REPORT OF EXAMINATION

OF THE

NATIONAL AMERICAN INSURANCE

COMPANY OF CALIFORNIA

AS OF

DECEMBER 31, 2019

Insurance Commissioner

FILED ON May 20, 2021

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Los Angeles, California
March 31, 2021

Honorable Ricardo Lara
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

NATIONAL AMERICAN INSURANCE COMPANY OF CALIFORNIA

(hereinafter also referred to as the Company). Its home office is located at 3838 Camino Del Rio North, Suite 305 San Diego, CA 92108.

SCOPE OF EXAMINATION

We have performed our multi-state examination of the Company. The previous examination of the Company was as of December 31, 2014. This examination covered the period from January 1, 2015 through December 31, 2019.

The examination was conducted in accordance with the National Association of Insurance Commissioners Financial Condition Examiners Handbook ("Handbook"). The Handbook requires the planning and performance of the examination to evaluate the Company's financial condition, assess corporate governance, identify current and prospective risks, and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination, an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

This examination report includes findings of fact and general information about the Company and its financial condition. There might be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), were not included within the examination report but separately communicated to other regulators and/or the Company.

This examination was performed concurrently with the Company's subsidiary, Danielson National Insurance Company.

COMPANY HISTORY

The Company was incorporated in the State of California on October 10, 1966.

Effective March 1, 2015, Danielson Indemnity Company, the Company's former direct parent, was merged into Alea Holdings US Company ("AHUSCO") which is ultimately controlled by Catalina Holdings (Bermuda) Ltd. ("Catalina").

Effective October 10, 2018, Catalina, the former ultimate parent of the Company was acquired by Apollo Global Management, Inc., and the individuals Leon Black, Joshua Harris, and Marc Rowan. The transaction was approved by the District of Columbia Department of Insurance, Securities and Banking.

Capitalization

The Company has 30,000 shares authorized and 13,000 shares issued and outstanding, with a par value of $200 per share as of December 31, 2019. All shares are owned by AHUSCO, the direct parent of the Company.

Dividends

On October 10, 2016, the California Department of Insurance ("CDI") approved an extraordinary cash dividend of $5,000,000 from the Company to AHUSCO. The dividend was paid on October 25, 2016.

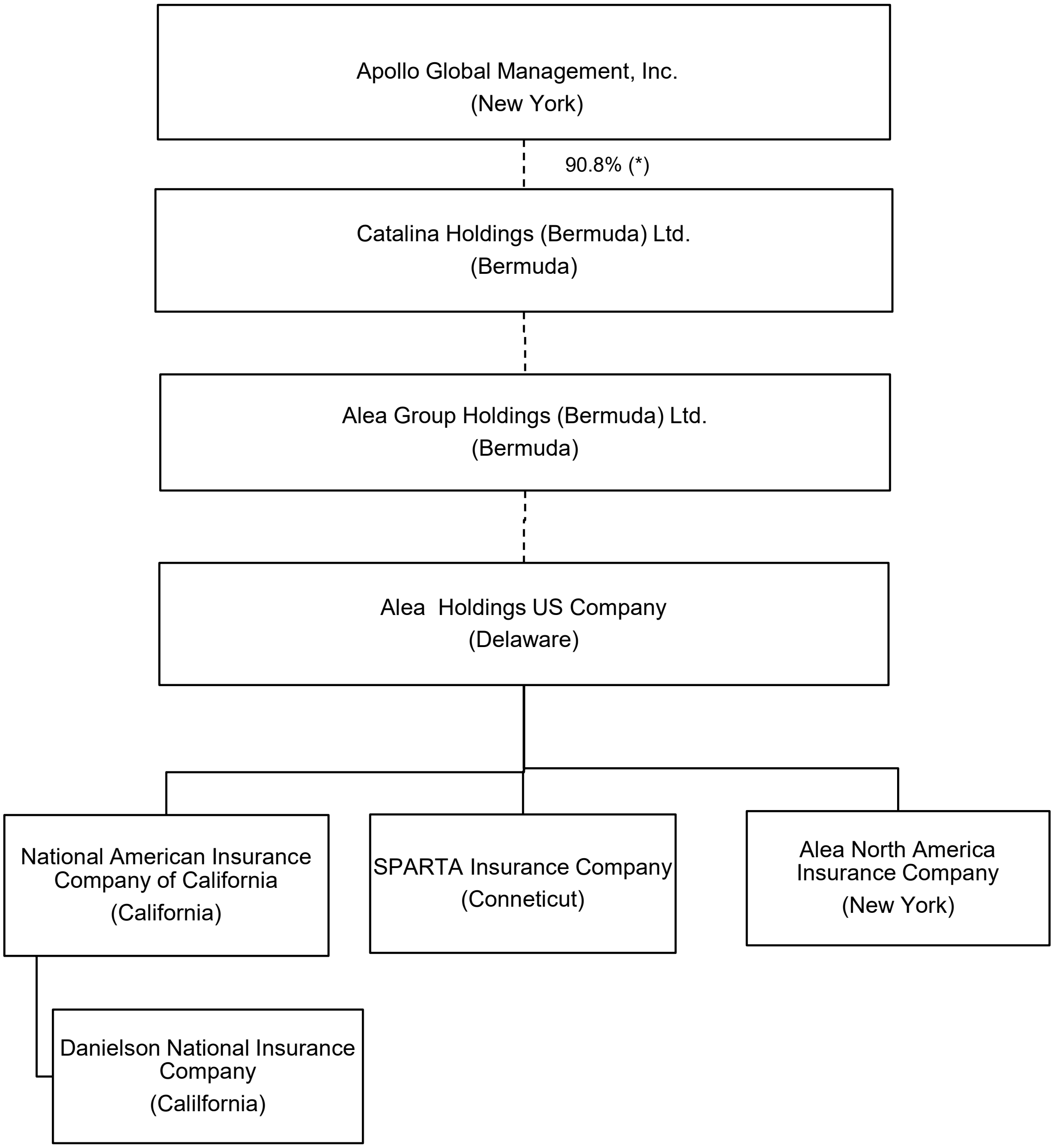
On September 10, 2018, the CDI approved a $1,500,000 extraordinary cash dividend to be paid from its subsidiary, Danielson National Insurance Company, to the Company. It was paid on September 24, 2018.

