# STATE OF WASHINGTON
# OFFICE OF THE INSURANCE COMMISSIONER

FINANCIAL EXAMINATION

OF

**General Insurance Company of America**
**Seattle, Washington**

NAIC CODE 24732
DECEMBER 31, 2005

Participating States:
Washington
Indiana
Illinois
Oregon
Texas
Missouri

General Insurance Company of America
Order No. G07-183
Exhibit A

## SALUTATION

Seattle, Washington
June 8, 2007

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

The Honorable Kent Michie
Commissioner, Utah Department of Insurance
NAIC Secretary, Western Zone
Department of Insurance
3110 State Office Building
Salt Lake City, UT 84114-1201

The Honorable Mike Kreidler, Commissioner
Washington State Office of the Insurance Commissioner (OIC)
Insurance Building
312-14th Avenue SW
Olympia, WA 98504

Dear Commissioners and Director:

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

General Insurance Company of America

of

Seattle, Washington

hereinafter referred to as "GICA" or the "Company," at the location of its home office, Safeco Plaza, 4333 Brooklyn Avenue Northeast, Seattle, Washington 98185. This report is respectfully submitted showing the condition of the Company as of December 31, 2005.

## CHIEF EXAMINER'S AFFIDAVIT

I hereby certify I have read the attached Report of the Financial Examination of General Insurance Company of America of Seattle, Washington. This report shows the financial condition and related corporate matters as of December 31, 2005.

Patrick H. McNaughton

PATRICK H. MCNAUGHTON
Chief Examiner

June 8, 2007
Date

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## SCOPE OF THE EXAMINATION

This examination covers the period January 1, 2001 through December 31, 2005 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.

This examination was classified as an Association exam and was called through the NAIC's Examination Tracking System. This examination was also classified as a coordinated examination of all insurance companies that are members of the Safeco Holding Company Group, hereinafter referred to as the "Safeco Group". (This will also include non-insurer affiliates as indicated.) Washington State was also designated as the Lead State of the coordinated examination and examiners from the states of Washington, Indiana, Illinois, Missouri, Oregon, and Texas participated and assessed the financial condition and corporate affairs of the affiliated companies in the Safeco Group.

## INSTRUCTIONS

The examiners reviewed the Company's filed 2005 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. **Investment Expense Allocation**
   The Safeco Group has an Investment Expense Sharing Agreement dated March 12, 1999 that requires each company to pay their "allocable share" of the investment expenses. Safeco Insurance Company of America (SICA) incurs all investment expenses and then allocates these expenses to the other members of the Safeco Group. The examiners reviewed the 2005 investment expenses reported by each entity, and concluded that the expenses were not based on the individual Safeco Group company's percentage of

invested assets. Several Safeco Group companies did not have any investment expense allocated to them. This result is not in compliance with RCW 48.31B.030(1)(a), which requires the terms of the agreement to be fair and reasonable, the charges or fees to be fair and reasonable, and expenses incurred and payment received to be allocated to the insurer in conformity with customary insurance accounting practices and consistently applied.

In addition, the agreement does not include the companies listed below as participants:

Safeco Surplus Lines Insurance Company
Safeco National Insurance Company
American States Insurance Company
Safeco Insurance Company of Indiana
American Economy Insurance Company
American States Preferred Insurance Company
Insurance Company of Illinois
Safeco Insurance Company of Illinois
American States Lloyds Insurance Company
Safeco Lloyds Insurance Company
American States Insurance Company of Texas
Safeco Insurance Company of Oregon

**The Company is instructed to comply with RCW 48.31B.030(1)(a), which requires the terms of the Investment Expense Sharing Agreement to be fair and reasonable. Expenses incurred and payment received 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, including such accounting information as is necessary to support the reasonableness of the charges or fees to the respective parties.**

**The Company is instructed to comply with RCW 48.31B.030(1)(b)(iv) which requires all insurers that are members of a holding company system to file, with the commissioner, all management agreements, service contracts, and cost sharing agreements prior to entering into them. All companies participating in the agreement need to be listed in the agreement. A revised agreement was submitted to the OIC in December 2006.**

## 2. Holding Company Act Compliance

### I. Form D Filings- Notice of Intention to Enter into a Transaction

The Investment Expense Sharing Agreement dated March 12, 1999, between Safeco Insurance Company of America, General Insurance Company of America, and First National Insurance Company of America was subject to RCW 48.31B.030(1)(b) but was not properly filed with the OIC.

RCW 48.31B.030(1)(b) requires that certain transactions listed below involving a domestic insurer and a person in its holding company system may not be entered into unless the insurer has notified the commissioner in writing of its intention to enter into the transaction and the commissioner declares the notice to be sufficient at least sixty days before, or such shorter period as the commissioner may permit, and the commissioner has not disapproved it within that period:

- Reinsurance agreements or modifications to them in which the reinsurance premium or a change in the insurer's liabilities equals or exceeds five percent of the insurer's surplus as regards policyholders, as of the 31st day of the previous December.
- Management agreements, service contracts, and cost-sharing arrangements.

**The Company is instructed to comply with RCW 48.31B.030(1)(b) by properly filing agreements subject to the Holding Company Act. Form D filings for the agreements listed above were sent to the OIC in December 2006.**

## II. Form B Filings- Notification

The agreements listed below were subject to RCW 48.31B.025(2)(c)(vi) or RCW 48.31B.025(2)(c)(v) but the Company failed to file or filed inaccurate information for the following agreements:

### a. Short-Term Borrowing Agreement

The Restated Intercompany Short-Term Borrowing Agreement effective July 15, 2002 includes several companies that are no longer affiliated with the Safeco Group companies and one entity that is no longer a party to the contract.

