Accounting Practices and Procedures Manual (AP&P).

The following summarizes the exceptions noted while performing this review:

1. Inter-company Cost Allocation and Service Agreement

The Company has an inter-company cost allocation agreement with General Casualty Company of Wisconsin. The Company does not settle inter-company balances according to the written agreement. Currently, inter-company balances are settled quarterly, rather than monthly, as specified in the agreement.

The Company is instructed to settle inter-company balances monthly or refile an amended agreement in compliance with RCW 48.31B.030(1)(b) that supports the current inter-company settlement practices.

2. Internal Investment Management Agreement

The Internal Investment Management Agreement between the Company and Minster Court Asset Management Pty Limited is not in compliance with RCW 48.31B.030(1)(a). The agreement contains several non-compliance issues such as charged fees. The charged fees are not based on actual cost or a cost study as required by SSAP No. 70, paragraph 8.

The Company is instructed to comply with RCW 48.31B.030(1)(a), which requires the terms of the agreement to be fair and reasonable. Expenses under the terms of a management agreement must be apportioned to the entities incurring the expense as if the expense had been paid solely by the incurring entity. Fees must be allocated to the affiliated companies in conformity with customary insurance accounting practices consistently applied. The books, accounts, and records of each party to all such transactions must be so maintained as to clearly and accurately disclose the nature and details of the transactions.

3. Investment Limitations

RCW 48.13.030(1) limits investments in any one entity to four percent of the Company's total assets unless the investments are securities of general obligations of the government of the United States or of any state of the United States. The Company's total admitted assets as of December 31, 2007 were \$95,768,806, therefore, the maximum investment allowed was \$3,830,752. However, the Company reported six investments on Schedules D, DA, and E of its 2007 NAIC Annual Statement that were in total \$3,997,555 over the 4% limit.

Also, the Company had three investments in foreign securities which were not in compliance with RCW 48.13.180(2) which limits total foreign investments to ten percent of the Company's total assets. In total, the three securities were \$1,915,376 over the 10% limitation.

The total amount in excess of the maximum allowable amount was \$5,912,931, which has been adjusted in the examination report. (See Note No. 1 to the Financial Statements.)

The Company is instructed to comply with RCW 48.13.030(1) by limiting its investments in any single entity to four percent of total assets. Also, the Company is instructed to comply with RCW 48.13.180(2) by limiting its foreign investments to ten percent of total assets.

4. Tax Agreement

The Company did not include the names of all entities that are party to the written tax allocation agreement as required by SSAP No. 10, paragraph 23. Note No. 9 (F)(2) of the 2007 NAIC Annual Statement only lists Unigard Insurance Company (UIC), UID, and QBE Regional Companies (N.A.) as parties to the agreement.

Also, the Company prepared a consolidated federal income tax return with QBE Investments (North America), Inc., without a valid tax allocation agreement. The Company filed a tax allocation agreement with the OIC which includes the Company and QBE Regional Companies (N.A.) and its subsidiaries. However, the actual consolidated return includes many other affiliates of QBE Investments (North America), Inc.

The Company is instructed to comply with RCW 48.31B.025(2)(c)(viii) which requires all insurers of a holding company system to file, with the commissioner, tax allocation agreements prior to entering into them. All companies participating in the agreement need to be listed in the agreement.

5. Reinsurance – Inter-company Pooling

The Company is currently reporting inter-company pooling on the “Receivables from/Payable to parent, subsidiaries and affiliates” lines of its NAIC Annual Statement. However, reinsurance transactions, including inter-company pooling, should be reported through the appropriate reinsurance accounts in accordance with the NAIC Annual Statement Instructions.

The Company is instructed to comply with WAC 284-07-050(2) in filing its 2007 NAIC Annual Statement in accordance with the AP&P and the 2007 NAIC Annual Statement Instructions.

