REPORT ON EXAMINATION

OF THE

21st CENTURY NORTH AMERICA INSURANCE COMPANY

AS OF

DECEMBER 31, 2009

DATE OF REPORT	MARCH 30, 2011
EXAMINER	JIMMIE NEWSOME

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STATE OF NEW YORK
INSURANCE DEPARTMENT
25 BEAVER STREET
NEW YORK, NEW YORK 10004

March 30, 2011

Honorable James J. Wrynn
Superintendent of Insurance
Albany, New York 12257

Sir:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 30527 dated May 18, 2010, attached hereto, I have made an examination into the condition and affairs of the 21st Century North America Insurance Company as of December 31, 2009 and submit the following report thereon.

Wherever the designation “the Company” appears herein without qualification, it should be understood to indicate the 21st Century North America Insurance Company.

Wherever the term “Department” appears herein without qualification, it should be understood to mean the New York Insurance Department.

The examination was conducted at the Company’s main administrative office located at 3 Beaver Valley Road, Wilmington, Delaware 19803.

1. SCOPE OF EXAMINATION

This examination was conducted as a multi-state examination of the 21st Century Personal Auto Group ("21st Century PAG") Personal Lines Pool companies in coordination with the examination of other Farmers property and casualty companies conducted by the state of California as the lead state. Other states participating in this examination were Colorado, Delaware, Hawaii, Minnesota, New Jersey, Pennsylvania and Texas. The previous examination was conducted as of December 31, 2006. This examination covered the three-year period from January 1, 2007 through December 31, 2009. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

This examination was conducted in accordance with the National Association of Insurance Commissioners ("NAIC") Financial Condition Examiners Handbook ("Handbook"), which requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company and evaluating system controls and procedures used to mitigate those risks. This examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All financially significant accounts and activities of the Company were considered in accordance with the risk-focused examination process. This examination also included a review and evaluation of the Company's own control environment assessment and an evaluation based upon the Company's Sarbanes Oxley documentation and testing. The examiners also relied upon audit work performed by the Company's independent public accountants when appropriate.

This examination report includes a summary of significant findings for the following items as called for in the Handbook:

Significant subsequent events
Company history
Corporate records
Management and control
Fidelity bonds and other insurance
Pensions, stock ownership and insurance plans
Territory and plan of operation

Growth of Company
Loss experience
Reinsurance
Accounts and records
Statutory deposits
Financial statements
Summary of recommendations

A review was also made to ascertain what action was taken by the Company with regard to comments and recommendations contained in the prior report on examination.

This report on examination is confined to financial statements and comments on those matters which involve departures from laws, regulations or rules, or which are deemed to require explanation or description.

2. DESCRIPTION OF COMPANY

The Company was incorporated as Belgian General Insurance Company ("BGIC") under the laws of the State of New York on September 19, 1985, and commenced business on January 8, 1986.

Effective September 30, 1985, the Compagnie Belge d'Assurances Generales Incendie, Accident Et Risques Divers of Belgium, which conducted business in the United States via a United States Branch, entered into a domestication agreement whereby it transferred all of the assets and liabilities of its United States Branch to BGIC, in return for all of the outstanding shares of common stock of BGIC.

On January 8, 1986, American International Group, Inc. ("AIG") purchased all of the issued and outstanding shares of capital stock from Compagnie Belge d'Assurances Generales Incendie, Accident Et Risques Divers of Belgium to become the sole shareholder of BGIC.

On April 22, 1986, the Company's name was changed to American International Insurance Company ("AIIC").

On April 1, 1987, AIG sold its shares of the Company to three of its wholly-owned domestic insurance subsidiaries: 50% was allocated to Commerce and Industry Insurance Company ("CIIC"), 25% allocated to American Home Assurance Company ("American Home") and 25% allocated to AIU Insurance Company ("AIU").

On June 30, 2008, AIU transferred its 25% ownership in the Company through an upstream dividend to its shareholders in proportion to their ownership in AIU. As a result, National Union Fire Insurance Company of Pittsburgh, PA acquired 21% ownership of the Company, The Insurance Company of the State of Pennsylvania acquired 2% ownership of the Company, and AIG Casualty Company acquired 2% ownership of the Company.

Also on June 20, 2008, American Home transferred its 25% ownership in the Company through an upstream dividend to its sole shareholder, AIG Commercial Insurance Group, Inc. Upon receipt of American Home's 25% interest in the Company, AIG Commercial Insurance Group, Inc. contributed its interest as a capital contribution to its wholly-owned subsidiary, CIIC, thereby increasing CIIC's ownership in the Company to 75%.