- Safeco Life Insurance Company is no longer affiliated with the Safeco Group and should be removed from the agreement.
- Safeco National Life Insurance Company is no longer affiliated with the Safeco Group and should be removed from the agreement.
- American States Life Insurance Company is no longer affiliated with the Safeco Group and should be removed from the agreement.
- Safeco Financial Products, Inc. is no longer a party to the agreement and should be removed from the agreement.

### b. Expense Sharing Agreement

The Expense Sharing Agreement dated March 15, 2001 includes several insurance companies that are no longer affiliated with the Safeco Group and uses one incorrect name.

- Safeco Life Insurance Company is no longer affiliated with the Safeco Group and should be removed from the agreement.
- Safeco National Life Insurance Company is no longer affiliated with the Safeco Group and should be removed from the agreement.

- First Safeco National Life Insurance Company of New York is no longer affiliated with the Safeco Group and should be removed from the agreement.
- American States Life Insurance Company of Texas is no longer affiliated with the Safeco Group and should be removed from the agreement.
- Safeco Insurance Company of Pennsylvania is listed as a party to the agreement. This should be amended to read Safeco Insurance Company of Indiana.

RCW 48.31B.025(2)(c)(vi) and RCW 48.31B.025(2)(c)(v) require an insurer subject to registration to file the registration statement on a form prescribed by the commissioner, containing current information for reinsurance agreements currently outstanding and all management agreements, service contracts, and cost-sharing arrangements.

**The Company is instructed to file accurate information for the above agreements so that they correctly identify the parties to the contracts in conformance with RCW 48.31B.025(2)(c)(vi) and RCW 48.31B.025(2)(c)(v).**

3. **Right of Offset Clause**

The Safeco Group settles all intercompany payables and receivables for all the insurance companies in the group on a net basis. This methodology is acceptable as long as the intercompany agreements being settled provide for the right of offset. However, certain Safeco Group companies are parties to several agreements that do not include the right of offset clause.

NAIC Accounting Practices and Procedures Manual, Statements of Statutory Accounting Principles (SSAP) 64 states: "Assets and liabilities shall be offset ...only when a valid right of setoff exists..." and "The right of setoff is enforceable by law". The companies are settling intercompany payables and receivables based upon the premise that a right of offset exists. However, since the agreements listed below do not contain the right of offset clause, this premise is not supported by the terms of these agreements. As a result, the Company is not in compliance with SSAP 64 as required by RCW 48.05.073.

Agreements that do not include a right of offset clause are:

- Investment Expense Sharing Agreement
- Restated Intercompany Short Term Borrowing Agreement
- Agreement of Allocation of Payment of Federal Income Taxes, February 28, 2000, and the Amendment dated July 21, 2006
- Investment Expense Sharing Agreement dated March 12, 1999
- Expense Sharing Agreement dated March 15, 2001

**The Company is instructed to comply with RCW 48.05.073 and SSAP 64 by either amending the agreements to include a right of offset clause, or by reporting and settling each agreement separately without a right of offset.**

4. **NAIC 2005 Annual Statement Errors and Misclassifications**

The examination team discovered several instances in which the Company's NAIC 2005 Annual Statement did not conform to the NAIC Accounting Practices and Procedures Manual and the NAIC 2005 Annual Statement Instructions. While the Company needs to correct these practices, none of the following items in the instruction were material to the financial statements and no examination adjustments were made.

**The Company is instructed to comply with RCW 48.05.073, RCW48.05.250, and WAC 284-07-050(2) in filing its NAIC 2005 Annual Statement in accordance with the NAIC Accounting Practices and Procedures Manual and the NAIC 2005 Annual Statement Instructions.**

The following exceptions were noted in our examination:

a. **Classification of Liabilities**

Several liability accounts containing employee wages and benefits and other expenses were not properly classified in the NAIC 2005 Annual Statement according to the NAIC 2005 Annual Statement Instructions and NAIC Accounting Practices and Procedures Manual. These accounts were incorrectly classified as "Amounts withheld or retained by the Company for account of others" or "Aggregate write-ins for liabilities" instead of "Loss adjustment expenses" or "Other expenses".

b. **Classification of Unpaid Expenses**

The unpaid expenses at December 31, 2005 in the Underwriting and Investment Exhibit (UIE) did not include bonuses and other miscellaneous liabilities recorded as Aggregate write-ins for liabilities on the Liabilities, Surplus, and Other Funds page of the NAIC 2005 Annual Statement.

c. **Inaccurate Notes to Financial Statements**

- **Note 10B Disclosures Relating to Intercompany Loans and Dates of Transactions**

  The notes erroneously disclosed that GICA borrowed from SICA. The note should have disclosed that GICA loaned to SICA, American States Preferred Insurance Company, and to Safeco Insurance Company of Indiana.

  In addition, the Company failed to report the date of the transactions in Note 10B, but rather disclosed that these amounts were in 2005. This disclosure does not meet the requirements of SSAP 25 Paragraph 17.b.i, which requires the Company to list the date of the transaction for non-reinsurance or non cost-allocation

transactions equal to or greater than 1/2 of 1% of the total prior year admitted assets of the reporting entity.

