

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



FINANCIAL EXAMINATION
of

**Unigard Insurance Company
Bellevue, Washington**

NAIC CODE 25747
DECEMBER 31, 2007

**Participating State:
Washington**

Order No. 09-43
Unigard Insurance 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 Insurance Company

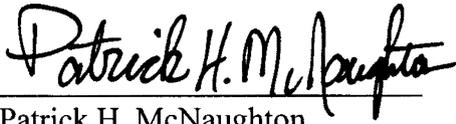
of

Bellevue, Washington

hereinafter referred to as "UIC" 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 Insurance 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

TABLE OF CONTENTS

SCOPE OF EXAMINATION.....	1
INSTRUCTIONS.....	1
COMPANY PROFILE.....	3
HISTORY AND CAPITALIZATION	3
TERRITORY AND PLAN OF OPERATION	4
GROWTH OF COMPANY	4
AFFILIATED COMPANIES	5
INTER-COMPANY AGREEMENTS.....	6
MANAGEMENT AND CONTROL.....	7
MANAGEMENT.....	7
DIRECTORS	7
OFFICERS	7
CONFLICT OF INTEREST.....	7
FIDELITY BOND AND OTHER INSURANCE.....	7
OFFICERS', EMPLOYEES', AND AGENTS' WELFARE AND PENSION PLANS	8
CORPORATE RECORDS.....	8
UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES.....	8
REINSURANCE	9
STATUTORY DEPOSITS.....	9
ACCOUNTING RECORDS AND INFORMATION SYSTEMS.....	10
SUBSEQUENT EVENTS.....	10
FOLLOW UP ON PREVIOUS EXAMINATION FINDINGS.....	10
FINANCIAL STATEMENTS.....	10
ASSETS, LIABILITIES, SURPLUS AND OTHER FUNDS.....	11
STATEMENT OF INCOME AND CAPITAL AND SURPLUS ACCOUNT	12
RECONCILIATION OF SURPLUS FOR THE PERIOD SINCE LAST EXAMINATION.....	13
NOTES TO THE FINANCIAL STATEMENTS	13
ACKNOWLEDGMENT	14
AFFIDAVIT	15

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 Agreement

The Company has an inter-company cost allocation agreement with General Casualty Company of Wisconsin. The Company does not settle the 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 \$723,821,143, therefore, the maximum investment allowed was \$28,952,846. However, the Company invested \$30,000,530 in one entity which was \$1,047,684 over the four percent limitation. No examination adjustment was necessary due to immateriality.

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.

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 UIC, UID, and QBE Regional Companies (N.A.) as parties to the agreement.

Also, the Company prepares a consolidated federal income tax with QBE Investments (North America), Inc., without a valid tax allocation agreement. The Company filed a tax allocation agreement with the OIC which included the Company, 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 that are members 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 the 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 as a reduction to premiums receivable. The current approach is not in compliance with SSAP No. 53, paragraph 13, and caused the Company to understate its advance premiums liability and uncollected premiums receivable by the same amount.

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 RECOMMENDATION

None

COMPANY PROFILE

History and Capitalization

The Company is a wholly-owned subsidiary of QBE Regional Companies (N.A.), Inc., a non-insurance holding company, which also owns General Casualty Company of Wisconsin and its subsidiaries. UIC was incorporated as Northwestern Security Insurance Company on September 29, 1960 under the laws of the state of Washington. The name of the Company was changed to Unigard Insurance Company on September 14, 1968.

On January 1, 2004, UIC sold National Merit Insurance Company, a wholly-owned subsidiary, to Response Insurance Company, an unaffiliated company.

On December 22, 2006, Credit Suisse Group, the former ultimate parent, finalized the sale of Winterthur Swiss Insurance Company (Winterthur) to AXA. Winterthur owned 100% of

the Company through its wholly-owned direct subsidiary Winterthur U.S. Holdings, Inc. (WUSH).

On May 31, 2007, AXA finalized the sale of WUSH and its subsidiaries to Australian based QBE Insurance Group Limited and QBE Holdings, Inc. (QBE). WUSH was renamed QBE Regional Companies (N.A.), Inc., and became part of QBE, the Americas division.

