REPORT ON EXAMINATION

OF THE

SOUTHERN FIRE & CASUALTY COMPANY

MONTGOMERY, ALABAMA

AS OF

SEPTEMBER 30, 2004

THE DEPARTMENT OF COMMERCE AND INSURANCE

STATE OF TENNESSEE

NASHVILLE, TENNESSEE

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Company Examinations

EXHIBIT

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Montgomery, Alabama
July 11, 2005

Honorable Alfred W. Gross
Chair, Financial Condition (E) Committee, NAIC
Commissioner, Virginia Bureau of Insurance
State Corporation Commission
1300 East Main Street
Richmond, Virginia 23219

Honorable Paula A. Flowers
Commissioner
Tennessee Department of Commerce
and Insurance
500 James Robertson Parkway
Nashville, Tennessee 37243

Honorable Walter Bell
Secretary, Southeastern Zone, NAIC
Commissioner
Alabama Department of Insurance
201 Monroe Street
Montgomery, Alabama 36104

Dear Commissioners:

Pursuant to your instructions and in accordance with Tennessee insurance laws, regulations, and resolutions adopted by the National Association Insurance Commissioners (NAIC), a financial examination and market conduct review have been made of the condition and affairs of the

SOUTHERN FIRE & CASUALTY COMPANY
A TENNESSEE CORPORATION
with its Statutory Home Office in
MONTGOMERY, ALABAMA

hereinafter and generally referred to as the "Company", and a report thereon is submitted as follows:

INTRODUCTION

This examination was called by the Commissioner of Commerce and Insurance of the State of Tennessee through the Examination Tracking System of the NAIC and commenced on October 20, 2004. The examination was conducted under the association plan of the NAIC by duly authorized representatives of the Tennessee Department of Commerce and Insurance.

SCOPE OF EXAMINATION

This period covered by this examination is from December 31, 1999, the date of the last previous examination, to the close of business on September 30, 2004, and includes any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

The examination of the financial condition was conducted in accordance with guidelines and procedures contained in the NAIC Financial Condition Examiners Handbook. During the course of examination, assets were verified and valued and liabilities were determined and estimated as of September 30, 2004. The financial condition of the Company and its degree of solvency were thereby established. Test checks, covering selected periods, were made of income and disbursement items and a general review was made of the Company's operations, practices, and compliance with applicable statutes and regulations.

All asset and liability items contained in the financial statement of this report were examined and verified with relative emphasis according to their amount and potential impact on capital and surplus. In addition, an examination of the following areas was made:

Previous Examination Comments and Recommendations
Company History
Charter and Bylaws
Management and Control
Pecuniary Interest
Corporate Records
Affiliated Companies
Fidelity Bonds and Other Insurance
Retirement Plan and Other Employee Benefits
Statutory Deposits
Territory
Plan of Operation
Market Conduct Activities
Reinsurance
Commission Equity
Loss Experience
Accounts and Records
Loss Reserves
Litigation
Subsequent Events
Financial Statement

They are discussed in detail as follows:

PREVIOUS EXAMINATION COMMENTS AND RECOMMENDATIONS

The previous full scope examination of the Company was conducted as of December 31, 1999, by examiners of the Tennessee Department of Commerce and Insurance. The previous examination produced no material changes to the Company's financial statement. The adverse findings and their resolutions are as follows:

- *At December 31, 1999, the Company's bylaws state that a majority of the Executive Committee shall be directors of the Company; however, §48-18-206(a) Tenn. Code Ann.*

states that all members of committees of the Board of Directors which exercise powers of the Board of Directors must be members of the Board of Directors.

The Company amended its bylaws on July 25, 2000 to correct this discrepancy.

- *The Company's bylaws state that the same person may fill any two (2) or more offices; however, §48-18-401(d) Tenn. Code Ann. prohibits the same individual from simultaneously holding the offices of President and Secretary.*

  The Company amended its bylaws on July 25, 2000 to correct this discrepancy.

- *The Company's bylaws state that the Executive Committee shall possess all the powers of the Board of Directors; however, §48-18-206(e) Tenn. Code Ann. lists the powers that a committee may not have.*

  The Company amended its bylaws on July 25, 2000 to correct this discrepancy.

- *The Company's bylaws state that the Executive Committee shall consist of not less than five (5) nor more than eight (8) members and that five (5) members are necessary to constitute a quorum. At December 31, 1999, the Company's Executive Committee hd only three (3) members.*

  The Company amended its bylaws on July 25, 2000 to correct this discrepancy.

- *As of December 31, 1999, the Company had not submitted and received approval to enter into three (3) agreements it had with affiliates, as required by §56-11-206(a)(2)(D) Tenn. Code Ann.*

  The agreements were submitted to the Tennessee Department of Commerce and Insurance for approval prior to completion of the December 31, 1999 examination.

- *The Company Custodial Agreement did not contain sufficient safekeeping and indemnity language to comply with NAIC requirements.*

  A new Custodial Agreement containing the proper language was drafted and executed prior to completion of the December 31, 1999 examination.

- *At December 31, 1999, the Company was reporting a money market account with SouthTrust Bank as a short-term investment on Schedule DA of the annual statement. During the examination of this item, it was determined that this account was actually an interest-bearing deposit account. It was recommended that the Company report this account as a cash account on Schedule E of the annual statement.*

The Company reported the account as a cash account on Schedule E on subsequent financial statements.

