REPORT ON EXAMINATION

OF THE

VIGILANT INSURANCE COMPANY

AS OF

DECEMBER 31, 2006

DATE OF REPORT	DECEMBER 18, 2007
EXAMINER	JOHN CONLEY

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

December 18, 2007

Honorable Eric R. Dinallo
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 22634 dated April 4, 2007 attached hereto, I have made an examination into the condition and affairs of Vigilant Insurance Company as of December 31, 2006, and submit the following report thereon.

Wherever the designations “the Company” or “Vigilant” appear herein without qualification, they should be understood to indicate Vigilant 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 administrative offices located at 15 Mountain View Road, Warren, NJ 07059.

1. SCOPE OF EXAMINATION

The previous examination was conducted as of December 31, 2001. This examination covered the five year period from January 1, 2002 through December 31, 2006. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

The examination comprised a verification of assets and liabilities as of December 31, 2006. The examination included a review of income, disbursements and company records deemed necessary to accomplish such analysis or verification and utilized, to the extent considered appropriate, work performed by the Company's independent certified public accountants ("CPA"). A review or audit was also made of the following items as called for in the Examiners Handbook of the National Association of Insurance Commissioners ("NAIC"):

History of Company
Management and control
Corporate records
Fidelity bond and other insurance
Territory and plan of operation
Growth of Company
Business in force by states
Loss experience
Reinsurance
Accounts and records
Financial statements
Market Conduct Activities

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 on July 17, 1939 under the laws of the State of New York as the Reserve Insurance Company. The Company was organized to write general fire and marine insurance business and began operations on October 18, 1939. The present name was adopted on May 1, 1941. The Company is wholly-owned by Federal Insurance Company ("Federal"), an Indiana domiciled insurer, which in turn is wholly-owned by the Chubb Corporation, a New Jersey domiciled holding corporation.

The Company is a member of the Chubb Group of Insurance Companies ("Chubb Group"). As of December 31, 2006, the Chubb Group consisted of the following members:

Company	State of Domicile
Chubb Custom Insurance Company	Delaware
Chubb Indemnity Insurance Company	New York
Chubb Insurance of New Jersey	New Jersey
Chubb Lloyds Insurance Company of Texas	Texas
Chubb National Insurance Company	Indiana
Executive Risk Indemnity Inc.	Delaware
Executive Risk Specialty Insurance Company	Connecticut
Federal Insurance Company	Indiana
Great Northern Insurance Company	Minnesota
Northwestern Pacific Indemnity Company	Oregon
Pacific Indemnity Company	Wisconsin
Quadrant Insurance Company	Connecticut
Texas Pacific Indemnity Company	Texas
Vigilant Insurance Company	New York

At December 31, 2006, Capital paid in was $4,500,000 consisting of 200,000 shares of common stock at $22.50 par value per share. Gross paid in and contributed surplus was $25,168,845.

A. Management

Pursuant to the Company's charter and by-laws, management of the Company is vested in a board of directors consisting of not less than thirteen nor more than twenty-five members. At December 31, 2006, the board of directors was comprised of the following thirteen members:

Name and Residence	Principal Business Affiliation
Joel David Aronchick Madison, NJ	Senior Vice President, Chubb & Son, a division of Federal Insurance Company
Walter Brian Barnes Annadale, NJ	Senior Vice President & Chief Actuary, Chubb & Son, a division of Federal Insurance Company
Jon Cory Bidwell Pelham, NY	Senior Vice President, Chubb & Son, a division of Federal Insurance Company
Gary Louis Heard Brooklyn, NY	Vice President, Chubb & Son, a division of Federal Insurance Company
Mark Steven James Basking Ridge, NJ	Vice President, Chubb & Son, a division of Federal Insurance Company
William Andrew Macan Yardley, PA	Vice President and Secretary, The Chubb Corporation
George Francis Marts Lloyd Harbor, NY	Retired on 12/31/2006
Harold Lawrence Morrison, Jr. Basking Ridge, NJ	Executive Vice President, Chubb & Son, a division of Federal Insurance Company
Thomas Firouz Motamed Saddle River, NJ	President & Chief Operating Officer, Chubb & Son, a division of Federal Insurance Company
Douglas Alan Nordstrom Cranford, NJ	Senior Vice President and Treasurer, Chubb & Son, a division of Federal Insurance Company
Michael O' Reilly Franklin Lakes, NJ	Executive Vice President, Chubb & Son, a division of Federal Insurance Company
Paul Timothy Pruett New York, NY	Vice President, Chubb & Son, a division of Federal Insurance Company
Henry Bruce Schram Mendham, NJ	Senior Vice President & Chief Accounting Officer, Chubb & Son, a division of Federal Insurance Company