- **Note 12 Deferred Compensation Plan not Disclosed**
  The Company failed to disclose the Deferred Compensation and Supplemental Benefit Plan for Executives in Note 12 of the Financial Statements. This is not in accordance with SSAP 14.

- **Note 26 Disclosures Relating to Pooling Agreement**
  Note 26 of the Notes to Financial Statements incorrectly listed all fifteen insurers as participants in an intercompany reinsurance agreement. This is incorrect, since there are eight intercompany reinsurance agreements. As noted in the reinsurance section of this report, there is a pooling agreement, which includes eight companies. The other seven companies in the group each have separate reinsurance agreements with SICA, which call for them to cede 100% of their business to SICA. The Company is instructed to comply with the NAIC 2005 Annual Statement Instructions by accurately describing the precise nature of all reinsurance transactions between affiliated companies. In this respect, the footnote disclosures should correctly: (a) name all participating parties of the pooling agreement, and (b) accurately describe the flow of business from other affiliates ceding business to the pool under separate reinsurance agreements.

**d. Inaccurate or Incomplete responses to General Interrogatories**
**Note 21.1 and 21.2 Disclosures Relating to Securities Lending**
The Company incorrectly answered item 21.1 of the "General Interrogatories - Investment" by not revealing the Company's participation in securities lending of $178,005,394. As a result, the Company did not provide the amount of securities loaned to others required in item 21.21. In addition, the Company did not designate which securities were lent using the designation "LS" in column 3 of Schedule D as required by the NAIC 2005 Annual Statement Instructions. The Company is instructed to correctly provide accurate and complete disclosures in the General Interrogatories.

## COMMENTS AND RECOMMENDATIONS

None

## COMPANY PROFILE

### History and Capitalization

The Company was incorporated under the laws of the state of Washington on March 20, 1923 and began active business on May 1, 1923. Authorized capital of the Company is $5,000,000, which consists of 20,000 shares of common stock with a $250 par value. All authorized shares were issued and outstanding at December 31, 2005. The Company is wholly-owned by Safeco Corporation (the "Parent"), a holding company incorporated under the laws of the state of Washington. Prior to November 30, 2006, Safeco Corporation was actively traded on the NASDAQ under the ticker symbol SAFC. Beginning on November 30, 2006, Safeco Corporation was actively traded on the New York Stock Exchange (NYSE) under the ticker symbol SAF.

The last examination of the Company was as of December 31, 2000 and covered the period January 1, 1996 through December 31, 2000.

### Territory and Plan of Operation

The Safeco Group operates as a property and casualty insurance company throughout the United States, through four segments: personal insurance, business insurance, surety, and property casualty other. The personal insurance segment offers auto, homeowners and other property, and specialty insurance products for individuals. The business insurance segment offers business owners' policies, commercial auto, commercial multi-peril packages, commercial property, general liability, and workers' compensation policies to small and medium-sized businesses. The surety segment offers bonds that provide payment and performance guarantees primarily for construction businesses and corporations. The property and casualty other segment includes those commercial business accounts currently in runoff. The Safeco Group markets its products primarily to drivers, homeowners, and small and medium sized businesses through approximately 8,500 independent agents and brokers nationwide. Claims offices are maintained throughout the United States to provide effective and efficient service to claimants.

The mix of business is about 66% personal lines, 30% commercial, and 4% surety, based on net written premiums. Personal automobile is the dominant line, followed by homeowners, commercial multi-peril, and commercial automobile liability coverage. Approximately 47% of the Safeco Group's premiums are written in the states of California, Washington, Texas, Florida and Oregon.

### Acquisitions, Mergers, Disposals, Dissolutions, and Purchases and Sales

In 2004, Safeco Corporation completed the sale of its life and investments businesses. On May 1, 2006, the Parent sold Safeco Financial Institution Solutions, Inc., an affiliate of the Company.

### Growth of Company

The Company's growth, as reported in its filed NAIC Annual Statements, is illustrated below (000's omitted):

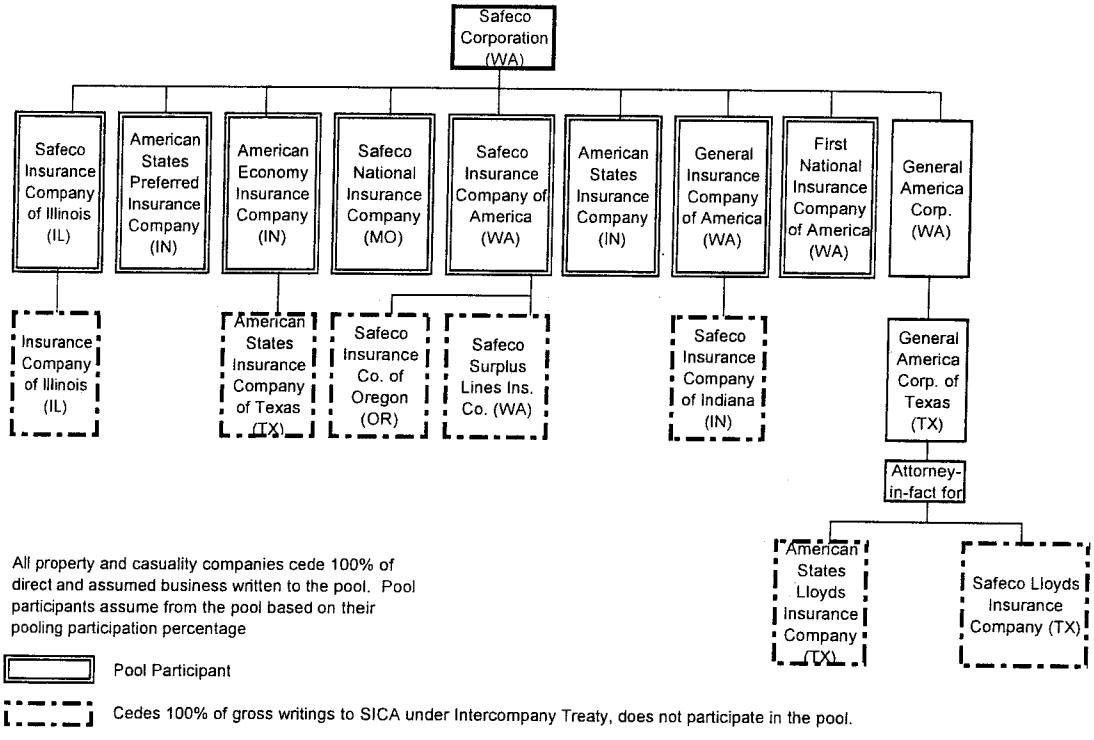
| Year | Admitted Assets | Liabilities | Capital & Surplus |
|---|---|---|---|
| 2005 | $2,725,414 | $1,911,153 | $814,261 |
| 2004 | 2,455,674 | 1,734,644 | 721,029 |
| 2003 | 2,288,520 | 1,665,203 | 623,317 |
| 2002 | 2,206,764 | 1,653,563 | 553,201 |
| 2001 | 2,158,595 | 1,644,207 | 514,388 |