6. Advance Premiums – New Policies

Advance premiums for new policies are accounted for and presented incorrectly in the financial statements. Currently, the Company records advance premiums on new policies as an offset against uncollected premiums receivable. SSAP No. 53, paragraph 13, requires reporting advance premiums as a liability rather than reduction to premiums receivable. The current approach is not in compliance with SSAP No. 53, paragraph 13, and resulted in an understatement of the Company’s advance premiums liability and uncollected premiums receivable. No examination adjustment was necessary due to immateriality.

The Company is instructed to comply with RCW 48.05.073, RCW 48.05.250, and WAC 284-07-050(2) in filing its 2007 NAIC Annual Statement in accordance with the AP&P and the 2007 NAIC Annual Statement Instructions.

COMMENTS AND RECOMMENDATIONS

None

COMPANY PROFILE

History and Capitalization

The Company was incorporated as the Unigard Carolina Insurance Company on November 8, 1972 under the laws of North Carolina. The Company changed its name to Unigard Indemnity Company on April 5, 1977. On August 9, 1990, 100% ownership of the Company was transferred from Unigard, Inc., to UIC. On June 30, 1994, the Company re-domesticated from Raleigh, North Carolina to Bellevue, Washington, where the administrative offices are located. The Company has no subsidiaries.

On December 22, 2006, Credit Suisse Group finalized the sale of Winterthur Swiss Insurance Company (Winterthur), a Swiss corporation to AXA. Winterthur owned 100% of the Company through its wholly-owned direct subsidiary Winterthur U.S. Holdings, Inc., (WUSH) which acted as the holding company for Winterthur's U.S. operations.

On May 31, 2007, AXA finalized the sale of WUSH and its consolidated subsidiaries to Australian based QBE Insurance Group Ltd., and QBE Holdings, Inc. (QBE). The U.S. operations have been renamed QBE Regional Companies (N.A.), Inc. and became part of QBE, the Americas division.

The Company has 30,000 shares of common stock authorized, issued and outstanding, with a par value per share of \$100. The stock is owned by UIC.

Territory and Plan of Operation

UID operates primarily in the six (6) western states of Arizona, California, Idaho, Oregon, Utah, and Washington. The Company underwrites both personal and commercial lines, mainly under the multi-peril and auto lines of business, but is authorized to write private passenger auto liability, auto physical damage, homeowners, commercial auto liability, commercial multi-peril, farmowners, fire, and other liability insurance policies.

Growth of Company

The Company's growth, as reported in its filed NAIC Annual Statements, is illustrated below:

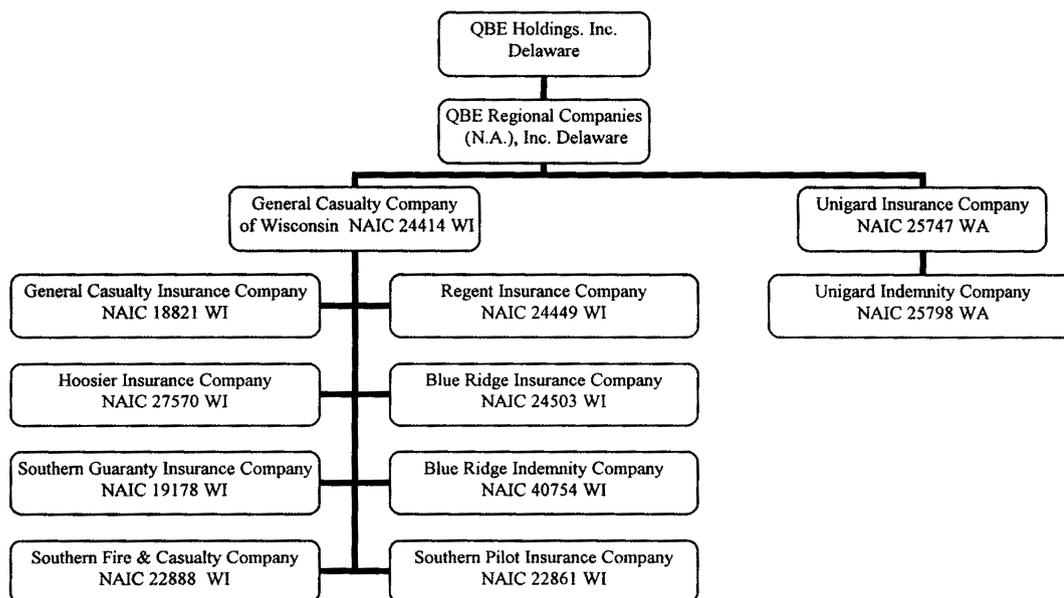
<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Capital & Surplus</u>
2007	\$95,768,807	\$64,627,452	\$31,141,355
2006	94,675,136	64,407,585	30,267,552
2005	93,471,284	65,062,399	28,408,885
2004	66,898,961	38,178,411	28,720,550
2003	62,295,320	36,642,114	25,653,207