The board of directors met four times for each of the years under examination. 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 has an acceptable record of attendance.

As of December 31, 2006, the principal officers of the Company were as follows:

Name	Title
Thomas Firouz Motamed	President
Walter Brian Barnes	Vice President & Chief Actuary
William Andrew Macan	Vice President & Secretary
Douglas Alan Nordstrom	Vice President & Treasurer

B. Territory and Plan of Operation

As of December 31, 2006, the Company was licensed to transact business in all fifty states, the District of Columbia, and the U.S. Virgin Islands.

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

Paragraph	Line of Business
3	Accident & Health
4	Fire
5	Miscellaneous property damage
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
22	Residual value
26(A)(B)(C)(D)	Gap
27	Prize indemnification
29	Legal services

The Company is also empowered to transact such workers' compensation insurance as may be incident to coverages contemplated under paragraphs 20 and 21 of Section 1113(a) of the New York Insurance Law, including insurances described in the Longshoreman's and Harbor Workers' Compensation Act (Pubic Law No. 803, 69 Congress as amended; 33 USC Section 901 et seq. as amended) and as authorized by Section 4102(c).

Based on 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 $35,000,000.

The following schedule shows the direct premiums written by the Company, the direct premiums written in New York State and the percentage that the New York premiums bear to the countrywide premiums for the period under examination:

DIRECT PREMIUMS WRITTEN (000's)

Calendar Year	New York State	Total Direct Premium	Percentage of Premiums Written in New York State as a percentage of Total Direct Premium
2002	$148,681,220	$573,281,006	25.94%
2003	190,816,153	675,800,343	28.24%
2004	203,760,526	713,882,041	28.54%
2005	205,221,503	721,444,863	28.45%
2006	204,297,484	716,981,371	28.49%

The Company, as part of the Chubb Group is represented by approximately 5,000 independent agents and accepts business on a regular basis from an estimated 500 insurance brokers. Business is also produced through participation in a number of underwriting pools and syndicates. The Chubb Group is a provider of insurance and risk management services, offering a broad range of standard property and liability coverages as well as specialized policies.

C. Reinsurance

The Chubb Reinsurance Pool

The Company and eight other affiliates within the Chubb Group participate in an inter-company pooling arrangement, the Chubb Group Reinsurance Pool ("the Pool"). The inter-company pooling arrangement covers substantially all business with the exception of foreign business and the run-off of an old aircraft voluntary pool. Federal Insurance Company ("Federal") is the lead company with a 68.5% participation in the pool.

The following is a list of the companies within the Pool and their respective participation percentage:

Company	Pool Participation prior to 10/1/06	Pool Participation 10/1/06 and subsequent
Federal Insurance Company	68.0%	68.5%
Pacific Indemnity Company	17.0	17.0
Executive Risk Indemnity, Inc.	8.0	8.0
Great Northern Insurance Company	4.0	4.0
Vigilant Insurance Company	0.5	0.5
Chubb National Insurance Company	0.5	0.5
Chubb Indemnity Insurance Company	0.5	0.5
Chubb Custom Insurance Company	0.5	0.5
Executive Risk Specialty Insurance Company	0.5	0.5
Quadrant Indemnity Company	0.5	0
Total	100.0%	100.0%

Effective October 1, 2006, Quadrant Indemnity Company ("Quadrant") terminated its 0.5% participation in the Pool and now cedes 100% of its business to the Pool. Concurrently, Federal's pool participation percentage was increased from 68% to 68.5%.