| Year | Premiums Earned | Net Underwriting Gain (Loss) | Net Investment Gains (Losses) | Net Income |
|---|---|---|---|---|
| 2005 | $1,337,169 | $122,031 | $105,008 | $170,392 |
| 2004 | 1,271,681 | 104,889 | 120,859 | 148,857 |
| 2003 | 1,127,403 | (9,933) | 110,914 | 71,757 |
| 2002 | 1,039,895 | (54,885) | 172,347 | 63,457 |
| 2001 | 1,028,734 | (203,890) | 152,890 | (19,904) |

**Affiliated Companies**

The Company is a wholly-owned subsidiary of Safeco Corporation. As a member of an insurance holding company system, the Company is required to file registration statements in accordance with RCW 48.31B.025 and WAC 284-18-300. Safeco Corporation filed the registration statements for each year under examination on behalf of the Company and its affiliates within the Safeco Group.

The following organization chart shows the affiliated insurance companies:




**Intercompany Contracts**

The following intercompany contracts were in-force as of December 31, 2005:

- **Reinsurance Pooling Agreement** dated January 1, 1998 and amended April 11, 2002 between Safeco Insurance Company of America, First National Insurance Company of America, General Insurance Company of America, Safeco National Insurance Company, American States Insurance Company, American Economy Insurance Company, American States Preferred Insurance Company, and Safeco Insurance Company of Illinois.

- **Expense Sharing Agreement** dated March 15, 2001 between Safeco Insurance Company of America, First National Insurance Company of America, General Insurance Company of America, Safeco National Insurance Company, American States Insurance Company, American Economy Insurance Company, American States Preferred Insurance Company, Safeco Insurance Company of Illinois, Safeco Surplus Lines Insurance Company, Safeco Insurance Company of Indiana (formerly of Pennsylvania), Insurance Company of Illinois, American States Insurance Company of Texas, and, as mentioned earlier in Instruction 2.II.b, four entities that are no longer affiliated with the Safeco Group.

- **Investment Expense Sharing Agreement** dated March 12, 1999, effective October 1, 1998 between Safeco Insurance Company of America, First National Insurance Company of America, and General Insurance Company of America.

- **Restated Intercompany Short-Term Borrowing Agreement** effective July 15, 2002 for Washington companies and October 25, 2002 for all others, between Safeco Insurance Company of America, First National Insurance Company of America, General Insurance Company of America, Safeco National Insurance Company, American States Insurance Company, American Economy Insurance Company, American States Preferred Insurance Company, Safeco Insurance Company of Illinois, Safeco Surplus Lines Insurance Company, Safeco Insurance Company of Indiana, Insurance Company of Illinois, American States Insurance Company of Texas, Safeco Insurance Company of Oregon, and, as mentioned earlier in Instruction 2.II.a, three entities that are no longer affiliated with the Safeco Group and one entity no longer a party to the agreement.

- **Agreement of Allocation of Payment of Federal Income Taxes** dated February 28, 2000 between Safeco Insurance Company of America, First National Insurance Company of America, General Insurance Company of America, Safeco National Insurance Company, American States Insurance Company, American Economy Insurance Company, American States Preferred Insurance Company, Safeco Insurance Company of Illinois, Safeco Surplus Lines Insurance Company, Safeco Insurance Company of Indiana, Insurance Company of Illinois, American States Insurance Company of Texas, Safeco Lloyds Insurance Company, American States Lloyds Insurance Company, and Safeco Insurance Company of Oregon.