<u>Year</u>	<u>Premiums Earned</u>	<u>Net Underwriting Gain (Loss)</u>	<u>Net Investment Gains (Losses)</u>	<u>Net Income</u>
2007	\$40,266,655	\$76,798	\$3,460,608	\$1,936,818
2006	42,315,930	1,850,015	3,046,679	2,420,829
2005	42,983,230	2,599,325	3,068,604	2,534,391
2004	27,483,249	1,886,735	2,839,888	3,012,010
2003	26,962,808	150,458	886,730	2,341,792

Affiliated Companies

The Company is a member of the QBE Regional Companies (N.A.), Inc., headquartered in Sun Prairie, Wisconsin. The Company is directly controlled by UIC which owns 100% of the Company's outstanding common stock.

The following is an abbreviated organizational chart:



Inter-company Agreements

The following inter-company agreements were in-force as of December 31, 2007:

Inter-company Reinsurance Agreement

Eleven affiliated companies within QBE Regional Companies (N.A.), Inc., participate in an inter-company reinsurance pooling agreement, under which General Casualty Company of

Wisconsin (GCW), as the lead company, assumes all insurance business of the affiliated property and casualty insurance companies. After placing reinsurance with unaffiliated third parties, GCW cedes back a fixed portion of the pooled premiums, losses and insurance expenses to each of the affiliated property and casualty insurance companies according to the following participation percentages:

Participant	NAIC Company Code	Participation Percentage
General Casualty Company of Wisconsin (GCW)	24414	36%
Regent Insurance Company (RGT)	24449	9
General Casualty Company of Illinois (GCI)	18821	7
Hoosier Insurance Company (HIC)	57570	4
Blue Ridge Insurance Company (BRIC)	24503	6
Blue Ridge Indemnity Company (BRIN)	40754	2
Southern Guaranty Insurance Company (SGIN)	19178	11
Southern Pilot Insurance Company (SPIC)	22861	0
Southern Fire and Casualty Company (SFACC)	22888	0
Unigard Insurance Company (UIC)	25747	22
Unigard Indemnity Company (UID)	25798	3
		100%

Management Services Agreement

GCW provides operating and management services to UID in accordance with the inter-company management agreement between GCW and the members of the Pool. Fees and expenses are allocated to each company of the pool in accordance with each company's pooling percentage. (See Instruction No. 1.)

Federal Income Taxes Allocation Agreement

The Company's federal income tax return is filed on a consolidated basis with QBE Regional Companies (N.A.), Inc. The tax liability is allocated to the individual companies based upon the liability or refund that would be produced under separate return calculations. Any expense or benefit so derived is recognized in the Company's current year tax provision. Inter-company tax balances are settled within 30 days. However, the Company did not include the names of all entities that are party to the written tax allocation agreement as required by SSAP No. 10, paragraph 23. Note No. 9 (F)(2) of the 2007 NAIC Annual Statement only lists UIC, UID, and QBE Regional Companies (N.A.) as parties to the agreement. (See Instruction No. 4.)