MANAGEMENT AND CONTROL

The Company is a wholly-owned subsidiary of Alea Holdings US Company ("AHUSCO"), a Delaware intermediate holding company. AHUSCO is indirectly owned by Catalina, which is ultimately owned by Apollo Global Management, Inc. ("AGM"), a Delaware corporation, with controlling individuals: Mr. Leon Black, Mr. Joshua Harris, and Mr. Marc Rowan. AGM is a publicly traded company, as its securities are traded on the New York Stock Exchange.

The Company is a member of an insurance holding company system and the ultimate parent is AGM, with controlling individuals: Mr. Leon Black (33.33%), Mr. Joshua Harris (33.33%), and Mr. Marc Rowan (33.33%).

The following abridged organizational chart depicts the Company's relationship within the holding company system (all ownership is 100% unless otherwise indicated):



Note: The dotted line means that there are other entities in-between.

(*) The remaining 5.66% and 3.54% are owned by RenaissanceRe Holdings Limited and the founding executives of Catalina Holdings (Bermuda) Ltd., respectively.

The three members of the board of directors, who are elected annually, manage the business and affairs of the Company. Following are members of the board and principal officers of the Company serving at December 31, 2019:

Directors

Name and Location	Principal Business Affiliation
Stephen Arthur Eisenmann New York, New York	Chief Executive Officer, President, and Vice President of Claims National American Insurance Company of California
Christopher John Fleming Hamilton, Bermuda	Director National American Insurance Company of California
Gerald Sidney Haase New York, New York	Chairman of the Board and Chief Operating Officer Catalina Holdings (Bermuda) Ltd.

Principal Officers

Stephen Arthur Eisenmann	Chief Executive Officer, President, and Vice President of Claims
Tracey Ann Price	Senior Vice President and Chief Financial Officer
Amy Beth Gallent	General Counsel and Secretary
Peter Louis Harnick	Deputy Chief Investment Officer
Kevin Michael Grant	Chief Claim Officer
Christopher Kirpalani	Chief Information Security Officer

Management Agreements

Administrative Service Agreement: Effective November 14, 2014, the Company entered into an Administrative Service Agreement with its parent company, AHUSCO, and other certain affiliates.

The purpose of the agreement is to allow affiliates to provide and receive services from each other in order to coordinate and integrate administrative functions. The agreement was approved by the California Department of Insurance ("CDI") on December 29, 2014.

Effective March 11, 2015, the Company updated the above-mentioned Administrative Services Agreement with other affiliated parties in the United States. The updated agreement included, but was not limited to the following services: claims, policies, the collection of funds, accounting and preparation of financial reports, administration, systems, actuarial, investments, and legal. The updated agreement was reviewed by CDI with no objections. During 2015, 2016, 2017, 2018, and 2019 years, and under the terms of the agreement, the net fees paid and payments received between the Company and affiliates were $14,805, $80,379, $106,884, ($10,962), and $55,150, respectively.