As a result of these transactions, effective June 30, 2008, the Company was directly owned by CIIC (75%), National Union Fire Insurance Company of Pittsburgh, PA (21%), The Insurance Company of the State of Pennsylvania (2%) and AIG Casualty Company (2%), all indirect wholly-owned subsidiaries of AIG.

The Company and other member companies that comprise the 21st Century PAG were acquired by Farmers Group, Inc. ("FGI"), a subsidiary of Zurich Financial Services Ltd., from AIG, effective July 1, 2009. Subsequently on July 1, 2009, FGI sold the 21st Century PAG entities to Farmers Insurance Exchange ("FIE") (80%), Truck Insurance Exchange ("Truck") (10%) and Fire Insurance Exchange ("Fire") (10%). FGI, doing business as Farmers Underwriters Association, is the Attorney-in-Fact for FIE. Truck Underwriters Association is the Attorney-in-Fact for Truck. Fire Underwriters Association is the Attorney-in-Fact for Fire. FGI owns 100% of Truck Underwriters Association and Fire Underwriters Association. 21st Century PAG is comprised of eighteen insurance companies domiciled in nine states and ten related non-insurance entities.

Effective July 1, 2009, all outstanding shares of the Company are owned 80% by FIE, 10% by Truck, and 10% by Fire.

At December 31, 2009, capital paid in is $5,000,000 consisting of 5,000 shares of common stock at $1,000 par value per share. All authorized shares are issued and outstanding. Gross paid in and contributed surplus was $133,800,000.

Subsequent to the examination date, the Company changed its name to 21st Century North America Insurance Company, which was adopted by the shareholders and the board of directors on

December 4, 2009, and approved by the Department on January 14, 2010, to become effective April 1, 2010.

A. Management

Pursuant to the Company's charter and by-laws, as amended and restated, management of the Company is vested in a board of directors, consisting of not less than thirteen or more than twenty-one members. The board is required to meet at least one time during each calendar year. At December 31, 2009, the board of directors was comprised of the following thirteen members:

Name and Residence	Principal Business Affiliation
Karen Moller Alejnikov Valley Forge, PA	Executive Vice President – Operations, 21st Century Insurance and Financial Services, Inc.
Robin Ken Campaniano Honolulu, HI	Vice Chairman, President & Chief Executive Officer, Farmers Insurance Hawaii, Inc.
Jeffrey John Dailey Los Angeles, CA	Executive Vice President – Personal Lines, Farmers Group, Inc.
Anthony James DeSantis Centerville, DE	Chairman, President & Chief Executive Officer, 21st Century Insurance and Financial Services, Inc.
William Donald Loucks, Jr. Glen Mills, PA	Executive Vice President & Chief Operating Officer, 21st Century Insurance and Financial Services, Inc.
Lisa Shari Mahaffey Baldwin, NY	Claims Counsel, 21st Century Insurance and Financial Services, Inc.
Ronald Gregory Myhan Laguna Beach, CA	Executive Vice President – Finance, Farmers Exchanges
Glenn Alan Pfeil Wilmington, DE	Chief Financial Officer, Executive Vice President & Treasurer, 21st Century Insurance and Financial Services, Inc.
James Anthony Porcari, III Alpharetta, GA	Senior Vice President – Claims, 21st Century Insurance and Financial Services, Inc.
Donald Walter Procopio Aldan, PA	Senior Vice President & Chief Actuary, 21st Century Insurance and Financial Services, Inc.
Bryan Marc Rothenberg Plainview, NY	Managing Attorney, 21st Century Insurance and Financial Services, Inc.

Name and Residence	Principal Business Affiliation
Mhayse Gokul Samalya Topanga, CA	Executive Vice President – Commercial Lines, Farmers Group, Inc.
F. Robert Woudstra Los Angeles, CA	Chief Executive Officer, Farmers Group, Inc.

A review of the minutes of the board of directors' meetings held during the examination period indicated that the meetings were generally well attended and each board member had an acceptable record of attendance.

Section 312(b) of the New York State Insurance Law states in part:

> "A copy of the report shall be furnished by such insurer or other person to each member of its board of directors and each such member shall sign a statement which shall be retained in the insurer's files confirming that such member has received and read such report."

The Company was unable to provide the signed statement from each director on the board of directors that they had received and read the prior report on examination of American International Insurance Company as of December 31, 2006.