MANAGEMENT AND CONTROL

Management

Management of the Company is vested in a Board of Directors (BOD) made up of at least three, but no more than twelve, as provided for by the Company's bylaws. The BOD and the stockholders meet during the first quarter of each year. A majority of directors constitutes a quorum for the transaction of business. However, in accordance with the bylaws, a quorum may not be less than one-third of all directors.

Directors

Directors as of December 31, 2007:

Peter Kurt Christen
Jeffery Robert Dehn
Thomas Mark Greenfield
Daniel George Hill
Peter George McPartland

Officers

Officers as of December 31, 2007:

<u>Name</u>	<u>Title</u>
Peter Kurt Christen	President & CEO
John Roger Schanen	Treasurer
Jennifer Jean Vernon	Secretary
John Gerard Blodnick	Senior Vice President
Jeffery Robert Dehn	Senior Vice President
Thomas Mark Greenfield	Senior Vice President
Laura Kirkpatrick Hinson	Senior Vice President
Peter George Logothetis	Senior Vice President
Kenneth Charles Dedrick	Vice President

Conflict of Interest

The Company has a policy whereby members of the BOD and employees are required to sign a conflict of interest statement each year. The purpose of the statement is to detect any activities or participation on the part of the BOD or employees that could possibly be interpreted as a conflict of interest. No such conflicts were noted during the last three years.

Fidelity Bond and Other Insurance

The Company is a named insured, along with other members of QBE Regional Companies (N.A.), Inc., on fidelity bonds and other types of corporate insurance policies. The aggregate limit of coverage under the fidelity bond was \$10 million as of December 31, 2007, which exceeded the NAIC recommended minimum coverage.

Officers', Employees', and Agents' Welfare and Pension Plans

The Company has no employees. All administrative functions of the Company are performed by employees of either GCW or other affiliates. The Company participates in a non-contributory defined benefit pension plan which covers the employees of QBE Regional Companies (N.A.), Inc. The Company also participates in a pension restorations plan to provide pension benefits to a select group of highly compensated employees.

In addition, the Company participates in a defined benefit health care plan that provides postretirement medical benefits to certain full-time employees who elect an early retirement option. The benefits are provided until the retirees attain age 65.

CORPORATE RECORDS

The examiners reviewed the corporate records of UID for the period under examination. The minutes from meetings of stockholders, directors, and committees were documented, approved, and supported the Company's transactions and events. All BOD meetings were conducted with a quorum present.

UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES

The reserves carried by the Company for unpaid losses and loss adjustment expenses were \$35,503,910 and \$8,180,359, respectively, as of December 31, 2007. The reserves were reviewed by the casualty actuarial staff employed by the OIC. UID provided loss and loss adjustment expense development data by accident year and line of business, as of December 31, 2007, for each segment of the inter-company pool, which includes UID, UIC, GCW, and eight other affiliated companies. Employees of UIC and GCW provided additional information as needed. The OIC's casualty actuarial staff also reviewed actuarial reports prepared by the Company's consulting actuarial firm, Milliman.

The OIC's casualty actuarial staff estimates indicated that the Company's reserves for losses and loss adjustment expenses were within a range of reasonable estimates. Therefore, UID's loss and loss adjustment expense reserves were accepted as reported in the Company's NAIC 2007 Annual Statement.

REINSURANCE

The Company is a participant in an Inter-company Reinsurance Pooling Agreement. UID and GCW and nine other affiliates of GCW cede all of their business in force to GCW, the lead company, which in turn retrocedes a stipulated portion of the pooled business back to selected members of the pooled companies. Under this pooling agreement, UID receives a 3% share of the pooled business. GCW is authorized to do business in Washington State. The Company's assumed reinsurance is derived primarily from its affiliate, GCW.