On December 31, 2007, Unigard Pacific Insurance Company (UPIC) merged with UIC. The accounts of both companies were combined into UIC and UPIC ceased to exist as of the date of the merger.

UIC owns 100% of the outstanding stock of Unigard Indemnity Company (UID), a Washington State domiciled insurer.

Authorized capital of the Company is \$3,000,000, consisting of 30,000 shares of common stock with a par value of \$100. All authorized shares were issued and outstanding as of December 31, 2007. The stock is owned by QBE Regional Companies (N.A.), Inc.

Territory and Plan of Operation

The Company is a multi-line property and casualty insurance company and operates mainly in six western states. Written premiums in California and Washington represented more than 70% of all written premiums in 2007. The majority of the remaining business was written in the states of Arizona, Idaho, Oregon, and Utah. Approximately 72 percent of the business written by the Company was commercial multiple peril, auto liability, and auto physical damage insurance.

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	\$723,821,143	\$495,416,597	\$228,404,546
2006*	691,060,050	465,795,015	225,265,035
2005*	687,396,774	474,585,903	212,810,871
2004*	571,892,399	376,666,155	195,226,244
2003*	518,918,453	335,429,482	183,488,971

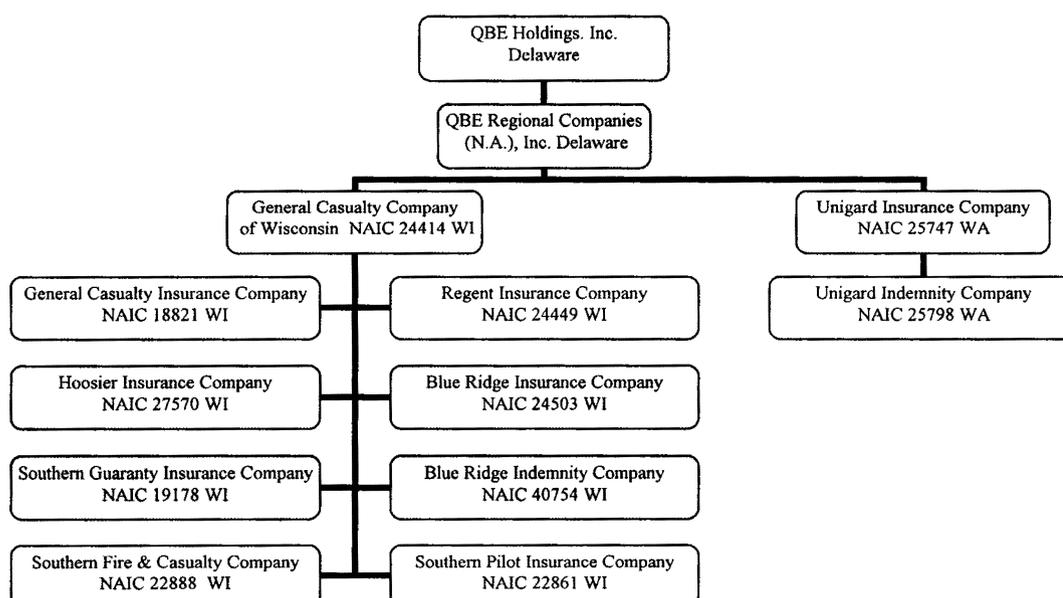
<u>Year</u>	<u>Premiums Earned</u>	<u>Net Underwriting Gain (Loss)</u>	<u>Net Investment Gains (Losses)</u>	<u>Net Income</u>
2007	\$295,292,045	\$563,673	\$26,158,194	\$14,755,127
2006*	282,109,307	12,334,041	25,858,557	21,424,040
2005*	286,556,449	17,329,140	18,945,995	20,149,052
2004*	236,355,931	16,225,871	17,430,968	22,657,520
2003*	231,880,147	1,293,953	17,850,928	12,839,139

* Balances for years 2003 through 2006 do not include the results of Unigard Pacific Insurance Company which merged with UIC on December 31, 2007.

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 QBE Regional Companies (N.A.) which owns 100% of the Company's outstanding common stock.