It is recommended that the Company obtain and maintain the signed statements from each member of its board of directors confirming that such member has received and read the report on examination pursuant to the provisions of Section 312(b) of the New York Insurance Law**.**

As of December 31, 2009, the principal officers of the Company were as follows:

Name	Title
Anthony J. DeSantis	President & Chief Executive Officer
Glenn A. Pfeil	Chief Financial Officer, Executive Vice President & Treasurer
Esta L. Cain	Senior Vice President, Secretary & General Counsel
Karen M. Alejnikov	Senior Vice President
William D. Loucks, Jr.	Senior Vice President
James A. Porcari, III	Senior Vice President
Donald W. Procopio	Senior Vice President & Chief Actuary

B. Territory and Plan of Operation

As of December 31, 2009, the Company was licensed to write business in thirty-nine states and the District of Columbia. The Company was also approved as an accredited reinsurer in California and New Jersey.

As of the examination date, the Company was authorized to transact the kinds of insurance as defined in the following numbered paragraphs of Section 1113(a) of the New York Insurance Law:

Paragraph	Line of Business
3	Accident and health
4	Fire
5	Miscellaneous property
6	Water damage
7	Burglary and theft
8	Glass
9	Boiler and machinery
10	Elevator
11	Animal
12	Collision
13	Personal injury liability
14	Property damage liability
15	Workers' compensation and employers' liability
16	Fidelity and surety
17	Credit
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine
21	Marine protection and indemnity

The Company is also authorized to transact such workers' compensation insurance as may be incidental to coverages contemplated under paragraphs 20 and 21 of Section 1113(a) of the New York Insurance Law, including insurances described in the Longshoremen's and Harbor Workers' Compensation Act (Public Law No. 803, 69th Congress as amended; 33 USC Section 901 et seq. as amended).

Based upon the lines of business for which the Company is licensed, and the Company's current capital structure, and pursuant to the requirements of Articles 13 and 41 of the New York Insurance Law, the Company is required to maintain a minimum surplus to policyholders in the amount of $5,000,000.

As of December 31, 2009, the Company wrote personal automobile, homeowners, allied lines, inland marine, earthquake and other liability insurance. The Company primarily markets its personal automobile insurance through mass marketing programs of the 21st Century PAG division.

The following schedule shows the direct premiums written by the Company both in total and in New York for the period under examination:

DIRECT PREMIUMS WRITTEN

Calendar Year	New York State	Total Premiums Written	Premiums Written in New York as a Percentage of Total Premiums Written
2007	$102,258,443	$367,791,491	27.80%
2008	$120,521,072	$412,201,037	29.24%
2009	$124,756,737	$485,967,161	25.67%

C. Reinsurance

Assumed Reinsurance

The Company assumed business from affiliates and non-affiliates. The assumed reinsurance from affiliates consists mainly of private passenger auto liability, auto physical damage, homeowners, earthquake and commercial auto liability assumed as a result of the intercompany pooling agreement. The assumed reinsurance from non-affiliates primarily consists of personal lines business assumed from various AIG companies.

Additionally, the Company’s participation in various mandated pools is reflected in its assumed reinsurance activity. The Company utilizes reinsurance accounting as defined in NAIC Accounting Practices and Procedures Manual, Statements of Statutory Accounting Principles (“SSAP”) No. 62 for all of its assumed reinsurance business.

The Company’s assumed reinsurance business has decreased since the last examination.

Intercompany Pooling Agreement

The Company was party to an intercompany pooling agreement, effective January 1, 1996, and as subsequently amended. In connection with the sale of the 21st Century PAG companies to Farmers Insurance Exchange (“FIE”), Truck Insurance Exchange (“Truck”), and Fire Insurance

Exchange ("FIE"), the intercompany pooling agreement was subsequently amended and restated effective June 30, 2009 (the "Amended Agreement").

Pursuant to the terms and conditions of the Amended Agreement, 100% of the net business written by each of the pool members is ceded to the Company, the lead insurer in the 21st Century PAG Personal Lines Pool. The Company will cede and retrocede all liabilities relating to losses with a date of loss prior to July 1, 2009 to the members of the 21st Century PAG Personal Lines Pool based on each pool member's fixed pooling participation percentage. Losses which have a date of loss on and after July 1, 2009 will be ceded to FIE by the Company pursuant to the terms of a 100% quota share reinsurance agreement between the Company and FIE.