The Company has controls in place to monitor its reinsurance program including the financial condition of the reinsurers. However, the Company improperly classified and recorded the reinsurance inter-company pooling transactions in Schedule F of the 2007 NAIC Annual Statement. (See Instruction No. 5.)

Under the agreement, the Company shares its liabilities with all other members of the pool. Therefore, it is substantially protected from its own unique exposures, but is also exposed to a portion of those from the other pooled companies. Although GCW has various reinsurance agreements with outside reinsurers and its affiliates, the UID is not a party to any other reinsurance agreements on a direct basis. As of December 31, 2007, the Company reported on its NAIC 2007 Annual Statement, on Schedule F Part 3, total reinsurance recoverables of \$44 million.

STATUTORY DEPOSITS

As of December 31, 2007, the Company maintained the following statutory deposits as shown on Schedule E, Part 3, Special Deposits of its 2007 NAIC Annual Statement:

<u>State</u>	<u>Book Value</u>	<u>Fair Value</u>
Arizona	\$ 552,772	\$ 588,113
California	1,532,687	1,630,678
Idaho	301,512	320,789
Nevada	225,447	235,283
North Carolina	300,779	313,313
North Dakota	100,526	101,414
Oregon	403,611	423,319
Tennessee	120,648	130,107
Washington	2,512,602	2,673,242
Total	\$ 6,050,584	\$ 6,416,258

ACCOUNTING RECORDS AND INFORMATION SYSTEMS

The Company maintains its accounting records on a Statutory Accounting Principles (SAP) basis. The Company was audited annually by the certified public accounting firms of KPMG for the years 2003 through 2006 and by PricewaterhouseCoopers (PwC) for 2007. The Company received an unqualified opinion for all the years under review. The Company's accounting procedures, internal controls, and transaction cycles were reviewed during the planning and testing phase of the examination and no exceptions were noted.

Management of the Company has sufficient knowledge of information systems (IS) issues and provides direction and oversight through its IS Steering Committee. Systems development, acquisition and maintenance controls were evaluated to gain assurance that appropriate internal controls are in place. The IS Department maintains written policies and procedures for the system development life cycle, systems design standards, programming standards and the document standards. Operations and application controls were reviewed to determine the type of hardware installed; operating systems and proprietary software in use; back up and recovery facilities employed and the internal controls exercised to maintain data security. The Company has sufficient internal controls in place to monitor system activity and processes.

The Company has a formal, written disaster recovery plan for the restoration of the information system and a formal, written business continuity plan that addresses the continuation of all significant business activities, including financial functions, telecommunication services and data processing services, in the event of a disruption of normal business activities, as recommended by NAIC guidelines.

SUBSEQUENT EVENTS

There were no material events adversely impacting the Company between the examination date and the last day of fieldwork.

FOLLOW UP ON PREVIOUS EXAMINATION FINDINGS

All previous instructions were satisfactorily addressed.