- *During the course of the examination, the Company could not provide general ledger records for 1995 and 1996. It was recommended that, at the minimum, the Company maintain all accounts and records until reviewed during the examination process so as to comply with §56-1-411(b)(1) Tenn. Code Ann.*

  The Company appears to maintain the accounts and records necessary to allow for proper examination.

COMPANY HISTORY

The Company was incorporated on June 10, 1953, pursuant to the statutes of the State of Tennessee with the name Southern Title Insurance Company, Inc. The initial authorized capital of the Company was established in the amount of $1,000,000 which consisted of 200,000 shares of common stock with a par value of $5 per share. On June 16, 1953, 20,000 shares of the common capital stock were issued to Southern Fire & Casualty Company, Knoxville, Tennessee. The Company was issued a Certificate of Authority by the Tennessee Department of Insurance and Banking on August 20, 1953.

Effective December 20, 1955, the Company's charter was amended so as to permit, authorize and allow the Company to issue 3,500 shares of $100 par value preferred capital stock. Additionally, the amendment permitted the Company to write other and various forms of insurance. On December 20, 1955, the Company issued 1,000 shares of such preferred capital stock to Southern Fire & Casualty Company, Knoxville, Tennessee.

On January 29, 1965, a special meeting of the Company's stockholders was held whereby the execution of a reinsurance agreement and related contract by and between the Company, Southern Fire & Casualty Company, and Jefferson-Pilot Fire & Casualty Company, Greensboro, North Carolina, was ratified, approved and affirmed by the stockholder. Such reinsurance agreement and related contract provided for (a) Jefferson-Pilot Fire & Casualty Company to reinsure 100% of the outstanding liability of the Company and of Southern Fire & Casualty Company as of midnight November 30, 1964, except as applied to title insurance. Additionally, the reinsurance agreement and related contract provided that Jefferson-Pilot Fire & Casualty Company would reinsure 100% of the gross liability of the Company and of Southern Fire & Casualty Company for business, with the exception of title insurance, effective subsequent to midnight November 30, 1964; and (b) Southern Fire & Casualty Company to sell and transfer the Company to Jefferson-Pilot Fire & Casualty Company on or before March 31, 1965, after Southern Fire & Casualty Company had reinsured 100% of title premiums and had assumed all liabilities of the Company and after the Company had been renamed Southern Fire & Casualty Company.

Pursuant to an amendment to its charter, effective March 31, 1965, the Company's name was changed to Southern Fire & Casualty Company. Also, effective on the same date, the authority to transact the business of title insurance was removed from the Company's Certificate of Authority and the parent corporation of the Company, Southern Fire & Casualty Company, was renamed Southern Title Insurance Company.

In April, 1965 Southern Title Insurance Company, as sole shareholder of the Company, transferred 80,000 shares of $5 par value common capital stock and 1,000 shares of $100 par value preferred capital stock to Jefferson-Pilot Fire & Casualty Company.

On June 3, 1965, the Company issued 20,000 shares of $5 par value common capital stock to Jefferson-Pilot Fire & Casualty Company in exchange for and to cancel the 1,000 shares of outstanding preferred capital stock.

Subsequent issues of common capital stock were made to Jefferson-Pilot Fire & Casualty Company for 80,000 shares and 20,000 shares on June 20, 1967, and October 2, 1978, respectively. The Company authorized the transfer of $82,849 from unassigned funds (surplus) to gross paid in and contributed surplus on October 2, 1978.

Pursuant to an amendment to the Company's charter on March 13, 1987, the par value of the common capital stock was changed from $5 per share to $9 per share. Jefferson-Pilot Fire & Casualty Company contributed $858,861 to the Company's unassigned funds (surplus). On March 20, 1987, the Company transferred $800,000 to common capital stock and $58,861 to gross paid in and contributed surplus from unassigned funds (surplus).

In 1994, the licensing requirements of the State of Virginia increased the required minimum surplus to $3,000,000. In order to maintain the Virginia license, Jefferson-Pilot Fire & Casualty Company contributed $1,500,000 to the Company as paid in surplus.

In April, 1995, the Company and Jefferson-Pilot Fire & Casualty Company were purchased by Southern Guaranty Insurance Company, Montgomery, Alabama. Southern Guaranty Insurance Company is a wholly-owned subsidiary of Winterthur U.S. Holdings, Inc. which in turn is a wholly-owned subsidiary of Winterthur Swiss Insurance Company, Winterthur, Switzerland. Jefferson-Pilot Fire & Casualty Company's name was changed to Southern Pilot Insurance Company. Pursuant to this purchase, the majority of the Company's books and records were moved from Greensboro, North Carolina to Montgomery, Alabama.

At September 30, 2004, the Company's authorized capital stock was 200,000 shares of $9 par value common capital stock, of which 200,000 shares were outstanding. All of the outstanding stock is owned by Southern Pilot Insurance Company, Greensboro, North Carolina.

Growth and Financial History:

The following exhibit depicts certain aspects of the growth and financial history of the Company since the previous examination, according to quarterly and annual statements filed with the

Tennessee Department of Commerce and Insurance.