At December 31, 2009 the pool members and their applicable pooling participation percentage in the 21st Century PAG Personal Lines Pool were as follows:

Pool Member	State of Domicile	Pooling Percentage
21st Century North America Insurance Company	NY	23.00%
21st Century Centennial Insurance Company	PA	20.00%
21st Century Insurance Company	CA	20.00%
21st Century Premier Insurance Company	PA	10.00%
21st Century Security Insurance Company	PA	8.00%
Farmers Insurance Hawaii, Inc.	HI	4.00%
21st Century Assurance Company	DE	2.00%
21st Century Indemnity Insurance Company	PA	2.00%
21st Century Pacific Insurance Company	CO	2.00%
21st Century Preferred Insurance Company	PA	2.00%
21st Century Pinnacle Insurance Company	NJ	1.75%
21st Century Auto Insurance Company of New Jersey	NJ	1.50%
21st Century Advantage Insurance Company	MN	1.00%
21st Century National Insurance Company	NY	1.00%
21st Century Superior Insurance Company	CA	1.00%
American Pacific Insurance Company, Inc.	HI	0.50%
21st Century Casualty Company	CA	0.25%
21st Century Insurance Company of the Southwest	TX	0.00%

Amended and Restated Personal Lines Division ("PLD") Business Reinsurance and Administration Agreement

Effective June 30, 2009, the Company entered into an Amended and Restated PLD Business Reinsurance and Administration Agreement with various unaffiliated companies, all of which are affiliates of American International Group, Inc. (collectively, the "Ceding Companies"). Pursuant to the terms and conditions of the agreement, each Ceding Company agrees to cede and the Company agrees to assume on an indemnity reinsurance basis, 100% of the policy liabilities associated with the Existing PLD Policies written or assumed by such Ceding Company prior to July 1, 2009.

Each Ceding Company agrees to cede and the Company agrees to assume on an indemnity reinsurance basis, 100% of the policy liabilities associated with New PLD Policies and assigned risk policies written or assumed by each such Ceding Company on or after July 1, 2009.

Ceded Reinsurance

At December 31, 2009, the Company had the following ceded reinsurance programs in effect:

Private Client Group ("PCG") Business Reinsurance and Administration Agreement

Effective June 30, 2009, the Company and other affiliated companies that comprise the 21st Century PAG Personal Lines Pool, entered into a PCG Business Reinsurance and Administration Agreement with National Union Fire Insurance Company of Pittsburgh, PA ("NUFI"), an unaffiliated reinsurer. Under the terms of the agreement, all liabilities relating to PCG policies that were written by the Company and other members of the 21st Century PAG Personal Lines Pool prior to July 1, 2009 were transferred to NUFI. All liabilities relating to PCG business that was assumed by the Company prior to July 1, 2009 were commuted as of June 30, 2009.

In addition, all liabilities relating to new PCG business written by members of the 21st Century PAG Personal Lines Pool on or after July 1, 2009 will be assumed by the Company. In turn, the Company will cede and retrocede all liabilities associated with the new PCG policies written to NUFI.

100% Quota Share Reinsurance Agreement

Effective July 1, 2009, the Company entered into a 100% quota share reinsurance agreement with its parent, Farmers Insurance Exchange ("FIE"). Under the terms of the agreement, the Company agrees to cede and FIE agrees to assume 100% of the net losses of the 21st Century PAG Personal Lines Pool, which have a date of loss on and after July 1, 2009.

Reinsurance agreements with affiliates were reviewed for compliance with Article 15 of the New York Insurance Law. It was noted that all affiliated reinsurance agreements were filed with the Department pursuant to the provisions of Section 1505(d)(2) of the New York Insurance Law.

It is the Company's policy to obtain the appropriate collateral for its cessions to unauthorized reinsurers. Letters of credit obtained by the Company to take credit for cessions to unauthorized reinsurers were reviewed for compliance with Department Regulations 133. No exceptions were noted.

All significant ceded reinsurance agreements in effect as of the examination date were reviewed and found to contain the required clauses, including an insolvency clause meeting the requirements of Section 1308 of the New York Insurance Law.

Examination review of the Schedule F data reported by the Company in its filed annual statement was found to accurately reflect its reinsurance transactions. Additionally, management has represented that all material ceded reinsurance agreements transfer both underwriting and timing risk as set forth in SSAP No. 62. Representations were supported by appropriate risk transfer analyses and an attestation from the Company's chief executive officer pursuant to the NAIC Annual Statement Instructions. Additionally, examination review indicated that the Company was not a party to any finite reinsurance agreements. All ceded reinsurance agreements were accounted for utilizing reinsurance accounting as set forth in paragraphs 18 through 25 of SSAP No. 62.

During the period covered by this examination, the Company commuted various reinsurance agreements where it was a ceding and/or assuming reinsurer. These commutations were neutral to the Company's surplus position.