Tax Allocation Agreement: Effective November 14, 2014, the Company entered into a Tax Allocation Agreement with AHUSCO. Under this Tax Allocation Agreement, AHUSCO acts as an agent for the affiliates with respect to all matters related to consolidated tax returns and refund claims. Allocation of tax liability of each company shall not exceed the amount that it would have incurred as a separate filing corporation. The CDI issued its notice of non-disapproval of the agreement on December 15, 2014. During the examination period, the Company paid $0 for Federal Income Tax.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2019, the Company was licensed to transact multiple lines of property and casualty insurance in the following states:

California	Arizona	Florida	Oregon
Missouri	Hawaii	Idaho	Texas
Nebraska	Kansas	Montana	Utah
Nevada	Washington		

The Company’s operations consist of three principal segments currently under run off: 1) private passenger automobile, 2) surety, and 3) legacy run off lines consisting of workers’ compensation and other liability comprising of asbestos and environmental exposures.

Effective July 2012, the Company ceased writing business except for renewal of certain automobile policies as required by California law. The premiums written as of December 31, 2019 were immaterial.

REINSURANCE

Intercompany Pooling Reinsurance Agreement

From January 1, 2006 to December 31, 2019, the Company has participated in an Inter-company Pooling and Reinsurance Agreement with its wholly-owned subsidiary, Danielson National Insurance Company, for all the business lines. Premiums and losses are allocated to the Company based on its assigned percentage of 50/50 to the pool.

Assumed

The Company did not have any assumed reinsurance contracts in-force during the examination period.

Ceded

The Company did not have any ceded reinsurance contracts in-force during the examination period.

Effective June 10, 1987, the Company entered into an excess of loss reinsurance arrangement with General Reinsurance Corporation ("General Re") , an authorized U.S. unaffiliated reinsurer, for casualty and workers' compensation policies. In 2001, the Company ceased writing its workers' compensation line of business. As of the examination date, and under this excess of loss arrangement, the Company recorded total reinsurance recoverable from General Re of $6 million, which represented 110% of its policyholder surplus.

FINANCIAL STATEMENTS

The following statements are based on the statutory financial statements filed by the Company with the California Department of Insurance and present the financial condition of the Company for the period ending December 31, 2019. The accompanying comments to the amounts reported in the annual statements should be considered an integral part of the financial statements. There were no adjustments made to the statutory financial statements filed by the Company.

Statement of Financial Condition as of December 31, 2019

Underwriting and Investment Exhibit for the Year Ended December 31, 2019

Reconciliation of Surplus as Regards Policyholders from December 31, 2014 through December 31, 2019

Statement of Financial Condition
as of December 31, 2019

Assets	Ledger and Nonledger Assets	Assets Not Admitted	Net Admitted Assets	Notes
Bonds	$ 14,480,105	$	$ 14,480,105	
Common stocks	3,051,399		3,051,399	
Cash and short-term investments	2,806,038		2,806,038	
Other Invested assets	213,880		213,880	(1)
Investment income due and accrued	106,013		106,013	
Uncollected premiums and agents' balances in course of collection	632		632	
Amounts recoverable from reinsurers	293,448		293,448	
Funds held by or deposited with reinsured companies	161,084	99,998	61,086	
Furniture and equipment	3,455	3,455		
Aggregate write-ins for other than invested assets	154,617	4,666	149,951	
Total assets	$ 21,270,671	$ 108,119	$ 21,162,552	

Liabilities, Surplus, and Other Funds	Current Year	Notes
Losses	$ 11,836,355	(2)
Loss adjustment expenses	673,234	(2)
Reinsurance payable on paid losses and loss adjustment expenses	(140,843)	
Other expenses	155,724	
Current federal and foreign income taxes	172,524	
Borrowed money	1,500,000	(3)
Unearned premiums	2,276	
Funds held by company under reinsurance treaties	334,331	
Amounts withheld or retained by company for account of others	712,905	
Provision for reinsurance	243,182	
Payable to parent, subsidiaries, and affiliates	19,850	
Aggregate write-ins for liabilities	200,100	
Total liabilities	15,709,639	
Common capital stock	2,600,000	
Gross paid in and contributed surplus	70,149,001	
Unassigned funds	(67,296,087)	
Surplus as regards policyholders	5,452,914	
Total liabilities, Surplus, and other funds	$ 21,162,552	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2019

Underwriting Income		
Premiums earned		$ 5,138
Deductions:		
Losses incurred	$ (1,732,455)	
Loss adjustment expenses incurred	125,048	
Other underwriting expenses incurred	1,151,711	
Aggregate write-ins for underwriting deductions	84,981	
Total underwriting deductions		(370,715)
Net underwriting income		375,853
Investment Income		
Net investment income earned	$ 423,058	
Net realized capital loss	(5,881)	
Net investment gain		417,177
Other income		
Net loss from agents' or premium balances charged off	(37)	
Total other loss		(37)
Net income after dividends to policyholders, after capital gains tax and before federal and foreign income taxes		792,994
Federal and foreign income taxes incurred		579,970
Net Income		$ 213,023