Year	Gross Premiums Written	Net Premiums Written	Premiums Earned	Losses Incurred	Net Income	Net Admitted Assets	Capital and Surplus
2000	8,733,645	0	0	0	376,819	7,771,499	7,761,499
2001	16,155,854	0	0	0	524,404	8,287,903	8,285,903
2002	27,834,647	0	0	0	905,095	9,192,998	9,190,998
2003	43,791,031	0	0	0	456,976	9,650,974	9,647,974
9/30/2004	34,137,083	0	0	0	186,306	9,834,280	9,834,280

CHARTER AND BYLAWS

Charter:

The original Charter was filed and recorded with the Tennessee Secretary of State on June 10, 1953. The Company was organized for the general purpose of preparing abstracts and titles, guaranteeing titles, and other services incident thereto. Effective December 20, 1995, the charter was amended to permit the Company to sell, write, issue and insure the following kinds, types and classes of insurance: property insurance; vehicle insurance; casualty insurance; liability insurance; burglary and theft insurance; personal property floater insurance; glass insurance; boiler insurance; water damage; collision insurance; malpractice insurance; and surety insurance. In addition, the charter recites other general and specific powers in detail. These are usual in nature and consistent with statute. There were no amendments to the Company's charter during the period covered by this examination.

By-Laws:

The by-laws of the Company are such as those generally found in corporations of this type and contain no unusual provisions. They provide for the regulation of the business and for the conduct of the affairs of the Company, directors and shareholders. The Company amended its bylaws on July 25, 2000 to correct discrepancies that were noted during the course of the previous examination. These changes are discussed more fully under the heading Previous Examination Comments and Recommendations.

MANAGEMENT AND CONTROL

Management:

Management of the Company is vested in a Board of Directors. The number of directors which constitute the Board may consist of not less than five (5) and not more than twenty (20). Directors are elected annually by the stockholders of the Company. Regular annual meetings of the Board of Directors are held on the Thursday before the first Monday in February of each and every year. No notice of the annual meeting shall be necessary. Special meetings may be called

by the Chairman of the Board, or by any two (2) directors, at any time. At least two (2) days' notice of any special meeting shall be given to each director. At all meetings of the Board of Directors a quorum shall consist of a majority of the total number of directors then in office.

The following were serving as directors at September 30, 2004:

Name	Address	Occupation
Roger M. Droste	Montgomery, AL	Executive VP, Company
Laura K. Hinson	Sun Prairie, WI	Chief Financial Officer, Company
Kip J. Kobussen	Sun Prairie, WI	Chief Administrative Officer, Company
Dale L. Kocher	Montgomery, AL	VP, Marketing, Company
Peter G. McPartland	Sun Prairie, WI	President & CEO, Company
Thomas A. Parker	Sun Prairie, WI	Sr. VP & Chief Acctg. Officer, Company
* John R. Pollock	Sun Prairie, WI	Chairman of the Board, Company
Bert C. Shephard	Montgomery, AL	VP, Company
Anne B. Smith	Sun Prairie, WI	Secretary and General Counsel, Company

*Chairman

The officers of the Company are elected annually by the Board of Directors and shall be a Chairman of the Board of Directors, President, Vice Presidents, Secretary, Treasurer, and General Counsel. The Board of Directors may also elect such other officers as they may from time to time deem desirable or necessary.

The following persons were serving as officers at September 30, 2004:

Name	Office Held
John R. Pollock	Chairman
Peter G. McPartland	President and Chief Executive Officer
Anne B. Smith	Secretary
Jennifer J. Vernon	Assistant Secretary
Thomas A. Parker	Senior Vice President and Chief Accounting Officer
E. Kathleen Rowe	Senior Vice President and Chief Information Officer
Anne B. Smith	Senior Vice President and General Counsel
Don D. Suominen	Senior Vice President
William G. Fitzpatrick	Senior Vice President
Richard B. Kalina	Senior Vice President
Walter R. Meriwether	Senior Vice President
Kip J. Kobussen	Vice President and Chief Administrative Officer
Andrew J. Doll	Vice President and Chief Actuary
John R. Schanen	Vice President and Controller
Roger Kaland	Vice President
Roger M. Droste	Executive Vice President
Ben M. Spillers	Regional Vice President

Control:

Primary control of the Company is vested in its shareholders. Annual meetings of the shareholders are to be held on the Thursday before the first Monday in February of each and every year. The sole shareholder of the Company at September 30, 2004, was Southern Pilot Insurance Company. Ultimate control of the company rests with Credit Suisse Group, Zurich, Switzerland.

During the period under examination, the Company did not pay any dividends to its stockholder.

PECUNIARY INTEREST TENN. CODE ANN. §56-3-103

The company has a written conflict of interest policy which includes procedures for disclosing to its Board of Directors any material interest or affiliation on the part of its officers, directors and key employees which conflicts with the person's official duties with the Company. The conflict of interest disclosure forms completed by management during the period under examination were reviewed and no exceptions were noted.

CORPORATE RECORDS

The minutes of the meetings of the Shareholder, the Board of Directors, and Executive Committee held during the period under examination were reviewed and found to be well written and complete as to necessary detail. The minutes appear to adequately approve and support the transactions and events which have transpired during this examination period.