FINANCIAL STATEMENTS

Statement of Assets, Liabilities, Surplus and Other Funds

Statement of Income and Capital and Surplus Account

Reconciliation of Capital and Surplus since Last Examination

Analysis of Changes in Financial Statements Resulting from the Examination

UNIGARD INDEMNITY COMPANY
ASSETS, LIABILITIES, SURPLUS AND OTHER FUNDS
DECEMBER 31, 2007

Assets	<u>BALANCE PER COMPANY</u>	<u>EXAMINATION ADJUSTMENTS</u>	<u>BALANCE PER EXAMINATION</u>	<u>NOTES</u>
Bonds	\$21,516,098	(\$780,642)	\$20,735,456	1
Cash and short-term investments	59,621,198	(5,132,289)	54,488,909	1
Subtotal, cash and invested assets	<u>81,137,296</u>	<u>(5,912,931)</u>	<u>75,224,365</u>	
Investment income due and accrued	1,007,038		1,007,038	
Premiums and considerations				
Uncollected premiums and agents' balances in course of collection	2,230,494		2,230,494	
Deferred premiums, agents' balances and installments booked but deferred and not yet due	9,002,839		9,002,839	
Amounts recoverable from reinsurers	343,120		343,120	
Net deferred tax asset	2,014,252		2,014,252	
Receivable from parent, subsidiaries and affiliates	33,768		33,768	
Total Assets	<u>\$95,768,807</u>	<u>(\$5,912,931)</u>	<u>\$89,855,876</u>	
Liabilities, Surplus and other Funds				
Losses	\$35,503,910	\$0	\$35,503,910	
Loss adjustment expenses	8,180,359		8,180,359	
Commissions payable, contingent commissions and similar expenses	1,364,134		1,364,134	
Other expenses (excluding taxes, licenses and fees)	1,474,382		1,474,382	
Taxes, licenses and fees (excluding federal and foreign income taxes)	154,293		154,293	
Current federal and foreign income taxes	150,873		150,873	
Unearned premiums	17,493,372		17,493,372	
Advance premiums	140,226		140,226	
Ceded reinsurance premiums payable	(57,302)		(57,302)	
Amounts withheld or retained by company for account of others	337		337	
Remittances and items not allocated	6,725		6,725	
Drafts outstanding	152,227		152,227	
Aggregate write-ins for liabilities	63,916		63,916	
Total Liabilities	<u>64,627,452</u>	<u>0</u>	<u>64,627,452</u>	
Common capital stock	3,000,000		3,000,000	
Gross paid in and contributed surplus	6,300,000		6,300,000	
Unassigned funds (surplus)	21,841,355	(5,912,931)	15,928,424	1
Surplus as regards policyholders	<u>31,141,355</u>	<u>(5,912,931)</u>	<u>25,228,424</u>	
Total Liabilities, Surplus and other Funds	<u>\$95,768,807</u>	<u>(\$5,912,931)</u>	<u>\$89,855,876</u>	

UNIGARD INDEMNITY COMPANY
STATEMENT OF INCOME AND CAPITAL AND SURPLUS ACCOUNT
FOR THE YEAR ENDED DECEMBER 31, 2007

STATEMENT OF INCOME	BALANCE PER COMPANY	EXAMINATION ADJUSTMENT	BALANCE PER EXAMINATION	NOTES
Underwriting Income				
Premiums earned	\$40,266,655	\$0	\$40,266,655	
Deductions				
Losses incurred	22,406,200		22,406,200	
Loss expenses incurred	5,383,148		5,383,148	
Other underwriting expenses incurred	12,400,509		12,400,509	
Total underwriting deductions	40,189,857	0	40,189,857	
Net underwriting gain or (loss)	76,798	0	76,798	
Investment Income				
Net investment income earned	3,945,968		3,945,968	
Net realized capital gains or (losses)	(485,360)		(485,360)	
Net investment gain or (loss)	3,460,608	0	3,460,608	
Other Income				
Net gain from agents' or premiums balances charged off	(21,367)		(21,367)	
Finance and service charges not included in premiums	165,722		165,722	
Aggregate write-ins for miscellaneous income	(152)		(152)	
Total other income	144,203	0	144,203	
Net income before dividends to policyholders but before federal and foreign income taxes	3,681,609		3,681,609	
Dividends to policyholders	510,900		510,900	
Net income, after dividends to policyholders but before federal and foreign income taxes	3,170,709		3,170,709	
Federal and foreign income taxes incurred	1,233,891		1,233,891	
Net income	\$1,936,818	\$0	\$1,936,818	
CAPITAL AND SURPLUS ACCOUNT				
Surplus as regards policyholders, December 31, prior year	\$30,267,552	\$0	\$30,267,552	
Gains and (Losses) in Surplus				
Net income	1,936,818		1,936,818	
Change in net deferred income tax	(111,964)		(111,964)	
Change in nonadmitted assets	241,471	(5,912,931)	(5,671,460)	1
Dividends to stockholders	(1,200,000)		(1,200,000)	
Aggregate write-in for gains and losses in surplus	7,479		7,479	
Change in surplus as regards policyholders	873,803	(5,912,931)	(5,039,128)	
Surplus as regards policyholders, December 31, current year	\$31,141,355	(\$5,912,931)	\$25,228,424	