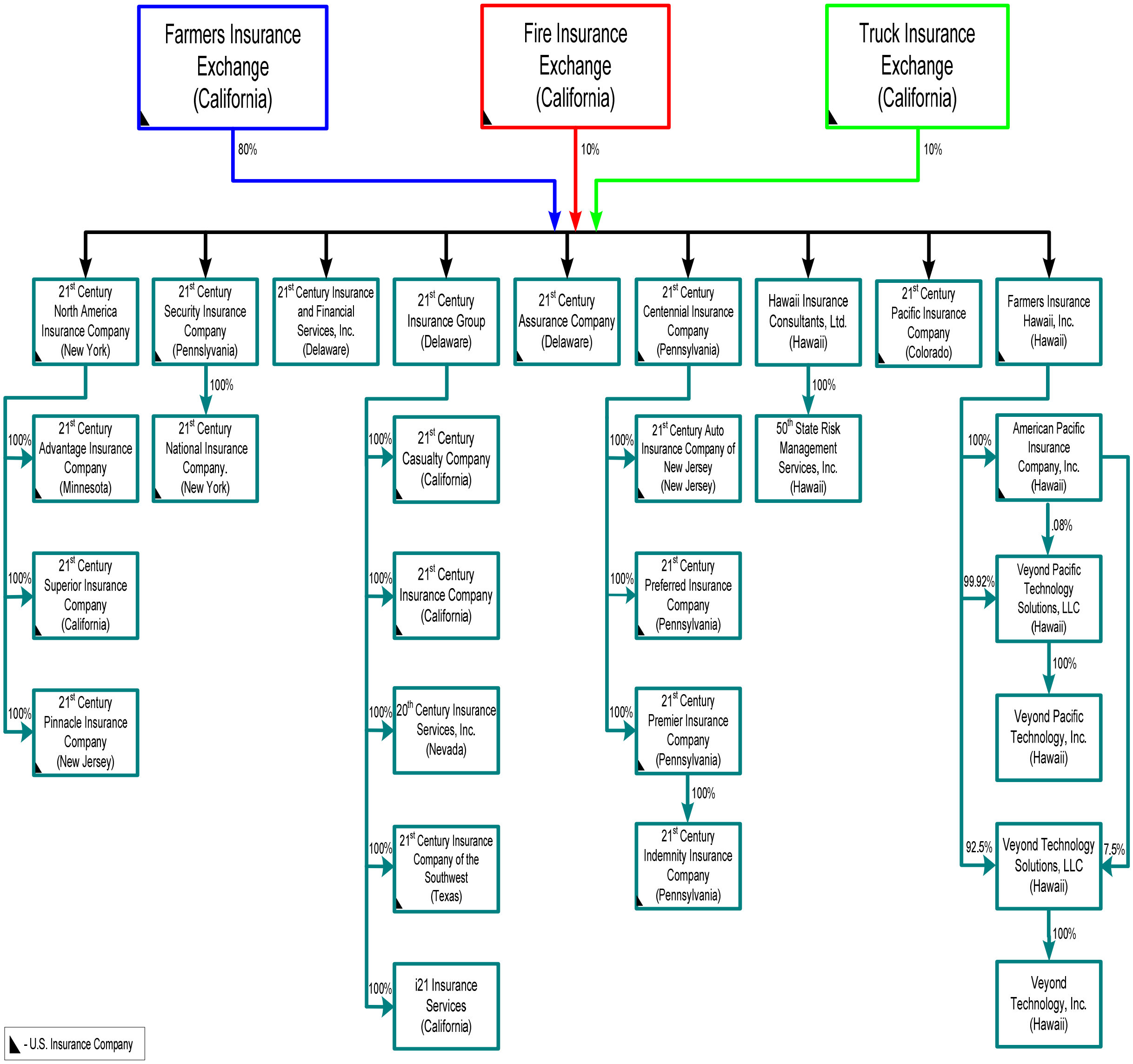
D. Holding Company System

The Company is a member of the 21st Century Personal Auto Group ("21st Century PAG"). The Company and other members of 21st Century PAG were acquired by Farmers Group, Inc. ("FGI"), a subsidiary of Zurich Financial Services Ltd. from American International Group, Inc. ("AIG"), effective July 1, 2009. Subsequently on July 1, 2009, FGI sold the 21st Century PAG entities to Farmers Insurance Exchange ("FIE"), Truck Insurance Exchange ("Truck") and Fire Insurance Exchange ("Fire"). FGI, doing business as Farmers Underwriters Association, is the Attorney-in-Fact for FIE. Truck Underwriters Association is the Attorney-in-Fact for Truck. Fire Underwriters Association is the Attorney-in-Fact for Fire. FGI owns 100% of Truck Underwriters Association and Fire Underwriters Association.