AFFILIATED COMPANIES

The Company is wholly owned by Southern Pilot Insurance Company, which is wholly owned by Southern Guaranty Insurance Company. Southern Guaranty Insurance Company is a wholly-owned subsidiary of Winterthur U.S. Holdings, Inc. A corporate organizational chart can be found on the last page of this report.

The following agreements with affiliates were in effect at September 30, 2004:

Expense Allocation Agreement:

The company entered into an Expense Allocation Agreement with Southern Guaranty Insurance Company, Southern Guaranty Insurance Company of Georgia, and Southern Pilot Insurance Company effective January 1, 1998. Pursuant to the agreement, each party agrees to bear its proportionate share of other underwriting expenses collectively incurred by the parties, based upon the percentage share that each party's direct premiums written bears to total direct premiums written by the parties. Additionally, each party agrees to bear its proportionate share

of unallocated loss adjustment expenses, collectively incurred by the parties, based upon the relationship that each party's direct incurred loss ears to total direct incurred loss of the parties. Settlement of the expense allocations under the agreement are to be settled monthly and are subject to any management agreements between the parties as might be applicable. As noted under the heading Previous Examination Comments and Recommendations, this agreement was submitted to the Tennessee Department of Commerce and Insurance for approval during the course of the previous examination as part of a Form D filing made on June 14, 2000.

Inter-Company Management, Facilities and Services Agreement:

The Company, along with Southern Guaranty Insurance Company, Southern Pilot Insurance Company and Southern Guaranty Insurance Company of Georgia entered into an Inter-Company Management, Facilities and Services Agreement with General Casualty Company of Wisconsin (General Casualty) effective January 1, 2004. Pursuant to the agreement, General Casualty provides the Company those management and administrative personnel, facilities and services reasonably necessary to manage and administer the administrative functions of the Company. General Casualty is paid a management fee based upon a reasonable allocation of the costs incurred in providing such services and in accordance with statutory accounting principles, including Statement of Statutory Accounting Principles (SSAP) 70. This agreement was submitted to the Tennessee Department of Commerce and Insurance for approval as part of a Form D filing on November 25, 2003. The Form D filing was completed on February 11, 2004.

Asset Management and Investment Services Agreement:

The Company entered into an Asset Management and Investment Services Agreement with Winterthur Investment Management Corporation (WIMCO) effective March 9, 2004. Pursuant to the agreement, WIMCO will provide investment and related services in connection with the Company's assets held at Bank of New York. All investment decisions made by WIMCO will be in accordance with the Investment Policy Guidelines adopted by the Company's Board of Directors. The Company pays WIMCO an annual fee based on the total costs and expenses of WIMCO in relation to market value of the Company's invested assets as of December 31 of the prior year. This agreement was submitted to the Tennessee Department of Commerce and Insurance for approval as part of a Form D filing on November 25, 2003. The Form D filing was completed on February 11, 2004.

Consolidated Federal Income Tax Liability Allocation Agreement:

The Company is subject to a tax allocation agreement with Winterthur U.S. Holdings, Inc. (WUSH). The Agreement provides for the allocation and payment of federal income taxes only if WUSH, as a taxpayer, incurs a tax liability. Pursuant to the agreement, WUSH computes a consolidated tax liability and allocates to each of its subsidiaries on the basis of the percentage of the total tax which the tax of each subsidiary, if computed on a separate return, would bear to the total amount of the taxes for all subsidiaries. Each subsidiary shall pay to WUSH the allocated liability no later than thirty (30) days after the filing of the consolidated federal corporate tax return. The Internal Revenue Service gave its approval of the allocation method in the

agreement on October 27, 1989. As noted under the heading Previous Examination Comments and Recommendations, this agreement was submitted to the Tennessee Department of Commerce and Insurance for approval during the course of the previous examination as part of a Form D filing made on June 14, 2000.

The Company also has a reinsurance agreement with its parent. See the Reinsurance section of this report for additional information.

FIDELITY BOND AND OTHER INSURANCE

The Company is a named insured on the following policies issued to Winterthur U.S. Holdings, Inc. and General Casualty Company:

TYPE OF COVERAGE	AMOUNT	COVERAGE
Financial Institution Bond	$10,000,000	Fidelity
	10,000,000	Forgery or Alteration
	10,000,000	Securities
	10,000,000	Computer System
	150,000	Deductible
Property	$97,643,656	Combined Buildings and Business Personal Property
	5,000	Deductible
	15,046,975	EDP Equipment
	250,000	Valuable Papers and Records
Commercial General Liability	$2,000,000	Aggregate
	1,000,000	Each Occurrence
	1,000,000	Personal and Advertising Injury
	1,000,000	Damage to Premises Rented
	5,000	Medical Expense Limit per Person
Insurance Company Professional Liability	$2,000,000	Each Occurrence
	0	Deductible
Employee Benefit Plan Fiduciary Liability	$10,000,000	Aggregate
	50,000	Deductible
Automobile	$1,000,000	Liability
	5,000	Medical Payments
	1,000,000	Uninsured Motorists
	1,000,000	Underinsured Motorists
	Lesser of Actual Value or Cost of Repair	Comprehensive

TYPE OF COVERAGE	AMOUNT	COVERAGE
Workers' Compensation		Statutory Limit
Employer's Liability		
Bodily Injury by Accident	$1,000,000	Each Accident
Bodily Injury by Disease	1,000,000	Each Employee
Bodily Injury by Disease	1,000,000	Policy Limit

The above coverages were issued by companies licensed to transact business in the State of Tennessee. The Company has fidelity coverage in excess of the suggested minimum amount listed in the NAIC Financial Condition Examiners Handbook.