## MANAGEMENT AND CONTROL

**Ownership**
The Company's stock is 100% owned by Safeco Corporation, a publicly traded corporation.

**Directors**
Directors of the Company as of December 31, 2005 were as follows:

| Board Member | Principal Occupation |
|---|---|
| Michael Sean McGavick | President - Chairman of the Board |
| Michael Edward LaRocco | Co-President - Chief Operating Officer |
| Dale Ellis Lauer | Executive Vice President - Claims and Service |
| Christine Barbara Mead | Co-President |
| Allie Mysliwy | Executive Vice President - Chief Business Services Officer – Safeco Corporation |
| Jeffrey Edward Roe | Co-President |
| Yom Senegor | Executive Vice President - Chief Information Officer – Safeco Corporation |
| Kasey Sweet | Assistant Vice President |
| Richard Brendan Kelly | Sr. Vice President |
| Arthur Chong | Executive Vice President - Chief Legal – Safeco Corporation |

**Officers**
Officers of the Company as of December 31, 2005 were as follows:

| Name | Title |
|---|---|
| Michael Sean McGavick | President |
| Neal Andrew Fuller | Treasurer |
| Stephanie Gayle Daley-Watson | Secretary |
| Michael Edward LaRocco | Co-President |
| Christine Barbara Mead | Co-President |
| Jeffrey Edward Roe | Co-President |
| Dale Ellis Lauer | Executive Vice President |
| Gregory Allan Tacchetti | Senior Vice President |
| Robert Clark Taylor | Senior Vice President |
| Richard Brendan Kelly | Senior Vice President |
| Michael Henry Hughes | Senior Vice President |
| John Ammendola | Senior Vice President |
| Charles Francis Horne Jr. | Senior Vice President |
| Teresa Jean Dalenta | Senior Vice President |
| Eleanor Susan Barnard | Senior Vice President |
| Willard Myron Hendry | Senior Vice President |
| Michael Clay Peters | President, Safeco Surety |

**Conflict of Interest**
The Company has a policy that requires all employees, directors, and officers to complete a conflict of interest statement annually. The purpose of the statement is to detect any activities or participation on the part of an employee or director that could possibly be interpreted as having the appearance of a conflict of interest. Our review did not reveal any exceptions.

**Fidelity Bond and Other Insurance**
The Company is a named insured under a financial institution bond that provides $15,000,000 of directors' and officers' (D&O) liability insurance. The policy was issued to Safeco Corporation and covers all subsidiaries and affiliates. The fidelity coverage carried by the Company exceeds the NAIC minimum recommended amount.

The Company was also a named insured on various insurance policies issued to Safeco Corporation that provided property coverage for buildings and contents and comprehensive commercial general liability. These policies were in effect during the period covered by this examination and provided coverage for the Company.

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

- **Cash Balance Defined Benefit Pension Plan**
  Safeco Corporation sponsors a cash balance defined benefit pension plan covering a wide range of Company employees. The plan provides benefits for each year of service

after 1988, based on each eligible participant's compensation plus a stipulated rate of return on their benefit balance. The Parent's funding policy is to contribute amounts at least sufficient to meet the minimum funding requirements of the Employee Retirement Income Security Act (ERISA) that can be deducted for federal income tax purposes. Pension costs amounted to $2,053,000 and $3,002,200 in 2005 and 2004, respectively. The Company has no legal obligation for benefits under this plan.

- **Defined Contribution Plan**
  Safeco Corporation sponsors a defined contribution plan covering a wide range of Company employees. The plan includes a minimum contribution of 3% of each eligible participant's compensation, and a profit sharing component based on the Parent's income. The Parent makes contributions to the plan semi-monthly. Expenses for this plan amounted to $10,320,000 and $9,197,843 in 2005 and 2004, respectively. The Company has no legal obligation for benefits under this plan.

- **Postretirement Healthcare and Life Insurance Program**
  Safeco Corporation sponsors a postretirement healthcare and life insurance program covering retired and certain active employees, their beneficiaries and eligible dependents. During 2003, the program was amended to eliminate the future benefit for a significant number of employees, resulting in recognition of curtailment gains. The Parent makes contributions to this program as claims are incurred. Expense amounted to $314,000 and $848,644 in 2005 and 2004, respectively. The Company has no legal obligation for benefits under this plan.

- **Deferred Compensation and Supplemental Benefit for Executives**
  Safeco Corporation sponsors a deferred compensation and supplemental benefit plan for executives, which allows a select group of management and highly compensated employees to accumulate a portion of their earnings in a tax-deferred account. Once these employees become eligible for the 401(k), the plan permits Safeco Corporation to credit their account with deferrals of "excess savings" contributions and an employer match. Contributions are in excess of IRS limitations for the 401(k). It is an unfunded, unsecured, nonqualified program. Participants are unsecured general creditors of Safeco Corporation.

## CORPORATE RECORDS

The Company's Board of Directors (BOD) managed the property and business of the Company and was actively involved in the Company's affairs. Investment purchases, transfers, and disposals were ratified by the BOD and noted in the minutes. Appointments and elections of officers, reinsurance contracts, bank agreements, and other contracts were also noted in the BOD's minutes.

## UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES

The reserves carried by the Company for Unpaid Losses and Loss Adjustment Expense reserves were $906,375,165 and $222,902,360, respectively, as of December 31, 2005. These amounts represent the Company's 23% participation in the intercompany pooling reinsurance agreement.

The OIC's property and casualty actuarial staff reviewed the Unpaid Losses and Loss Adjustment Expense reserves of the Safeco Group and concluded that the Safeco Group's reserves, on a net basis, are within a range of reasonable estimates. Therefore, the Company's loss and loss adjustment expense reserves were accepted as reasonable and no adjustments were proposed to the amounts reported in the Company's 2005 NAIC Annual Statement.