The Company is owned 80% by FIE, 10% by Truck, and 10% by Fire, all California domiciled corporations. FIE has been deemed the ultimate controlling entity.

A review of the holding company registration statements filed with this Department indicated that such filings were complete and filed in a timely manner pursuant to Article 15 of the New York Insurance Law and Department Regulation 52.

The following is an abridged organizational chart of the holding company system at December 31, 2009, which reflects the 21st Century PAG companies' new names as of April 1, 2010:



At December 31, 2009, the Company was a party to the following agreements with other members of its holding company system:

1. <u>Services Agreement</u>

Effective July 1, 2009, the Company entered into a service agreement with its ultimate parent, Farmers Insurance Exchange ("FIE"). Under the terms of this agreement, FIE will provide, or arrange for the provision of services to the Company, including but not limited to: underwriting, claim settlement, reinsurance, legal, communications, advertising, regulatory, financial, general administrative services, and investment management services. The agreement was approved by the Department on July 1, 2009.

2. Tax Sharing Agreement

Effective July 1, 2009, the Company participates in a tax allocation agreement with its ultimate parent, Farmers Insurance Exchange. Pursuant to the provisions of Section 1505(d) of the New York Insurance Law and Department Circular Letter 1979-33, the agreement and any subsequent amendments thereto are required to be submitted to the Department for non-disapproval at least 30 days prior to the effective date. It was noted that the Company did not submit the agreement to the Department until September 23, 2010 and the Department non-disapproved it on January 19, 2011 with an effective date no earlier than November 1, 2010.

It is recommended that the Company adhere to the provisions of Section 1505(d) of the New York Insurance Law and Department Circular Letter 1979-33.

Intercompany Balances

Prior to the acquisition of the Company by FIE, Truck and Fire, the Company received administrative services from 21st Century Insurance and Financial Services, Inc. (formerly AIG Marketing, Inc., hereinafter referred to as "AIGM") pursuant to a Managing General Agent Agreement. Subsequent to the acquisition, there was some activity with AIGM due to the transition time necessary to move certain systems to FIE. A review of the settlements between the Company and AIGM indicated that the Company did not make settlements based on the amount owed to AIGM, but rather made lump sum payments at various times that were not based on the amounts actually owed. At December 31, 2009, the Company had actually paid AIGM more than amount of the services rendered and reported a receivable balance due from AIGM in the amount of approximately $23.0 million. Subsequently, at December 31, 2010, the receivable balance due from AIGM had increased to approximately $50.8 million, which it reported as a not admitted asset. The excess payments to AIGM represent a loan or extension of credit. The amount of the excess payments did not meet the reporting threshold of Section 1505(d) of the New York Insurance Law; however, they are material to the Company's surplus. It is recommended that the Company refrain from making payments to AIGM in excess of the amounts owed for services rendered.

Additionally, it is noted that settlements between the Company and its affiliates for the affiliates' share of the management services and for pooling transactions are not made on a timely basis. At December 31, 2009, the Company reported a liability for "Payable to parent, subsidiaries and affiliates" in the amount of $505.5 million, most of which was not settled until September 2010 when the Company settled balances through June 30, 2010.

Paragraph 6 of SSAP No. 25 states:

> Transactions between related parties must be in the form of a written agreement. The written agreement must provide for timely settlement of amounts owed, with a specified date due. Amounts owed to the reporting entity over ninety days from the written agreement due date shall be nonadmitted, except to the extent this is specifically addressed by other statements of statutory accounting principals (SSAPs). If the due date is not addressed by the written agreement, any uncollected receivable is nonadmitted.

It is recommended that the Company settle its intercompany balances in a timely manner and not admit any amounts over ninety days due pursuant to the provisions of SSAP No. 25.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2009, based upon the results of this examination:

Net premiums written to surplus as regards policyholders	11%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	107% *
Premiums in course of collection to surplus as regards policyholders	13%

The above ratio denoted with an asterisk falls outside the benchmark ranges set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners due to change in pooling percentage.

The underwriting ratios presented below are on an earned/incurred basis and encompass the three-year period covered by this examination:

	Amounts	Ratios
Losses and loss adjustment expenses incurred	$968,211,451	76.91%
Other underwriting expenses incurred	312,729,313	24.84
Net underwriting loss	(22,048,460)	(1.75)
Premiums earned	$1,258,892,304	100.00%

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2009 as determined by this examination and as reported by the Company.