RETIREMENT PLAN AND OTHER EMPLOYEE BENEFITS

The Company has no employees of its own. All employee services are provided by General Casualty Company of Wisconsin pursuant to an Inter-Company Management, Facilities and Services Agreement described in this report under the heading Affiliated Companies.

STATUTORY DEPOSITS

In compliance with statutory requirements, the Company maintained the following deposits at December 31, 2003.

Where Deposited and Description	Par Value	Statement Value	Market Value
DEPOSITS WHICH ARE NOT FOR THE BENEFIT OF ALL POLICYHOLDERS:			
Georgia			
USTN, 7.5%, Due 2/15/05	$ 100,000	101,722	106,906
North Carolina			
USTN, 7.5%, Due 2/15/05	85,000	86,464	90,870
USTN, 3.0%, Due 11/15/07	300,000	311,247	302,625
Mississippi State, 4.46%, Due 11/01/10	30,000	30,000	30,121
South Carolina			
USTN, 7.5%, Due 2/15/05	200,000	203,444	213,812
Virginia			
USTN, 7.5%, Due 2/15/05	100,000	101,722	106,906
Total Deposits NOT for the benefit of all Policyholders	815,000	834,599	851,240

DEPOSITS WHICH ARE FOR THE BENEFIT OF ALL POLICYHOLDERS:

Tennessee			
USTN, 7.5%, Due 2/15/05	265,000	269,563	283,301
Total Deposits Held for the benefit of all Policyholders	265,000	269,563	283,301
Totals	$ 1,080,000	$1,104,162	$1,134,541

These deposits were verified by direct correspondence with each state and/or custodian.

TERRITORY

As of September 30, 2004, the Company was licensed to transact business in nine (9) states. The certificates of authority for the various jurisdictions were inspected and found to be in full force and effect at September 30, 2004. During 2004, the Company wrote direct premium as follows:

State	Direct Premiums Written	Direct Losses Paid	Direct Losses Unpaid
Alabama	$ 408,825	$ 189,660	$ 63,852
Arkansas	42,956	8,637	226,156
Georgia	1,181,165	337,233	598,550
Indiana	119	21,591	40,636
Mississippi	19,290,828	7,914,195	7,076,259
North Carolina	3,831,139	1,296,955	2,876,460
South Carolina	2,914,096	1,419,888	1,793,718
Tennessee	958,167	827,250	3,895,044
Virginia	5,509,788	1,779,963	2,791,078
Total	$34,137,083	$ 13,795,372	$20,426,305

PLAN OF OPERATION

At September 30, 2004, the Company's principal lines of business were Fire, Homeowners Multiple Peril, Commercial Multiple Peril, Workers' Compensation, Auto Liability, and Auto Physical Damage. The Company's business is produced exclusively through independent agents. The independent agents have uniform contracts with the Company which grant binding authority, subject to certain underwriting restrictions. All business is administered by the Company's upstream parent, General Casualty Company of Wisconsin, who utilizes agency billing, direct billing, and payroll deduction for collection of premiums.

MARKET CONDUCT ACTIVITIES

A market conduct review of the Company was made concurrently with the financial condition examination. The following areas were covered by this review:

Advertising:

The Company does not actively advertise and does not maintain an advertising file.

Underwriting:

Principal underwriting functions are performed by the Company's underwriting staff. The Company maintains comprehensive written underwriting guidelines and they regularly monitor the business produced by all agents.

Rates and Policy Forms:

The Company's commercial rates are based on Insurance Services office, Inc. (ISO) loss cost factors with deviations, surcharges and discounts where appropriate. Independent rates, developed from the Company's own statistics and experience, are used for personal automobile and homeowners policies. For workers' compensation policies, the Company uses the rates of the National Council on Compensation Insurance (NCCI). As required by statutes and regulations, rates are filed with the various states in which the Company is licensed. The Company uses ISO policy forms for personal and commercial coverages. NCCI forms are used for workers' compensation policies.

Complaints:

The Company maintains a complaint file for each state in which it does business. Each complaint received is recorded on a complaint log form and forwarded to the appropriate manager for handling. A copy of the complaint log form is filed in the complaint file. A review of complaints made to regulatory authorities, regarding the Company, indicated a conscientious effort by the Company to equitably fulfill its obligations and to resolve policyholder complaints in a timely manner.

Claims:

Claims are handled by employees of General Casualty Company of Wisconsin. Independent adjusters are used to service claims as needed. The Company maintains a claims procedure manual. This manual was reviewed and no exceptions were noted. A sample of open and closed claims reviewed during the examination indicated that claims were being paid in accordance with policy provisions and settlements were promptly made upon receipt of proper evidence of the Company's liability.