## REINSURANCE

**Intercompany Reinsurance**

The direct and assumed business of the Safeco Group is ceded 100% to SICA, the lead pool reinsurer, pursuant to either the pooling agreement for those eight affiliates which assume a retrocessional share of the pooled business (the Pool) or via individual 100% intercompany reinsurance agreements for the other seven affiliated companies.

The eight companies of the Safeco Group that participated in the intercompany reinsurance pooling agreement and their respective percentages of participation as of December 31, 2005 are:

| Company Name | Pooling Percentage |
|---|---|
| Safeco Insurance Company of America | 33% |
| General Insurance Company of America | 23% |
| American States Insurance Company | 19% |
| American Economy Insurance Company | 14% |
| Safeco Insurance Company of Illinois | 5% |
| First National Insurance Company of America | 2% |
| Safeco National Insurance Company | 2% |
| American States Preferred Insurance Company | 2% |
| Combined Group Total | 100% |

The pooling process is accomplished in three steps. First, each affiliate identified above cedes 100% of its direct and assumed business to SICA pursuant to the terms of an intercompany pooling agreement. In addition, the other seven affiliated companies also cede

100% of direct and assumed business to SICA via individual 100% intercompany reinsurance agreements but do not assume any share of the Pool. Those companies are:

**Company Name**

Safeco Surplus Lines Insurance Company
Safeco Lloyds Insurance Company
Safeco Insurance Company of Indiana
Safeco Insurance Company of Oregon
Insurance Company of Illinois
American States Insurance Company of Texas
American States Lloyds Insurance Company

Second, SICA combines the business assumed from its affiliates with its own direct and external assumed business and then cedes excess of loss and catastrophe reinsurance to various unrelated reinsurers and various state-operated residual market reinsurance facilities (external reinsurance). Any uncollected external reinsurance balances are ultimately shared in proportion to designated pooling percentages.

Third, in its capacity as lead Pool insurer, SICA then cedes (or retrocedes) back to each participant its applicable pooling percentage, as shown above. The respective shares of each participant of the Pool have not changed throughout the current examination period.

## STATUTORY DEPOSITS

The Company maintained the following statutory deposits as of December 31, 2005:

| Location | Description of Assets | Book Value | Fair Value |
|---|---|---|---|
| Arizona | Bonds | $5,699,671 | $5,802,813 |
| California | Bonds | 61,284,632 | 63,221,628 |
| Delaware | Bonds | 99,310 | 99,094 |
| Georgia | Bonds | 109,653 | 105,969 |
| Idaho | Bonds | 2,746,008 | 2,834,625 |
| Louisiana | Bonds | 101,910 | 102,438 |
| Massachusetts | Bonds | 355,335 | 358,594 |
| Nevada | Bonds | 97,406 | 97,281 |
| New Mexico | Bonds | 300,449 | 302,719 |
| North Carolina | Bonds | 311,329 | 310,193 |
| Oregon | Bonds | 9,327,408 | 9,231,350 |
| Washington | Bonds | 4,877,099 | 5,967,400 |
| Puerto Rico | Bonds | 536,394 | 525,690 |
| Total | | $85,846,604 | $88,959,794 |

Securities held by the state of Washington and other states were confirmed directly with the Company's authorized custodians.

## ACCOUNTING RECORDS AND INFORMATION SYSTEMS

The Company maintains its accounting records on a Generally Accepted Accounting Principles (GAAP) accrual basis of accounting and adjusts to Statutory Accounting Principles (SAP) basis for NAIC Annual Statement reporting. The Company is audited annually by the certified public accounting firm of Ernst & Young. The Company received an unqualified opinion for all 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.

The management of the Company is sufficiently knowledgeable of the information systems (IS) process. Systems development, acquisition, and maintenance controls were evaluated to gain assurance that appropriate controls are in place. 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 controls exercised to maintain the confidentiality, integrity and availability of data. Sufficient internal controls are in place and monitored by the Company. The Company's IS Department has the ability to recover from an incident or disaster and has documented these procedures in a detailed, business continuity and disaster recovery plan.

## SUBSEQUENT EVENTS

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

## FOLLOW UP ON PREVIOUS EXAMINATION FINDINGS

The Company remedied all prior examination instructions and implemented the recommendations.

## FINANCIAL STATEMENTS

Statement of Assets, Liabilities, Surplus and Other Funds
Statement of Income and Capital and Surplus Account
Reconciliation of Capital and Surplus since the last Examination