**UNIGARD INDEMNITY COMPANY
RECONCILIATION OF CAPITAL AND SURPLUS
FOR THE YEARS ENDED DECEMBER 31,**

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Capital and surplus, December 31, previous year	\$30,267,552	\$28,408,885	\$28,720,550	\$25,653,204	\$23,275,746
Net income	1,936,818	2,420,829	2,534,391	3,012,010	2,341,792
Change in net deferred income tax	(111,965)	233,715	1,236,891	34,612	(62,000)
Change in nonadmitted assets	241,471	101,043	(2,150,790)	20,724	97,666
Dividends to stockholders	(1,200,000)	(900,000)	(1,900,000)		
Aggregate writ-ins for gains and losses in surplus	7,479	3,080	(32,157)		
Change in surplus as regards policyholders for the year	873,803	1,858,667	(311,665)	3,067,346	2,377,458
Surplus as regards policyholders, December 31, current year	\$31,141,355	\$30,267,552	\$28,408,885	\$28,720,550	\$25,653,204

UNIGARD INDEMNITY COMPANY
ANALYSIS OF CHANGES IN FINANCIAL STATEMENT RESULTING FROM THE
EXAMINATION
DECEMBER 31, 2007

	<u>Per Company</u>	<u>Per Examination</u>	<u>Notes</u>	<u>Increase (Decrease) in Surplus</u>	<u>Total</u>
Capital and surplus 12/31/2007 Per Annual Statement					\$31,141,355
Assets					
Bonds	\$21,516,098	20,735,456	1	(\$780,642)	
Cash and sort-term investments	59,621,198	54,488,909	1	<u>(5,132,289)</u>	
Change in surplus					<u>(5,912,931)</u>
Capital and Surplus, 12/31/2007 per examination					<u>\$25,228,424</u>

NOTES TO THE FINANCIAL STATEMENTS

1. Investment Limitations

RCW 48.13.030(1) limits investments in any one entity to four percent of the Company's total admitted assets unless the investment is backed by the full faith and credit of the United States Government or any state of the United States. The Company's total admitted assets as of December 31, 2007 was \$95,768,806 and the maximum allowed amount in any one entity was \$3,830,752. Also, the Company's investments in foreign securities were not in compliance with RCW 48.13.180(2) which limits the total foreign investments to ten percent of the Company's total assets.

Thus, the total excess amount for these securities of \$5,912,931 has been non-admitted in the examination report. (See Instruction No. 3.)

The Company has no special consents, permitted practices, or orders from the state of Washington.

ACKNOWLEDGMENT

Acknowledgment is hereby made of the cooperation extended to the examination team by the officers and employees of Unigard Indemnity Company during the course of this examination.

In addition to the undersigned, Michael V. Jordan, CPA, CFE, MHP, Assistant Chief Examiner; Timoteo L. Navaja, CFE, CIE, Property and Casualty Field Supervisor; John Jacobson, AFE, CISA, AES, Automated Examination Specialist; Susan Campbell, CPA, FLMI, CFE, Reinsurance Specialist; D. Lee Barclay, FCAS, MAAA, Senior Actuary; Timothy F. Hays, CPA, JD, Investment Specialist; Albert Karau, Jr., CPA, AFE, FLMI, Financial Examiner; James Antush, Actuarial Analyst; Zairina Othman, Financial Examiner; Edsel R. Dino, Financial Examiner; and Randy E. Fong, AFE, Financial Examiner; all from the Washington State Office of the Insurance Commissioner, participated in the examination and in the preparation of this report.

Respectfully submitted,



Tarik Subbagh, CPA, CFE
Examiner in Charge
State of Washington