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2018		$ 6,400,665
Net income	$ 213,023	
Change in net unrealized capital losses	(1,035,773)	
Change in nonadmitted assets	4,634	
Change in provision for reinsurances	(129,634)	
Change in surplus as regards policyholders for the year		(947,751)
Surplus as regards policyholders, December 31, 2019		$ 5,452,914

Reconciliation of Surplus as Regards Policyholders from December 31, 2014 through December 31, 2019

	Gain in Surplus	Loss in Surplus	
Surplus as regards policyholders, December 31, 2014			$ 15,989,806
Net loss	$	$ 4,620,874	
Change in net unrealized capital losses		1,121,579	
Change in nonadmitted assets		43,113	
Change for provision for reinsurance	248,675		
Dividends to stockholders		5,000,000	
Total gains and losses	$ 248,675	$ 10,785,566	
Net decrease in surplus as regards policyholders			(10,536,891)
Surplus as regards policyholders, December 31, 2019			$ 5,452,914

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Other Invested Assets

On March 19, 2018, the Company sold 62.75% of its interest in Christina Real Estate Investors I, LLC, to its affiliate SPARTA Insurance Company. Proceeds from the sale were $744,568. As of the examination date, the Company's investment holdings in Christina Real Estate Investors I, LLC, is $213,880.

(2) Losses and Loss Adjustment Expenses

Based on an analysis by a Senior Casualty Actuary for the California Department of Insurance ("CDI"), the Company's losses and loss adjustment expense reserves as of December 31, 2019, were found to be reasonably stated, and have been accepted for purposes of this examination.

(3) Borrowed Money

On April 1, 2019, the Company borrowed $1.5 million from its direct parent, Alea Holdings US Company. Under the terms of the loan, the interest rate was set at 0.25% over the Federal funds rate. The CDI approved the transaction on March 25, 2019, and the Company repaid the loan in full on March 3, 2020.

SUBSEQUENT EVENTS

On January 14, 2020, the Company's subsidiary, Danielson National Insurance Company ("DNIC") was acquired by Incline Insurance Group, LLC of Texas.

The sale resulted in the termination of all prior existing enforced affiliated agreements between the Company and DNIC effective January 1, 2020. Simultaneously, the Company assumed all of DNIC's pre-sale liabilities and obligations pursuant to the following agreements effective January 1, 2020:

(i) Reinsurance Agreement: Amended and Restated Reinsurance Agreement by and between DNIC (as Cedent) and the Company (as Reinsurer), whereby the Company assumed 100% of the insurance liabilities of DNIC.

(ii) Transfer of Non-Insurance Liabilities Agreement: Amended and Restated Agreement for the Transfer of Non-insurance Liabilities, whereby the Company assumes 100% of all non-insurance liabilities of DNIC.

(iii) Services Agreement: Amended and Restated Service Agreement by and between DNIC and the Company, whereby the Company agrees to service the pre-sale business written by DNIC.

On December 14, 2020, the Company's parent, Alea Holdings US Company contributed $500,000 paid-in capital to the Company.

On January 15, 2021, the Company filed Form D with the California Department of Insurance ("CDI") for approval of a three-year $2.5 million cash loan from its parent, Alea US Holdings Company. The CDI approved this transaction on March 18, 2021.

On March 11, 2020, the World Health Organization declared coronavirus disease ("COVID-19") a pandemic. The pandemic has triggered unprecedented government mandates and health and safety measures which have significantly impacted the U.S. and global financial markets, in particular, U.S. publicly traded equity securities, and impacts on yields and interest rates in the U.S. bond market. During the exam we reviewed COVID-19's impact on the company's business operations with no immediate solvency concerns noted. As of the date of this report, significant uncertainty remains on the effect that the pandemic will have on the insurance industry, economy, and the Company at large. The CDI continues to closely monitor the impact of the pandemic on the Company and will take necessary action if a solvency concern arises.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

None.

Previous Report of Examination

Accounts and Records – Annual Statement Exhibit (Page 10): It is recommended that the Company properly disclose Incurred but Not Reported ("IBNR") balances with the corresponding columns in the Underwriting and Investment Exhibit, Part 2A – Unpaid Losses and Loss Adjustment Expenses, in accordance with the Annual Statement Instructions prescribed by the National Association of Insurance Commissioners ("NAIC"). The Company complied with this recommendation.

<u>ACKNOWLEDGMENT</u>

Acknowledgment is made of the cooperation and assistance extended by the Company's officers during the course of this examination.

Respectfully submitted,

Xue, George Digitally signed by Xue, George Date: 2021.05.20 08:40:44 -07'00'

George Xue, CFE
Examiner-In-Charge
Associate Insurance Examiner
Department of Insurance
State of California

Aros, Edward Digitally signed by Aros, Edward Date: 2021.05.20 10:29:13 -07'00'

Edward Aros, CFE
Senior Insurance Examiner, Supervisor
Department of Insurance
State of California