# GENERAL INSURANCE COMPANY OF AMERICA
## ASSETS, LIABILITIES, SURPLUS AND OTHER FUNDS
## DECEMBER 31, 2005

| Assets | BALANCE PER COMPANY | EXAMINATION ADJUSTMENTS | BALANCE PER EXAMINATION | NOTES |
|---|---|---|---|---|
| Bonds | $1,944,768,651 | $0 | $1,944,768,651 | |
| Stocks: | | | | |
| Preferred stocks | 12,553,056 | | 12,553,056 | |
| Common stocks | 247,848,731 | | 247,848,731 | |
| Real estate | | | | |
| Properties occupied by the company | 8,719,190 | | 8,719,190 | |
| Properties held for sale | 407,056 | | 407,056 | |
| Cash and short-term investments | 199,980 | | 199,980 | |
| Receivable for securities | 290,883 | | 290,883 | |
| **Subtotal, cash and invested assets** | 2,214,787,547 | 0 | 2,214,787,547 | |
| Investment income due and accrued | 26,955,439 | | 26,955,439 | |
| Premiums and considerations | | | | |
| Uncollected premiums and agents' balances in course of collection | 120,528,103 | | 120,528,103 | |
| Deferred premiums, agents' balances and installments booked but deferred and not yet due | 220,197,984 | | 220,197,984 | |
| Accrued retrospective premium | 551,638 | | 551,638 | |
| Amount recoverable from reinsurers | 37,910,668 | | 37,910,668 | |
| Funds held by or deposited with reinsurance companies | 776 | | 776 | |
| Net deferred tax asset | 62,945,513 | | 62,945,513 | |
| Guaranty funds receivable or on deposit | 1,356,722 | | 1,356,722 | |
| Receivable from parent, subsidiaries and affiliates | 39,535,000 | | 39,535,000 | |
| Aggregate write-ins for other than invested assets | 644,307 | | 644,307 | |
| **Total Assets** | **$2,725,413,697** | **$0** | **$2,725,413,697** | |
| **Liabilities, Surplus and other Funds** | | | | |
| Losses | $906,375,165 | $0 | $906,375,165 | |
| Reinsurance payable on paid losses and loss adjustment expenses | 66,887,032 | | 66,887,032 | |
| Loss adjustment expenses | 222,902,360 | | 222,902,360 | |
| Commissions payable, contingent commissions | 32,653,057 | | 32,653,057 | |
| Other expenses | 10,565,886 | | 10,565,886 | |
| Taxes, licenses and fees (excluding federal and foreign income taxes) | 9,201,369 | | 9,201,369 | |
| Current federal and foreign income taxes | 15,708,182 | | 15,708,182 | |
| Unearned premiums | 495,621,995 | | 495,621,995 | |
| Advance premiums | 12,343,599 | | 12,343,599 | |
| Dividends declared and unpaid - policyholders | 595,244 | | 595,244 | |
| Ceded reinsurance premiums payable | 42,345,776 | | 42,345,776 | |
| Amounts withheld or retained by company for account of others | 4,011,545 | | 4,011,545 | |
| Payable to parent, subsidiaries and affiliates | 18,097,063 | | 18,097,063 | |
| Payable for securities | 21,028,312 | | 21,028,312 | |
| Aggregate write-ins for liabilities | 52,816,354 | | 52,816,354 | |
| **Total Liabilities** | **1,911,152,939** | **0** | **1,911,152,939** | |
| Common capital stock | 5,000,000 | | 5,000,000 | |
| Gross paid in and contributed surplus | 170,891,058 | | 170,891,058 | |
| Unassigned funds (surplus) | 638,369,700 | | 638,369,700 | |
| **Surplus as regards policyholders** | **814,260,758** | **0** | **814,260,758** | |
| **Total Liabilities, Surplus and other Funds** | **$2,725,413,697** | **$0** | **$2,725,413,697** | |

# GENERAL INSURANCE COMPANY OF AMERICA
# STATEMENT OF INCOME AND CAPITAL AND SURPLUS ACCOUNT
# FOR THE YEAR ENDED DECEMBER 31, 2005

| | BALANCE PER COMPANY | EXAMINATION ADJUSTMENT | BALANCE PER EXAMINATION | NOTES |
|---|---|---|---|---|
| **STATEMENT OF INCOME** | | | | |
| **Underwriting Income** | | | | |
| Premiums earned | $1,337,168,545 | $0 | $1,337,168,545 | |
| **Deductions** | | | | |
| Losses incurred | 663,941,843 | | 663,941,843 | |
| Loss expenses incurred | 169,352,807 | | 169,352,807 | |
| Other underwriting expenses incurred | 381,843,007 | | 381,843,007 | |
| Total underwriting deductions | 1,215,137,657 | | 1,215,137,657 | |
| **Net underwriting gain or (loss)** | 122,030,888 | 0 | 122,030,888 | |
| **Investment Income** | | | | |
| Net investment income earned | 98,103,346 | | 98,103,346 | |
| Net realized capital gains or (losses) | 6,904,862 | | 6,904,862 | |
| Net investment gain or (loss) | 105,008,208 | 0 | 105,008,208 | |
| **Other Income** | | | | |
| Net (loss) from agents' or premiums balances charged off | (5,181,204) | | (5,181,204) | |
| Finance and service charges not included in premiums | 7,164,657 | | 7,164,657 | |
| Total other income | 1,983,453 | 0 | 1,983,453 | |
| Net income before dividends to policyholders but before federal and foreign income taxes | 229,022,549 | | 229,022,549 | |
| Dividends to policyholders | 655,408 | | 655,408 | |
| Net income, after dividends to policyholders but before federal and foreign income taxes | 228,367,141 | | 228,367,141 | |
| Federal and foreign income taxes incurred | 57,975,032 | | 57,975,032 | |
| **Net income** | **$170,392,109** | **$0** | **$170,392,109** | |
| **CAPITAL AND SURPLUS ACCOUNT** | | | | |
| **Surplus as regards policyholders, December 31 prior year** | **$721,029,276** | **$0** | **$721,029,276** | |
| **Gains and (Losses) in Surplus** | | | | |
| Net income | 170,392,109 | | 170,392,109 | |
| Change in net unrealized capital gain/losses | (10,769,993) | | (10,769,993) | |
| Change in net unrealized foreign exchange capital gain | 476,310 | | 476,310 | |
| Change in net deferred income tax | (13,884,780) | | (13,884,780) | |
| Change in nonadmitted assets | 12,017,837 | | 12,017,837 | |
| Dividends to stockholders | (65,000,000) | | (65,000,000) | |
| Change in surplus as regards policyholders | 93,231,482 | 0 | 93,231,482 | |
| **Surplus as regards policyholders, December 31 current year** | **$814,260,758** | **$0** | **$814,260,758** | |