Assets	Assets	Non-Admitted Assets	Net Admitted Assets
Bonds	$ 953,614,754		$ 953,614,754
Common stocks	82,888,567		82,888,567
Cash, cash equivalents and short-term investments	43,718,730		43,718,730
Investment income due and accrued	13,223,022		13,223,022
Uncollected premiums and agents' balances in the course of collection	60,481,413		60,481,413
Deferred premiums, agents' balances and installments booked but deferred and not yet due	241,925,650		241,925,650
Accrued retrospective premiums	782,393		782,393
Amounts recoverable from reinsurers	343,702,377		343,702,377
Current federal and foreign income tax recoverable and interest thereon	2,434,914		2,434,914
Net deferred tax asset	12,402,871	$9,026,387	3,376,484
Receivables from parent, subsidiaries and affiliates	34,191,352		34,191,352
Other receivables	404,669	0	404,669
Total assets	$1,789,770,712	$9,026,387	$1,780,744,325

Liabilities, Surplus and Other Funds

Liabilities		Amount
Losses		$ 209,746,794
Loss adjustment expenses		62,915,435
Commissions payable, contingent commissions and other similar charges		661,690
Other expenses (excluding taxes, licenses and fees)		25,861,729
Taxes, licenses and fees		10,318,132
Advance premium		7,137,670
Ceded reinsurance premiums payable		380,640,923
Remittances and items not allocated		57,354,753
Payable to parent, subsidiaries and affiliates		505,479,620
Reserve for suspense items		59,335,211
Total liabilities		$1,319,451,957
Surplus and Other Funds		
Common capital stock	$ 5,000,000	
Gross paid in and contributed surplus	133,800,000	
Unassigned funds (surplus)	322,492,368	
Surplus as regards policyholders		461,292,368
Total liabilities, surplus and other funds		$1,780,744,325

NOTE: The Internal Revenue Service has completed its audits of the Company's consolidated Federal Income Tax returns through tax year 2002. All material adjustments, if any, made subsequent to the date of examination and arising from said audits, are reflected in the financial statements included in this report. Audits covering tax years 2003 through 2005 are currently under examination. The Internal Revenue Service has not yet begun to audit tax returns covering tax years 2006 through 2009. The examiner is unaware of any potential exposure of the Company to any tax assessment and no liability has been established herein relative to such contingency.

B. Statement of Income

Surplus as regards policyholders increased $103,201,034 during the three-year examination period January 1, 2007, through December 31, 2009, detailed as follows:

Underwriting Income		
Premiums earned		$1,258,892,304
Deductions:		
Losses incurred	$802,309,954	
Loss adjustment expenses incurred	165,901,497	
Other underwriting expenses incurred	312,296,598	
LAD program fee	432,715	
Total underwriting deductions		1,280,940,764
Net underwriting gain or (loss)		$ (22,048,460)
Investment Income		
Net investment income earned	$ 91,171,657	
Net realized capital gains or (losses)	8,811,835	
Net investment gain or (loss)		99,983,492
Other Income		
Net gain or (loss) from agents' or premium balances charged off	$ (17,137,306)	
Finance and service charges not included in premiums	31,244,616	
Loss on retroactive reinsurance	(1,868,724)	
Total other income		12,238,586
Net income after dividends, after capital gains tax and before all federal and foreign income taxes		$ 90,173,618
Federal and foreign income taxes incurred		(4,317,402)
Net income		$ 94,491,020

C. Capital and Surplus Account

	Gains in Surplus	Losses in Surplus	
Surplus as regards policyholders per report on examination as of December 31, 2006			$358,091,334
Net income or (loss)	$ 94,491,020		
Change in net unrealized capital gains or (losses) less capital gains tax	9,132,353		
Change in net deferred income tax		$ 6,928,971	
Change in non-admitted assets		6,155,700	
Change in provision for reinsurance	309,000		
Tax free exchange Viatel Holdings	36		
Prior year adjustment on inter-company payable	12,353,296	0	
Total gains and losses	$116,285,705	$13,084,671	
Net increase (decrease) in surplus			103,201,034
Surplus as regards policyholders per report on examination as of December 31, 2009			$461,292,368

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability of $272,662,229 is the same as the amount reported by the Company as of the examination date. The examination analysis was conducted in accordance with generally accepted actuarial principles and practices and was based on statistical information contained in the Company’s internal records and in its filed annual statement.

5. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination contained eight recommendations as follows (item letters and page numbers refer to that of the prior report):

ITEM		PAGE NO.
A.	Reinsurance	
	It is recommended that the Company re-evaluate the benchmarks referenced in the risk transfer worksheet and advise the Department of the results of this review.	14
	The recommendation is no longer applicable. The Company was acquired by Farmers Insurance Exchange, Truck Insurance Exchange, and Fire Insurance Exchange on July 1, 2009.	
B.	Holding Company System	
	Tax Payment Allocation Agreement	
i.	It is again recommended that the Company revise the tax allocation agreement with AIG to reflect the effective date of this arrangement to one subsequent to the acquisition of the Company by AIG and file the amendment with the Department in accordance with the Department Circular Letter No. 33 (1979).	16
	The recommendation is no longer applicable. The Company was acquired by Farmers Insurance Exchange, Truck Insurance Exchange, and Fire Insurance Exchange on July 1, 2009.	
ii.	It is recommended that the Company settle intercompany federal income tax balances within 30 days of filing of the consolidated federal tax returns in accordance with the Department Circular Letter No. 33 (1979).	16
	The recommendation is no longer applicable. The Company was acquired by Farmers Insurance Exchange, Truck Insurance Exchange, and Fire Insurance Exchange on July 1, 2009.	
	Investment Management Contract	
	It is recommended that the Company amend the investment management contract to reflect the name change of the investment advisor to AIG Global Investment Corporation and to reflect the current fees. It is also recommended that the Company submit the amendment to the Department for non-disapproval in accordance with Section 1505(d)(3) of the New York Insurance Law.	17
	The recommendation is no longer applicable. The Company was acquired by Farmers Insurance Exchange, Truck Insurance Exchange, and Fire Insurance Exchange on July 1, 2009.	

ITEM		PAGE NO.
	Managing General Agent Agreement	
	It is recommended that the Company file all future intercompany reinsurance and service agreements and amendments with the Department in a timely manner in accordance with Article 15 of the New York Insurance Law.	18
	The Company has complied with this recommendation.	
C.	Accounts and Records	
	Record Retention Clause for Independent Auditors' Workpapers	
	It is recommended that the Company require their independent auditors to include the required record retention clause in the engagement letters for future audits in accordance with Part 89.2(c) of New York Department Regulation 118 and Part 243.2(b)(7) of New York Regulation 152.	20
	The Company has complied with this recommendation.	
	Remittances and Items Not Allocated	
	It is recommended that the Company report unapplied cash as a liability in "Remittances and items not allocated" in accordance with the Annual Statement Instructions and SSAP No. 67 of the NAIC Accounting Practices and Procedures Manual.	21
	The Company has complied with this recommendation.	
D.	Risk Management and Internal Control	
	It is recommended that the Company continue to monitor and remediate the control deficiencies as an on-going effort to enhance the control environment.	21
	The Company has complied with this recommendation.	

6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

ITEM			PAGE NO.
A.	Management		
	i.	It is recommended that the Company obtain and maintain the signed statements from each member of its board of directors confirming that such member has received and read the report on examination pursuant to the provisions of Section 312(b) of the New York Insurance Law.	6
B.	Holding Company System		
	i.	It is recommended that the Company adhere to the provisions of Section 1505(d) of the New York Insurance Law and Department Circular Letter 1979-33.	14
	ii.	It is recommended that the Company refrain from making payments to AIGM in excess of the amounts owed for services rendered.	14
	iii.	It is recommended that the Company settle its intercompany balances in a timely manner and not admit any amounts over ninety days due pursuant to the provisions of SSAP No. 25.	15

Respectfully submitted,

_____________/s/___________
Jimmie Newsome
Associate Insurance Examiner

STATE OF NEW YORK)
)ss:
COUNTY OF NEW YORK)

JIMMIE NEWSOME, being duly sworn, deposes and says that the foregoing report, subscribed by him, is true to the best of his knowledge and belief.

_____________/s/___________
Jimmie Newsome

Subscribed and sworn to before me

this_________ day of __________________, 2011.

Appointment No. 30527

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, James J. Wrynn *Superintendent of Insurance of the State of New York, pursuant to the provisions of the Insurance Law, do hereby appoint:*

Jimmie Newsome

as proper person to examine into the affairs of the

21st CENTURY NORTH AMERICA INSURANCE COMPANY

and to make a report to me in writing of the condition of the said

Company

with such other information as he shall deem requisite.

In Witness Whereof, I have hereunto subscribed by the name and affixed the official Seal of this Department, at the City of New York,

this 18th *day of* May, *2010*

STATE OF NEW YORK ★ SUPERINTENDENT OF INSURANCE ★
EXCELSIOR

JAMES J. WRYNN
Superintendent of Insurance