The Chubb Group Reinsurance Pool differs from traditional pooling arrangements where participants cede all of their business to a lead reinsurer, who then retrocedes back to each pool participant according to their pool participation percentage. In the Chubb Group Reinsurance Pool, each participating company retains a percentage of its direct business equal to its pool participation percentage and cedes the remainder to the other pool participants. Each participating company also assumes its participation percentage from each of the other pool participants. Although the methodology utilized by the Pool differs from a "traditional" pooling arrangement, the net financial results are identical.

The remaining four Chubb Group members, which are non-participants in the pooling arrangement, cede 100% of their business to one of the other companies within the Chubb Group as follows: Texas Pacific Indemnity Company and Northwestern Pacific Indemnity Company, wholly owned subsidiaries of Pacific Indemnity Company ("Pacific Indemnity"), cede 100% of their business to Pacific Indemnity; Chubb Insurance Company of New Jersey, a wholly-owned subsidiary of Federal, cedes 100% of its business to Federal; and Chubb Lloyds Insurance Company of Texas cedes 100% of its business to Great Northern Insurance Company.

Assumed

In 2006, the Company's assumed premiums represented 6.4% of its total book of business for the year. Almost all of the assumed premiums were from the Company's participation in the Pool. The Company also assumes a relatively minor volume of business as compared to total book of business from non-affiliated companies.

Ceded Reinsurance

Non-Pool Ceded Reinsurance

The Chubb Group purchases reinsurance on a combined group basis and apportions the cost among each participating insurer in proportion to subject premium writings, which generally approximate each company's contributory exposure to reinsured limits. Reinsurance is purchased for each major class of business written except for Surety. Retention levels are limited to approximate pool participation percentages. Specifics regarding each significant program are as follows:

Type of Contract	Cession
Property Property per risk	
First layer (90% subscribed)	\$25,000,000 excess of \$25,000,000 each and every occurrence.
Second layer (100% subscribed)	\$75,000,000 excess of \$50,000,000 each and every occurrence.
Third layer (100% subscribed)	\$125,000,000 excess of \$125,000,000 each and every occurrence
Fourth layer (95% subscribed)	\$200,000,000 excess of \$250,000,000 each and every occurrence.

Type of Contract	Cession
North American Property Catastrophe	
First layer (55.69% subscribed)	$150,000,000 excess of $350,000,000 each and every occurrence.
Second layer (74.92% subscribed)	$400,000,000 excess of $500,000,000 each and every occurrence.
Third layer (77.07% subscribed)	$400,000,000 excess of $900,000,000 each and every occurrence.
Fourth layer (78.82% subscribed)	$350,000,000 excess of $1,300,000,000 each and every occurrence.
Fifth layer (42.15% subscribed)	$400,000,000 excess $1,650,000,000 each and every occurrence.
Casualty	
Casualty Clash	
First layer (42% subscribed)	$25,000,000 excess $75,000,000 each and every event.
Second layer (62.75% subscribed)	$50,000,000 excess $100,000,000 each and every event.
Specialty Lines of Business	
Personal accident and workers compensation	
Per life excess of loss (80% subscribed)	$3,000,000 excess of $2,000,000 ultimate net loss each life, each policy.
Catastrophe excess of loss (100% subscribed)	$5,000,000 excess of $5,000,000 each and every loss occurrence.
First catastrophe excess (100% subscribed)	$15,000,000 excess of $10,000,000 each and every loss occurrence.
Second catastrophe excess (100% subscribed)	$25,000,000 excess of $25,000,000 each and every loss occurrence.
Third catastrophe excess (72% subscribed)	$50,000,000 excess of $50,000,000 each and every loss occurrence
Fourth catastrophe excess (64% subscribed)	$50,000,000 excess of $100,000,000 each and every loss occurrence.
Fifth catastrophe excess (57% subscribed)	$50,000,000 excess of $150,000,000 each and every loss occurrence.