The following is an abbreviated organizational chart:



Inter-company Agreements

The following inter-company contracts 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 which provides that 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
		<u>100%</u>

Management Services Agreement

GCW provides operating and management services to UIC 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, individuals 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

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. The benefits are provided until the retirees attain age 65.

CORPORATE RECORDS

The examiners reviewed the corporate records of UIC 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 \$260,362,250 and \$59,989,348, respectively, as of December 31, 2007. The reserves were reviewed by the casualty actuarial staff employed by the OIC. UIC 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 UIC, GCW, and nine other affiliated companies. Employees of UIC and GCW provided additional information as needed. The OIC actuarial staff also reviewed actuarial reports prepared by the Company's consulting actuarial firm, Milliman.

The OIC actuarial staff's estimates indicated that the Company's reserves for losses and loss adjustment expenses were within a range of reasonable estimates. Therefore, UIC'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. UIC 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, UIC receives a 22% share of the pooled business. GCW is authorized to do business in Washington State.

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 UIC is not a party to the 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 from GCW of \$300.9 million for paid and unpaid losses, incurred but not reported (IBNR), loss adjustment expenses (LAE), and unearned premiums.

UIC cedes a portion of its insurance business to various non-affiliated reinsurers on a facultative basis and a portion of its business to affiliated and non-affiliated reinsurers for excess of loss and catastrophe protection. All placements made by UIC are prior to the cession to GCW under the inter-company pooling agreement. UIC'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.

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	\$ 3,263,708	\$ 3,433,848
California	8,568,308	9,022,931
Georgia	497,655	523,633
Idaho	70,368	70,990
New Mexico	351,841	354,949
North Carolina	350,052	357,758
Oregon	403,611	423,319
Washington	2,657,228	2,738,181
Total	\$ 16,162,771	\$ 16,925,609

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 report 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 for the Period since Last Examination

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

Assets	BALANCE PER COMPANY	EXAMINATION ADJUSTMENTS	BALANCE PER EXAMINATION
Bonds	\$133,425,125	\$0	\$133,425,125
Stocks:			
Common stocks	31,141,355		31,141,355
Real estate			
Properties occupied by the Company	24,175,030		24,175,030
Properties held for the production of income	31,304,434		31,304,434
Cash and short-term investments	393,035,415		393,035,415
Other invested assets	403,917		403,917
Subtotal, cash and invested assets	613,485,276	0	613,485,276
Investment income due and accrued	6,405,413		6,405,413
Premiums and considerations			
Uncollected premiums and agents' balances in course of collection	16,356,954		16,356,954
Deferred premiums, agents' balances and installments booked but deferred and not yet due	66,020,545		66,020,545
Amounts recoverable from reinsurers	2,516,202		2,516,202
Net deferred tax asset	16,542,776		16,542,776
Electronic data processing equipment and software	232,937		232,937
Aggregate write-ins for other than invested assets	2,261,040		2,261,040
Total Assets	\$723,821,143	\$0	\$723,821,143
Liabilities, Surplus and other Funds			
Losses	\$260,362,250	\$0	\$260,362,250
Loss adjustment expenses	59,989,348		59,989,348
Commissions payable, contingent commissions and other similar charges	10,003,678		10,003,678
Other expenses (excluding taxes, licenses and fees)	11,026,471		11,026,471
Taxes, licenses and fees (excluding federal and foreign income taxes)	1,131,473		1,131,473
Current federal and foreign income taxes	573,932		573,932
Unearned premiums	128,284,468		128,284,468
Advance premiums	1,028,322		1,028,322
Ceded reinsurance premiums payable	(420,224)		(420,224)
Funds held by company under reinsurance treaties	321,409		321,409
Amount withheld or retained by the company for account of others	2,770,179		2,770,179
Remittances and items not allocated	49,314		49,314
Provision for reinsurance	479,800		479,800
Drafts outstanding	1,116,330		1,116,330
Payable to parent, subsidiaries and affiliates	7,724,766		7,724,766
Aggregate write-ins for liabilities	10,975,081		10,975,081
Total Liabilities	495,416,597	0	495,416,597
Common capital stock	3,000,000		3,000,000
Gross paid in and contributed surplus	119,053,571		119,053,571
Unassigned funds (surplus)	106,350,975		106,350,975
Surplus as regards policyholders	228,404,546	0	228,404,546
Total Liabilities, Surplus and other Funds	\$723,821,143	\$0	\$723,821,143