# GENERAL INSURANCE COMPANY OF AMERICA
## RECONCILIATION OF SURPLUS
## FOR THE YEARS ENDED DECEMBER 31,

| | 2005 | 2004 | 2003 | 2002 | 2001 |
|---|---|---|---|---|---|
| **Capital and surplus, December 31, previous year** | $721,029,276 | $623,317,452 | $553,201,333 | $514,388,068 | $501,425,777 |
| Net income | 170,392,109 | 148,857,302 | 71,757,362 | 63,456,744 | (19,904,314) |
| Change in net unrealized capital gains or (losses) | (10,769,993) | (1,914,424) | 33,300,481 | (99,092,913) | (101,658,943) |
| Change in net unrealized foreign exchange capital gains or (loss) | 476,310 | 420,974 | 2,484,890 | 271,721 | (1,539,236) |
| Change in net deferred income tax | (13,884,780) | 6,344,422 | 2,645,069 | 67,595,447 | 24,526,126 |
| Change in nonadmitted assets | 12,017,837 | (3,225,028) | 21,928,317 | (28,417,734) | (150,113) |
| Cumulative effects of changes in accounting principles | | | | | 15,522,085 |
| Surplus adjustments - Paid in | | | | 75,000,000 | 95,000,000 |
| Dividends to stockholders | (65,000,000) | (59,000,000) | (62,000,000) | (40,000,000) | |
| Aggregate writ-ins for gains and losses in surplus | | 6,228,578 | | | 1,166,686 |
| Change in surplus as regards policyholders for the year | 93,231,482 | 97,711,824 | 70,116,119 | 38,813,265 | 12,962,291 |
| **Surplus as regards policyholders, December 31,current year** | $814,260,758 | $721,029,276 | $623,317,452 | $553,201,333 | $514,388,068 |

## NOTES TO THE FINANCIAL STATEMENTS

No adjustments were made to the financial statements as a result of this consolidation.

## ACKNOWLEDGMENT

Acknowledgment is hereby made of the cooperation extended to the examination team by the officers of General Insurance Company of America during the course of this examination.

In addition to the undersigned, the following individuals participated in the examination and the preparation of this report. Representing the Washington State Office of the Insurance Commissioner: Michael V. Jordan, CPA, CFE, MHP, Assistant Chief Examiner; Timoteo L. Navaja, CFE, CIE, Property and Casualty Field Supervisor, Tarik M. Subbagh, CPA, CFE, Insurance Examiner; John J. Gaynard, CPA, CFE, CPCU, Reinsurance Specialist; Adrienne C. DeBella, CPA, CFE, Insurance Examiner; Kathy L.W. Hicks, CPA, Insurance Examiner; Randy E. Fong, Insurance Examiner; D. Lee Barclay, FCAS, MAAA, Senior Actuary; Eric Slavich, Actuarial Analyst; and James Antush, Actuarial Analyst. Representing the Indiana Department of Insurance: Michael P. Dinius, CPA, CFE, Insurance Examiner in Charge; Peter A. Warfel, CPA, Senior Examiner; Phet Pannhanouvoung, ACL Specialist; Brad E. Meyers, CISA, ISQ Specialist; and James H. Ryan, CFE, Senior Consultant and Reinsurance Specialist. Representing the Illinois Department of Financial and Professional Regulation, Division of Insurance: Patrick A. Hyde, CFE, CPA, Assistant Chief Examiner, James G. Hatzis, CFE, Insurance Examiner in Charge; Jorge C. Arana, Jr., CFE, Insurance Examiner; Tera F. Mickel, Staff Examiner; Sherry A. Pablo, Staff Examiner; and Michael A. Manwaring, Staff Examiner. Representing the Oregon Department of Consumer and Business Services, Insurance Division: Greg A. Lathrop, CFE, Supervising Insurance Examiner. Representing the Texas Department of Insurance, Financial Analysis and Examinations: Sylvia L. Thomson, CPA, CPCU, CFE, Financial Examiner. Representing the Missouri Department of Insurance, Financial Institutions, and Professional Registration: Vicki L. Denton, CFE, Financial Examiner-In-Charge.

Respectfully submitted,

Jerry Epler

Jerry Epler, CPA/ABV, CFE
Examiner in Charge
State of Washington

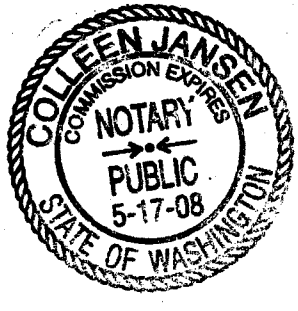
## AFFIDAVIT

**STATE OF WASHINGTON** }
} ss
**COUNTY OF KING** }

Jerry Epler, CPA/ABV, CFE, being duly sworn, deposes and says that the foregoing report subscribed by him is true to the best of his knowledge and belief.

He attests that the examination of General Insurance Company of America was performed in a manner consistent with the standards and procedures required or prescribed by the Washington State Office of the Insurance Commissioner and the National Association of Insurance Commissioners (NAIC).

Jerry Epler, CPA/ABV, CFE
Examiner in Charge
State of Washington

Subscribed and sworn to before me this 8th day of June 2007.

Notary Public in and for the
State of Washington