The majority of the reinsurers are authorized companies in New York State.

All 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 2006 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 NAIC Accounting Practices and Procedures Manual, Statements of Statutory Accounting Principles ("SSAP") No. 62. Representations were supported by appropriate risk transfer analyses and an attestation from the Company's Chief Executive Officer pursuant to Department Circular Letter No. 8 (2005). 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 paragraph 17 of SSAP No. 62.

D. Holding Company System

Vigilant Insurance Company is wholly-owned by Federal Insurance Company, an Indiana domiciled insurer. The Company's ultimate parent is the Chubb Corporation, a New Jersey corporation. The Chubb Corporation has filed registration statements pursuant to the provisions of Article 15 of the New York Insurance Law and Department Regulation 52. The following chart shows the Chubb Corporation holding company structure as of December 31, 2006 (ownership is 100% except as noted):

- The Chubb Corporation (NJ)
  - Federal Insurance Company (IN)
    - Vigilant Insurance Company (NY)
      - Chubb de Columbia Compania De Seguros, S.A. (Columbia, % owned see item "A")
    - Pacific Indemnity Company (WI)
      - Texas Pacific Indemnity Company (TX)
      - Northwestern Pacific Indemnity Company (OR)
    - Great Northern Insurance Company (MN)
    - Chubb Insurance Company of New Jersey (NJ)
    - Chubb Custom Insurance Company (DE)
    - Chubb National Insurance Company (IN)
    - Chubb Indemnity Insurance Company (NY)
    - Chubb Argentina de Seguros, S.A. (Argentina, 99.9% owned)
    - Executive Risk Indemnity Inc. (DE)

Quadrant Indemnity Company (CT)
Executive Risk Specialty Insurance Company (CT)
Chubb Insurance Company of Europe, S.A. (Belgium)
Masterpiece Netherlands, B.V. (Netherlands)
Chubb Seguros - Holdings Chile, S.A. (Chile)
Chubb de Chile Compania, S.A. (Chile, % owned see item "B")
Chubb Investment Holdings Inc. (NJ)
Chubb Insurance Company of Australia Ltd. (Australia)
CC Canada Holdings, Ltd. (Canada)
Chubb Insurance Company of Canada (Canada)
Chubb Pacific Underwriting Management Services Pte Ltd. (Singapore)
Chubb de Mexico Compania Afianzadora, S.A. DE C.V. (Mexico)
PT Asuransi Chubb Indonesia (Indonesia, 80% owned)
Chubb de Mexico Compania DE Seguros, S.A. De C.V. (Mexico)
Chubb Financial Solutions (Bermuda) Ltd. (Bermuda)
Chubb Lloyds Insurance Company of Texas (TX)
Chubb Atlantic Indemnity Ltd. (Bermuda)
Chubb Re Bermuda, Ltd. (Bermuda)
DHC Corporation (DE)
Chubb Do Brazil Compania De Seguros (Brazil)
Chubb & Son, Inc. (NY)
Chubb Services Corporation (IL)
Chubb & Son, Inc. (IL)
Chubb Insurance Solutions Agency, Inc. (NJ)
Chubb Underwriting Management Services of Thailand, Ltd. (Thailand)
Chubb Global Financial Services Corporation (DE)
Bhakdku Company, Ltd. (Thailand, 49% owned)
Chubb Insurance Company (Thailand) Ltd. (Thailand, 39.57% owned)
CA Managers (Bermuda) Ltd. (Bermuda)
Harbor Island Indemnity Ltd. (Bermuda)
Chubb Investment Holdings (Hong Kong), Ltd. (HK)
Chubb Insurance Services (Hong Kong), Ltd. (HK)
Chubb Administrative Services (Hong Kong), Ltd. (HK)
HDFC Chubb General Insurance Company, Ltd. (India, 26% owned)
Mountain View Indemnity, Ltd. (Bermuda)
Chubb Computer Services, Inc. (NJ)
Chubb Financial Solutions, Inc. (DE)
Chubb Financial Solutions LLC (DE)
Bellemead Development Corporation (DE)
Chubb Custom Market, Inc. (NJ)
Chubb Investment Services Ltd. (UK)
Chubb Asset Managers, Inc. (DE)
Transit Air Services, Inc. (NJ)
Chubb Capital Corporation (NJ)
Chubb Investment Company of New Jersey, Inc. (NJ)
Chubb do Brasil Servicios e Participacoes, Ltd. (Brazil)
Chubb Equity Managers, Inc. (DE)
Chubb Multinational Manager, Inc. (NY)
Chubb Re, Inc. (NJ)
Chubb Executive Risk, Inc. (DE)