Privacy Policy:

The Company has a written privacy policy. It is supplied to its policyholders the first time business is transacted and annually thereafter in compliance with Tenn. Comp. R. & Regs. 0890-1-72.

REINSURANCE

At September 30, 2004, all of the Company's business was ceded to its upstream affiliate, Southern Guaranty Insurance Company. The Company does not assume any business. The reinsurance agreement was reviewed and found to contain the standard provisions for arbitration, insolvency, reporting, errors and omissions, taxes and termination. The agreement was approved by the Tennessee Department of Commerce and Insurance on March 1, 2000. The following is a summary of the ceded reinsurance agreement in effect as of September 30, 2004:

Type:	Quota Share
Reinsurer:	Southern Guaranty Insurance Company
Term:	Continuous contract, effective January 1, 2000
Premium:	100% of subject premium
Commission:	All expenses on business reinsured
Coverage:	The reinsurer is liable for 100% of the Company's gross liability

COMMISSION EQUITY

The Company does not receive a net ceding commission on business ceded under the terms of the Quota Share Reinsurance Agreement in effect at September 30, 2004. The Company receives an amount equal to its acquisition and general expenses.

LOSS EXPERIENCE

The loss experience of the Company for the period under examination, as reported in its annual statements filed with the Department of Commerce and Insurance, is as follows:

Year	Losses and LAE Incurred	Premiums Earned	Loss Ratio
2000	3,157,272	6,845,662	46.1%
2001	8,532,230	12,956,589	65.8%
2002	18,811,066	21,866,069	86.0%

2003	18,414,595	36,480,493	50.5%
9/30/2004	16,149,402	33,814,790	47.8%
Total	65,064,565	111,963,603	58.1%

LITIGATION

From the examination data made available, it appears that the only matters of law in which the Company was involved, as of September 30, 2004, were those arising out of the normal course of business. The Company has no agreements, commitments, obligations or pending matters of a contingent nature which would adversely affect its financial condition.

ACCOUNTS AND RECORDS

The primary location of the Company's books and records is One General Drive, Sun Prairie, Wisconsin. Some of the Company's records continue to be maintained at its statutory home office in Montgomery, Alabama.

During the course of the examination, accounts were verified and records reviewed using various tests and procedures deemed necessary to establish values for assets and liabilities appearing in the Company's annual statements. Test checks for selected periods were made of premium receipts, investment income, including interest due and accrued, and disbursements, including claim payments, to the extent deemed necessary. Overall, the accounting records and supporting data conform to generally accepted insurance accounting practices and appear to properly reflect the operations during the period under examination and the status of the Company at the date of examination.

The Company's securities are held at Bank of New York, under a Custody Agreement dated January 4, 2004. This agreement was reviewed and appears to contain the necessary safeguards and controls prescribed by the NAIC Examiners Handbook and Tenn. Comp. R. & Regs. 0780-1-46-.04.

An audit of the Company is conducted annually by an independent accounting firm.

The Company is in compliance with the NAIC's Risk-Based Capital requirements.

LOSS RESERVES

Mary Frances Miller, FCAS, MAAA, of Select Actuarial Services evaluated the gross and net reserves for unpaid losses and adjustment expenses for the Company as of December 31, 2003. This review noted that the Company writes a broad spectrum of personal and commercial lines, which are 100% reinsured by Southern Guaranty Insurance Company. Southern Guaranty

Insurance Company has similar reinsurance agreements with the other members of the Southern Guaranty Group (the Group), which includes Southern Guaranty Insurance Company of Georgia and Southern Pilot Insurance Company. The Company's gross reserve is based on an allocation of the Group's outstanding liabilities. A detailed analysis of the Group's outstanding liabilities, net of amounts reinsured outside the Group, plus adjustments from Group net loss reserves to Group gross loss reserves was performed and serves as the basis for the actuary's conclusions.

Consistent with the analysis performed by Milliman, USA in preparation of the actuarial opinion filed with the annual statement, Select Actuarial Services based its detailed analysis on data evaluated as of November 30, 2003. It is believed that indicated outstanding losses as of November 30, 2003, are a reasonable estimate of outstanding losses as of December 31, 2003. Also consistent with the Milliman analysis, Select Actuarial Services confined its analysis of Group experience to the eight largest lines, which comprise 95% of the total reserve.

Select Actuarial Service's conclusions are summarized as follows:

- Because of the group reinsurance arrangement, the Company's net liability for outstanding losses and loss adjustment expenses is $0.
- The Group's reserve for net incurred but not reported (IBNR) losses and defense and cost containment expenses as of November 30, 2003 of $25,582,000 is below a range of reasonable estimates of Group IBNR, which was calculated as a range from $29,000,000 to $42,000,000. The Group's IBNR reserve for direct and assumed losses and defense and cost containment expenses as of November 30, 2003 of $29,482,000 is below a range of reasonable estimates from $32,000,000 to $46,000,000.
- Nevertheless, the Company's reserve for outstanding losses and adjustment expenses as of December 30, 2003, $20,829,000, is a reasonable estimate, falling within the calculated range of estimates from $20,000,000 to $24,000,000.

The Company's direct and assumed reserve falls toward the low end of a range of reasonable estimates, indicating a potential for material adverse deviation.