UNIGARD INSURANCE 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
Underwriting Income			
Premiums earned	\$295,292,045	\$0	\$295,292,045
Deductions			
Losses incurred	164,313,935		164,313,935
Loss expenses incurred	39,476,855		39,476,855
Other underwriting expenses incurred	90,937,582		90,937,582
Total underwriting deductions	294,728,372	0	294,728,372
Net underwriting gain or (loss)	563,673	0	563,673
Investment Income			
Net investment income earned	27,238,418		27,238,418
Net realized capital gains or (losses)	(1,080,224)		(1,080,224)
Net investment gain or (loss)	26,158,194	0	26,158,194
Other Income			
Net gain from agents' or premiums balances charged off	(156,696)		(156,696)
Finance and service charges not included in premiums	1,215,308		1,215,308
Aggregate write-ins for miscellaneous income	(732,589)		(732,589)
Total other income	326,023	0	326,023
Net income before dividends to policyholders but before federal and foreign income taxes	27,047,890		27,047,890
Dividends to policyholders	3,746,644		3,746,644
Net income, after dividends to policyholders but before federal and foreign income taxes	23,301,246		23,301,246
Federal and foreign income taxes incurred	8,546,119		8,546,119
Net income	\$14,755,127	\$0	\$14,755,127
CAPITAL AND SURPLUS ACCOUNT			
Surplus as regards policyholders, December 31 prior year	\$225,265,036	\$0	\$225,265,036
Gains and (Losses) in Surplus			
Net income	14,755,127		14,755,127
Change in net unrealized capital gains or (losses) less capital gain tax	(1,849,875)		(1,849,875)
Change in net deferred income tax	(478,676)		(478,676)
Change in nonadmitted assets	1,252,089		1,252,089
Change in provision for reinsurance	472,000		472,000
Dividends to stockholders	(11,200,000)		(11,200,000)
Aggregate write-in for gains and losses in surplus	188,846		188,846
Change in surplus as regards policyholders	3,139,510	0	3,139,510
Surplus as regards policyholders, December 31 current year	\$228,404,546	\$0	\$228,404,546

**UNIGARD INSURANCE 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	\$225,265,035	\$212,810,871	\$195,226,244	\$183,488,971	\$167,791,337
Net income	14,755,127	21,424,040	20,149,052	22,657,520	12,839,139
Change in net unrealized capital gains or (losses)	(1,849,875)	2,312,155	2,728,974	2,535,527	8,261,339
Change in net deferred income tax	(478,675)	2,227,889	5,051,993	3,564,438	(1,669,000)
Change in nonadmitted assets	1,252,089	(969,305)	(3,979,604)	(8,401,320)	3,206,235
Change in provision for reinsurance	472,000	(619,800)	32,600	475,800	(438,200)
Dividends to stockholders	(11,200,000)	(11,550,000)	(9,000,000)	(2,500,000)	(7,500,000)
Aggregate writ-ins for gains and losses in surplus	188,845	(370,816)	2,601,612	(6,594,692)	998,121
Change in surplus as regards policyholders for the year	3,139,511	12,454,163	17,584,627	11,737,273	15,697,634
Surplus as regards policyholders, December 31, current year	<u>\$228,404,546</u>	<u>\$225,265,035</u>	<u>\$212,810,871</u>	<u>\$195,226,244</u>	<u>\$183,488,971</u>

* Balances for years 2003 through 2006 do not include the results of Unigard Pacific Insurance Company which merged with UIC on December 31, 2007.

NOTES TO THE FINANCIAL STATEMENTS

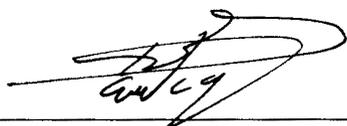
None

ACKNOWLEDGMENT

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

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Respectfully submitted,

A handwritten signature in black ink, appearing to read 'T. Subbagh', is written over a horizontal line.

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