Executive Risk Capital Trust (DE)
Executive Risk Management Associates (CT, 70% owned “C”)
Sullivan Kelly, Inc. (CA)
Sullivan Kelly of Arizona Inc. (AZ)
Caldbcott Holdings LLC (DE)
Chubb Investment Company of Bermuda, Ltd. (Bermuda)
Chubb Investment Partnership LP (Bermuda)

(A) 88.31% Owned by Vigilant
6.13% Owned by Federal
4.22% Owned by Chubb Corp. NJ
0.92% Owned by Pacific Indemnity
0.42% Owned by Great Northern

(B) 98.3% Owned by Chubb Seguros – Holdings Chile SA
1.7% Owned by Federal

(C) 30% Owned by Sullivan Kelly, Inc.

At December 31, 2006, the Company had the following agreements in effect with one or more of its affiliated companies:

Management Agreement

Federal Insurance Company, as the parent of Chubb Group of insurance companies, per agreement dated January 1, 1998, acts as manager for the insurance business of the Vigilant Insurance Company. The agreement was approved by the Department.

Consolidated Federal Income Tax Allocation Agreement

Chubb Corporation, per an agreement dated July 29, 1981 along with a supplemental agreement dated June 20, 1994 and approved by the Department on June 30, 1994, filed a consolidated federal income tax return on behalf of the Company and various affiliates.

The Company included in its filed federal income tax return for 2006 certain affiliates that were not included in its consolidated federal income tax allocation agreement or the addendums thereto. Circular Letter No. 33 (1979) requires any amendment or termination to such agreement be filed with the superintendent 30 days prior to entering into such termination or amendment. Further, Section 1505(d)(4) of the New York Insurance Law provides that any material transaction “between a domestic controlled insurer and any person in its holding company system may not be entered into unless the insurer has notified the superintendent in writing of its intention to enter into any such transaction at least thirty days prior thereto, or such shorter period as he may permit, and he has not disapproved it within such period."

It is recommended that the Company amend its consolidated federal income tax allocation agreement to include all participating parties pursuant to the provisions of Section 1505(d)(4) of the New York Insurance Law.

Agency Agreement

Personal Lines Insurance Brokerage, Inc., per an agreement dated June 1, 1990 and amended December 1, 2001, acts as personal lines agency for the Company and certain affiliates. The agreement was approved by the Department.

E. Accounts and Records

CPA Engagement Letter

The CPA engagement letter dated November 6, 2007 did not meet the following requirements of Part 89.2 of Department Regulation 118, which states that such contract must specify that:

> (a) on or before May 31st, the CPA shall provide an audited financial statement of such insurer and of any subsidiary required by section 307(b)(1) of the Insurance Law together with an opinion on the financial statements of such insurer and any such subsidiary for the prior calendar year and an evaluation of the insurer's and any such subsidiary's accounting procedures and internal control systems as are necessary to the furnishing of the opinion;
>
> (b) any determination by the CPA that the insurer has materially misstated its financial condition as reported to the superintendent or that the insurer does not meet minimum capital and or surplus to policyholder requirements set forth in the Insurance Law shall be given by the CPA, in writing, to the superintendent within 15 calendar days following such determination; and
>
> (c) the workpapers and any communications between the CPA and the insurer relating to the audit of the insurer shall be made available for review by the superintendent at the offices of the insurer, at the Insurance Department or at any other reasonable place designated by the superintendent. The CPA must retain for review such workpapers and communications in accordance with the provisions of Part 243 of this Title (Regulation 152). More specifically, such workpapers and communications must be retained by the CPA for the period specified in sections 243.2(b)(7) and (c) of this Title. For the purposes of this subdivision, the workpapers and communications shall be deemed to have been created on the date the filing required by section 89.2(a) of this Part was submitted to the superintendent."