SUBSEQUENT EVENTS

On November 30, 2004, Southern Pilot Insurance Company filed a request with the North Carolina Department of Insurance to pay an extraordinary dividend to its parent, Southern Guaranty Insurance Company, in the form of 100% of the common stock of their investment in the Company. The North Carolina Department of Insurance approved this request on January 28, 2005.

Effective March 31, 2005, the Company changed its domicile from Tennessee to Wisconsin.

FINANCIAL STATEMENT

There follows a statement of assets, liabilities and statement of income at September 30, 2004, together with a reconciliation of capital and surplus for the period under review, as established by this examination:

ASSETS

	Assets	Assets Not Admitted	Net Admitted Assets
Bonds	$8,150,317	$ 0	$8,150,317
Cash and short-term investments	1,558,219	0	1,558,219
Investment income due and accrued	116,956	0	116,956
Current federal income tax recoverable	8,788	0	8,788
Totals	**$9,834,280**	**$ 0**	**$ 9,834,280**

LIABILITIES, SURPLUS, AND OTHER FUNDS

Total Liabilities	**$ 0**
Common capital stock	1,800,000
Gross paid in and contributed surplus	2,558,861
Unassigned funds (surplus)	5,475,419
Surplus as regards policyholders	9,834,280
Totals	**$ 9,834,280**

STATEMENT OF INCOME

Underwriting Income	
Premiums earned:	
Direct	$33,814,790
Ceded	33,814,790
Net	0
DEDUCTIONS:	
Losses incurred:	
Direct	16,149,402
Ceded	16,149,402
Net	0
Net underwriting gain (loss)	0
Investment Income	
Net investment income earned	208,632
Net realized capital gains or (losses)	(33,113)
Net investment gain or (loss)	175,519
Net income before federal income taxes	175,519
Federal and foreign income taxes incurred	(10,787)
Net Income	$ 186,306

RECONCILIATION OF CAPITAL AND SURPLUS FOR THE PERIOD UNDER EXAMINATION

Capital and surplus, December 31, 1999	**$ 7,384,680**
Net income	376,819
Capital and surplus, December 31, 2000	**7,761,499**
Net income	524,404
Capital and surplus, December 31, 2001	**8,285,903**
Net income	905,095
Capital and surplus, December 31, 2002	**9,190,998**
Net income	456,976
Capital and surplus, December 31, 2003	**9,647,974**
Net income	186,306
Capital and surplus, September 30, 2004	**$ 9,834,280**

ANALYSIS OF CHANGES IN FINANCIAL STATEMENT AND COMMENTS RESULTING FROM EXAMINATION

Although minor differences in various items were noted during the course of the examination, none were considered to produce a material effect on surplus, either singly or in the aggregate.

COMMENTS AND RECOMMENDATIONS

Comments:

The Company is 100% reinsured by Southern Guaranty Insurance Company. Southern Guaranty Insurance Company has similar reinsurance agreements with the other members of the Southern Guaranty Group (the Group), which includes Southern Guaranty Insurance Company of Georgia and Southern Pilot Insurance Company. The Company's gross reserve is based on an allocation of the Group's outstanding liabilities. It was found during the actuarial review conducted by Select Actuarial Services as part of the examination that the Group's reserve for net IBNR losses and defense and cost containment expenses was below a range of reasonable estimates and that the Group's IBNR reserve for direct and assumed losses and defense and cost containment was also below a range of reasonable estimates.

The Company's reserve for outstanding losses and loss adjustment expenses of $20,829,000 was found to be a reasonable estimate, falling within the calculated range of estimates from $20,000,000 to $24,000,000.

It is noted that although the Company's direct and assumed loss reserve falls within the range of reasonable estimates, it is at the low end of the range, indicating a significant potential for material adverse deviation.

CONCLUSION

Insurance examination practices and procedures, as promulgated by the National Association of Insurance Commissioners, have been followed in connection with the verification and valuation of assets and the determination of liabilities of Southern Fire & Casualty Company, a Tennessee Corporation with administrative offices in Montgomery, Alabama.

In such manner, it was determined that, as of September 30, 2004, the Company had admitted assets of $9,834,280 and liabilities, exclusive of capital, of $0. Thus, there existed for the additional protection of the policyholders, the amount of $9,834,280 in the form of paid-up capital, gross paid-in and contributed surplus and unassigned funds (surplus).

The courteous cooperation of the officers and employees of the Company extended during the course of the examination is hereby acknowledged.

Respectfully submitted,

Rhonda Bowling-Black

Rhonda Bowling-Black, CFE
Examiner-in-Charge
State of Tennessee
Southeastern Zone, NAIC

B. K. Shah

Bhavna Shah
Insurance Examiner
State of Tennessee
Southeastern Zone, NAIC

AFFIDAVIT

The undersigned deposes and says that she has duly executed the attached examination report of Southern Fire & Casualty Company dated July 11, 2005, and made as of September 30, 2004, on behalf of the Tennessee Department of Commerce and Insurance. Deponent further says she is familiar with such instrument and the contents thereof, and that the facts therein set forth are true to the best of her knowledge, information and belief.