It is recommended that the Company comply with Department Regulation 118 by entering into future contracts with its independent certified public accountant that contain the requisite provisions.

F Significant Operating Ratios

The following ratios have been computed as of December 31, 2006, based upon the results of this examination:

Net premiums written to surplus as regards policyholders	.31:1
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	105%
Premiums in course of collection to surplus as regards policyholders	42%

These ratios fall within the benchmark ranges of the Insurance Regulatory Information System of the National Association of Insurance Commissioners.

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

	Amounts	Ratios
Losses and loss adjustment expenses incurred	$143,656,908	57.23%
Other underwriting expenses incurred	72,895,822	29.05
Net underwriting gain	34,446,137	13.72
Premiums earned	$250,998,867	100.00%

All of the above ratios fall within the benchmark ranges set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners.

3. FINANCIAL STATEMENTS

A Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2006 as determined by this examination and as reported by the Company:

Assets	Assets	Assets Not Admitted	Net Admitted Assets
Bonds	$149,042,824	$ 0	$149,042,824
Common stocks	57,026,153	21,052,844	35,973,309
Cash and short-term investments	47,648,734	0	47,648,734
Investment income due and accrued	1,421,405	0	1,421,405
Uncollected premiums and agents' balances in the course of collection	58,704,755	5,665,867	53,038,888
Deferred premiums, agents' balances and installments booked but deferred and not yet due	81,668,386	11,025	81,657,361
Amounts recoverable from reinsurers	2,653,860	0	2,653,860
Net deferred tax asset	8,740,735	3,199,188	5,541,547
Equities and deposits in pools and associations	3,927,253	0	3,927,253
State surcharge receivable	1,087,979	0	1,087,979
Amounts receivable under high deductible policies	138,709	1,273	137,436
Prepaid pension benefit cost	1,288,790	1,288,790	0
Total assets	$413,349,583	$31,218,987	$382,130,596

Liabilities, Surplus and Other Funds

Liabilities		
Losses		$ 59,774,133
Loss adjustment expenses		17,832,540
Commissions payable, contingent commissions and other similar charges		613,101
Other expenses (excluding taxes, licenses and fees)		2,059,110
Taxes, licenses and fees (excluding federal and foreign income taxes)		338,218
Current federal and foreign income taxes		1,870,566
Unearned premiums		24,954,631
Policyholders (dividends declared and unpaid)		524,437
Ceded reinsurance premiums payable (net of ceding commissions)		97,564,663
Funds held by company under reinsurance treaties		408,297
Amounts withheld or retained by company for account of others		1,037,838
Provision for reinsurance		1,128,162
Payable to parent, subsidiaries and affiliates		35,454,265
Aggregate write-ins for liabilities		213,084
Total liabilities		$243,773,045
Surplus and Other Funds		
Common capital stock	$ 4,500,000	
Gross paid in and contributed surplus	25,168,845	
Unassigned funds (surplus)	108,688,706	
Surplus as regards policyholders		138,357,551
Total liabilities, surplus and other funds		$382,130,596

NOTE: The Internal Revenue Service has completed its audits of the Company's consolidated Federal Income Tax returns through tax year 2003. 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 2004 and 2005 are currently under examination. The Internal Revenue Service has not yet begun to audit the tax return covering tax year 2006. 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. Underwriting and Investment Exhibit

Surplus as regards policyholders increased $71,710,276 during the 5-year examination period January 1, 2002 through December 31, 2006, detailed as follows:

Statement of Income

Underwriting Income		
Premiums earned		$250,998,867
Deductions:		
Losses incurred	$110,485,444	
Loss adjustment expenses incurred	33,171,464	
Other underwriting expenses incurred	72,833,336	
Aggregate write-ins for underwriting deductions	62,486	
Total underwriting deductions		216,552,730
Net underwriting gain		$ 34,446,137
Investment Income		
Net investment income earned	$ 47,217,185	
Net realized capital gain	(212,769)	
Net investment gain		47,004,416
Other Income (Loss)		
Net gain or (loss) from agents' or premium balances charged off	$ (248,914)	
Aggregate write-ins for miscellaneous income	86,828	
Total other income		(162,086)
Net income before dividends to policyholders and before federal and foreign income taxes		$ 81,288,467
Dividends to policyholders		715,974
Net income after dividends to policyholders but before federal and foreign income taxes		$ 80,572,493
Federal and foreign income taxes incurred		14,430,924
Net income		$ 66,141,569

Capital and Surplus Account

	Gains in Surplus	Losses in Surplus	
Surplus as regards policyholders per report on examination as of December 31, 2001			$ 66,647,275
Net income	$66,141,569	$ 0	
Net unrealized capital gains	23,683,852		
Change in net deferred income tax		29,777	
Change in non-admitted assets		20,570,391	
Change in provision for reinsurance		526,517	
Cumulative effect of changes in accounting principles	1,909,863		
Aggregate write-ins for gains and losses in surplus	1,101,677		
Total gains and losses	$92,836,961	$21,126,685	
Net increase (decrease) in surplus			71,710,276
Surplus as regards policyholders per report on examination as of December 31, 2006			$138,357,551

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of $77,606,673 is the same as reported by the Company as of December 31, 2006. The examination analysis was conducted in accordance with generally accepted actuarial principles and practices and was based on statistical information contained in the Companies internal records and in its filed annual statements.

5. MARKET CONDUCT ACTIVITIES

In the course of this examination, a review was made of the manner in which the Company conducts its business and fulfills its contractual obligations to policyholders and claimants. The review was general in nature and is not to be construed to encompass the more precise scope of a market conduct investigation, which is the responsibility of the Market Conduct Unit of the Property Bureau of this Department.

The general review was directed at practices of the Company in the following areas:

A. Underwriting
B. Claims and complaint handling

No problem areas were encountered.

6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination contained two recommendations as follows (page numbers refer to the prior report):

ITEM		PAGE NO.
A.	Accounts and Records	
	Inter-company Transactions	
	It was recommended that the Company comply with Section 1505(c) of the New York Insurance Law by receiving prior approval from the superintendent for all transactions with affiliates that are five percent or more of the insurer's admitted assets at last year-end.	15
	The Company has complied with this recommendation.	
	High Deductibles	
	It was noted that during the course of this examination the Company failed to report the deductible portion of certain policies as premium and also failed to include such amounts as premium for the purposes of Section 1510 of the New York State Tax Law.	15
	The Company has complied with this recommendation.	

7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

ITEM		PAGE NO.
A.	Consolidated Federal Tax Allocation Agreement	
	It is recommended that the Company amend its consolidated federal tax allocation agreement to include all participating parties pursuant to the provisions of Section 1505(d)(4) of the New York Insurance Law.	13
B.	CPA Contract	
	It is recommended that the Company comply with Department Regulation 118 by entering into contracts with its independent certified public accountant that contain the requisite provisions.	14

Respectfully submitted,

/S/
John Conley
Senior Insurance Examiner

STATE OF NEW YORK)

)SS:

)

COUNTY OF NEW YORK)

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

/S/
John Conley

Subscribed and sworn to before me

this_____ day of ____________, 2008.

Appointment No . 22634

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, Eric R. Dinallo *, Acting Superintendent of Insurance of the State of New York, pursuant to the provisions of the Insurance Law, do hereby appoint:*

John Conley

as proper person to examine into the affairs of the

VIGILANT 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 4th *day of* April, *2007*

ERIC R. DINALLO
Acting Superintendent of Insurance