Rhonda Bowling-Black

Rhonda Bowling-Black, CFE
Insurance Examiner
State of Tennessee
Southeastern Zone, NAIC

Subscribed and sworn to before me

this 12th day of

July, 2005

Notary Helen H. Dorsey

County Davidson

State Tennessee

Commission Expires 03/25/2006

ORGANIZATIONAL CHART

Credit Suisse Group - Switzerland
- **100% Winterthur Swiss Insurance Company - Switzerland**
  - **100% Winterthur US Holdings, Inc. -- DE**
    - 100% Republic Financial Services, Inc. -- TX
      - 100% Republic Financial Services, Inc. -- NV
    - **100% Southern Guaranty Insurance Company -- AL -- NAIC # 19178**
      - 100% Southern Guaranty Insurance Company of Georgia -- GA -- NAIC # 40762
      - **100% Southern Pilot Insurance Company -- NC -- NAIC # 22861**
        - **100% Southern Fire & Casualty Company -- TN -- NAIC # 22888**
    - 100% General Casualty Company of Wisconsin -- WI -- NAIC # 24414
      - 100% General Casualty Company of Illinois -- IL -- NAIC # 18821
      - 100% Regent Insurance Company -- WI -- NAIC # 24449
      - 100% Hoosier Insurance Company -- IN -- NAIC # 27570
      - 100% Blue Ridge Insurance Company -- WI -- NAIC # 24503
      - 100% Blue Ridge Indemnity Company -- WI -- NAIC # 40754
      - 100% MassWest Insurance Company -- WI -- NAIC # 34100
    - 100% Winterthur North America, Inc. -- WI
    - 100% Winterthur Investment Management Corporation -- DE
    - 100% Unigard, Inc. -- WA
      - 100% Unigard Insurance Company -- WA -- NAIC # 25747
        - 100% Unigard IndemnityCompany -- WA -- NAIC # 25798
        - 100% National Merit Insurance Company -- WA -- NAIC # 39004
        - 100% Unigard Pacific Insurance Company -- WA -- NAIC # 11096
    - 100% Winterthur US Fund, Inc. -- DE
      - 100% Winterthur US Fund LP I -- DE
      - 100% Winterthur US Fund LP II -- DE

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Dept. Of Commerce & Insurance
Company Examinations

July 22, 2005

Mr. Don Spann
Insurance Examination Director
State of Tennessee – Department of Commerce and Insurance
500 James Robertson Parkway
Nashville, TN 37243

Re: Financial Examination of Southern Fire and Casualty Company

Dear Mr. Spann:

We have reviewed the Examination Report of Southern Fire and Casualty Company made as of September 30, 2004 and received by our office on July 18th, 2005. There are a few comments we have regarding amounts disclosed in the report.

Page 9 of the report, under the Expense Allocation Agreement, states "...based upon the relationship that each party's direct incurred loss ***ears*** to total direct incurred loss of the parties." The word ears should be changed to bears.

On page 12 of the report, under the Territory section, the amounts disclosed as Direct Losses Unpaid do not total up correctly. This is due to the amount of unpaid losses reported for Virginia of $2,791,078 being an incorrect amount. This amount should be $3,855,630, according to the 2004 Annual Statement. If this amount is changed, the total of $20,426,305 will be accurate and this will equal the total reported in the 2004 Annual Statement. We request this change be made to the examination report.

On page 14 of the report, under the Loss Experience section, the amount disclosed as Losses and LAE Incurred in 2000 of $3,157,272 is incorrect. According to the 2000 Annual Statement, this amount was $3,119,272, a difference of $38,000 from the examination report. We request this change be made to the report.

Finally, we have some comments on the Loss Reserves section of the examination report, specifically on page 16. The examination report states "The Group's reserve for net incurred but not reported (IBNR) losses and defense and cost containment expenses as of November 30, 2003 of $25,582,000 is below a range of reasonable estimates of Group IBNR, which was calculated as a range from $29,000,000 to $42,000,000". The $25,582,000 was the reported amount as of December 31, 2003, not November 30, 2003. Exhibit 1 of the analysis performed by Milliman, USA, indicates a reporting date of December 31, 2003. Milliman's baseline projection of IBNR loss and ALAE contained within Exhibit 1 was $27,809,075. Assuming a range of plus or minus ten percent, consistent with the Milliman study, develops a range of $25,028,734 to $30,590,676. The Group reported amount of $25,582,000 falls within this range.

EXHIBIT
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Also on page 16, the examination report states "The Group's IBNR reserve for direct and assumed losses and defense and cost containment expenses as of November 30, 2003 of $29,482,000 is below a range of reasonable estimates from $32,000,000 to $46,000,000". We are unable to determine the source of the Group's reported amount of $29,482,000 disclosed in the examination report. Can you provide us the support for this reported amount? Our records show total direct and assumed case IBNR of $19,006,000 and direct and assumed defense and cost containment IBNR of $9,476,000 totaling $28,482,000. These amounts were taken from the Group's 2003 Schedule P Part 1 Summary, columns 15 and 19. Here again, the appropriate reporting date would be December 31, 2003, not November 30, 2003.

These are the only comments we have on the examination report. We are in agreement with the comments and figures presented, with the exception of the above sections. Please send us an updated report at your earliest convenience. If you have any questions, please contact me at (608) 825 – 5718 or mark.waterman@win-na.com.

Sincerely,

Mark Waterman
Financial Reporting Manager

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