REPORT OF EXAMINATION

OF THE

MERCURY CASUALTY COMPANY

AS OF

DECEMBER 31, 2021

Filed on May 30th, 2023

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Los Angeles, California
April 28, 2023

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

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

MERCURY CASUALTY COMPANY

(hereinafter also referred to as the Company). Its primary location of its books and records is located at 4484 Wilshire Boulevard, Los Angeles, California, 90010. The Company's statutory home office and main administrative office is located at 555 West Imperial Highway, Brea, California 92821.

SCOPE OF EXAMINATION

We have performed our multi-state examination of the Company. The previous examination of the Company was made as of December 31, 2017. This examination covers the period from January 1, 2018, through December 31, 2021.

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. The examination also included identifying and evaluating significant risks that could cause the Company’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 includes 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.

The examination was a coordinated examination of the Mercury Insurance Group with California as the lead state, and conducted concurrently with the Florida, Georgia, Illinois, Oklahoma, and Texas Departments of Insurance. The insurance entities reviewed as part of this examination are identified below by state of domicile:

Company	State
California Automobile Insurance Company	California
California General Underwriters Insurance Company, Inc.	California
Mercury Casualty Company	California
Mercury Insurance Company	California
Orion Indemnity Company (fka Workmen's Auto Insurance Company)	California
Mercury Indemnity Company of America	Florida
Mercury Insurance Company of Florida	Florida
Mercury Indemnity Company of Georgia	Georgia
Mercury Insurance Company of Georgia	Georgia
Mercury Insurance Company of Illinois	Illinois
American Mercury Insurance Company	Oklahoma
Mercury County Mutual Insurance Company	Texas
American Mercury Lloyds Insurance Company	Texas

COMPANY HISTORY

The Company was incorporated in the state of California on January 6, 1961 and commenced operations in 1962. The Company is a wholly-owned subsidiary of Mercury General Corporation (MGC), a publicly traded insurance holding company. The Company is the parent company of Mercury Insurance Company (MIC), California General Underwriters Insurance Company, Inc. (CGU), and Mercury Insurance Services, LLC (MIS). The Company is also the sole member of AIS Management, LLC (AIS), a licensed insurance agent.

Capitalization

The Company has 400,000 shares of $50 par value common stock authorized and 200,000 shares issued and outstanding.

Dividends

The Company paid the following cash dividends to its parent, MGC, during the examination period:

Year	Ordinary Dividends
2021	$ 176,000,000
2020	105,000,000
2019	94,000,000
2018	114,000,000
Total	$ 489,000,000

The Company received the following cash dividends from its subsidiary, MIC, during the examination period:

Year	Ordinary Dividends
2021	$ 176,000,000
2020	88,000,000
2019	30,000,000
2018	30,000,000
Total	$ 324,000,000

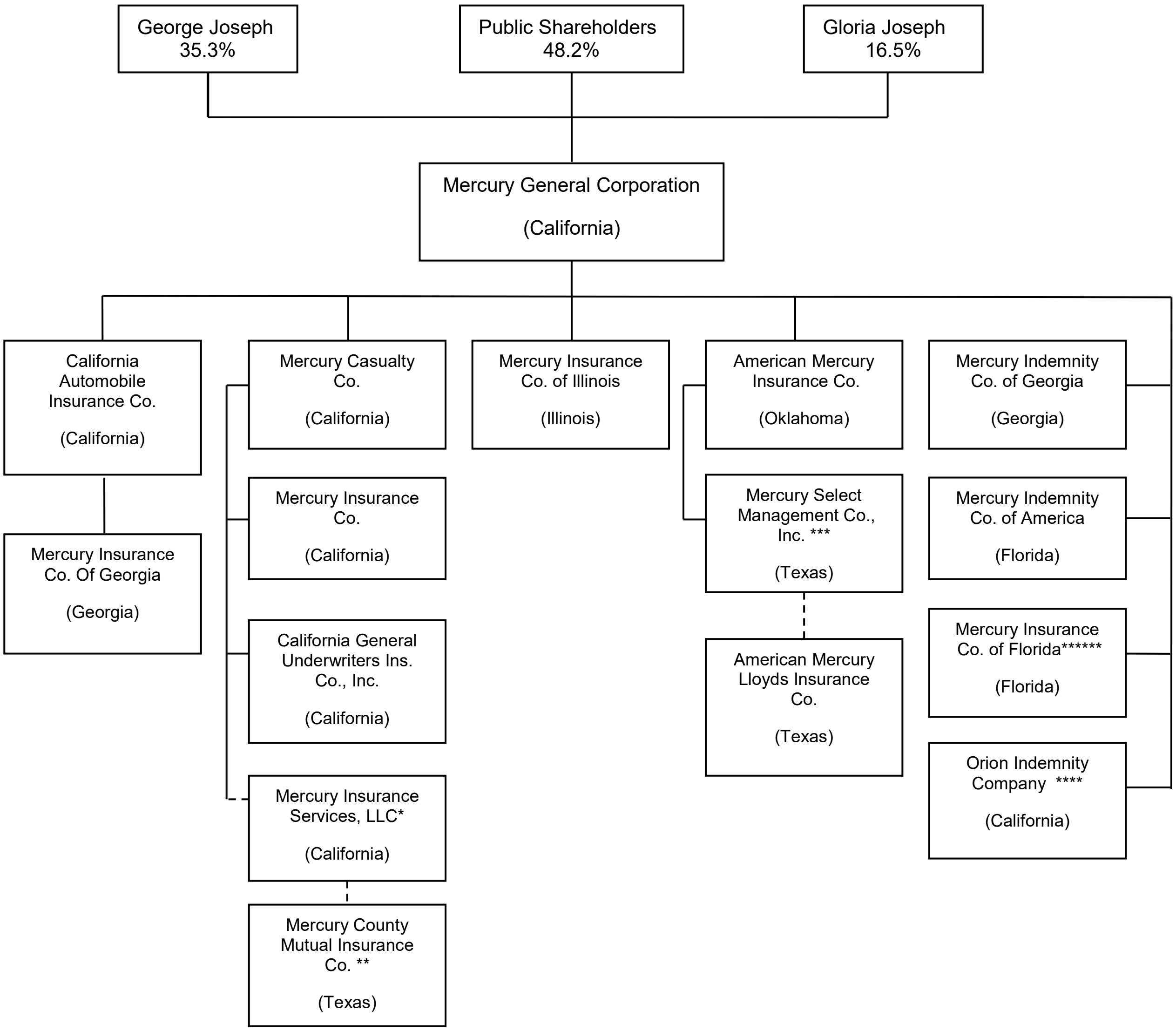
The Company received the following cash dividends from its subsidiary, AIS, during the examination period:

Year	Ordinary Dividends
2021	$ 35,000,000
2020	20,000,000
2019	30,000,000
2018	30,000,000
Total	$ 115,000,000

MANAGEMENT AND CONTROL

The Company is a member of an insurance holding company system of which Mr. George Joseph is the ultimate controlling person. Mercury General Corporation (MGC) is a publicly traded insurance holding company. The controlling stockholders, George Joseph and Gloria Joseph, own 35.3% and 16.5%, respectively, of MGC's stock with the remaining 48.2% held by public shareholders, none of whom own 10% or more interest.

The following organizational chart depicts the Company's relationship within the holding company system. All ownership is 100% unless otherwise indicated.



* Mercury Insurance Services, LLC, is controlled by its sole and managing member, Mercury Casualty Company, through a management agreement.

** Mercury County Mutual Insurance Company is managed and controlled by Mercury Insurance Services, LLC, through a management agreement.

*** Mercury Select Management Company, Inc. is Attorney-in-fact for American Mercury Lloyds Insurance Company, a Texas Lloyds Plan Insurer.

****Orion Indemnity Company, a California insurer, was formerly named Workmen's Auto Insurance Company.

*****Mercury National Insurance Company, an Illinois domiciled insurance company and 100% owned subsidiary of MICIL, was dissolved.

******Mercury Insurance Company of Florida was dissolved effective November 30, 2022.

The seven members of the Company's 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 on December 31, 2021:

Directors

Name and Location	Principal Business Affiliation
George G. Braunegg Los Angeles, California	Advisor and Investor Terafina Inc
Ramona L. Cappello Los Angeles, California	Principal The Cappello Group
James G. Ellis San Marino, California	Retired
George Joseph Los Angeles, California	Chairman of the Board Mercury General Corporation
Joshua E. Little St. George, Utah	Shareholder Durham Jones & Pinegar, P.C.
Martha E. Marcon Glendale, California	Retired
Gabriel Tirador Tustin, California	President and Chief Executive Officer Mercury General Corporation

Principal Officers

Name	Title
Gabriel Tirador	President and Chief Executive Officer
Theodore R. Stalick	Senior Vice President, Chief Financial Officer, and Treasurer
Judith A. Walters	Secretary
Christopher W. Graves	Vice President and Chief Investment Officer

Management Agreements

Tax Allocation Agreement: Since January 1, 1983, the Company and various affiliates have been parties to a Tax Allocation Agreement with the ultimate parent, MGC. Under the terms of this agreement, the tax liability of the Company and its affiliates are computed as if each entity filed a separate stand-alone return, with current credit for net losses incurred by the insurance subsidiaries to the extent it can be used in the current consolidated return. In 2015, the agreement was amended to: 1) add affiliate Workmen's Auto Insurance Company (now Orion Indemnity Company (Orion)), 2) delete dissolved entities, and 3) include several technical provisions required by the California Department of Insurance (CDI), which did not alter or affect existing practices. The amendment was approved by the CDI on June 5, 2015. Taxes paid or (recovered) by the Company totaled $1,508,218, $(27,392,551), $3,878,966, and $14,934,535 for the years 2018, 2019, 2020, and 2021, respectively.

Management Agreement: Since January 1, 2001, the Company has been a party to a Management Agreement with the Company's subsidiary, Mercury Insurance Services, LLC (MIS). Approval of the agreement was granted by the CDI on December 27, 2001. Under the terms of this agreement, MIS performs underwriting and loss adjustment services for the MGC group of companies. The management fee is based on actual incurred expenses. The underwriting portion of the management fee is allocated between the Company and its affiliates based upon their proportionate share of direct premiums written. The fee for allocated loss adjustment expenses is based on actual payments by MIS for claims on policies issued by the Company. The unallocated loss adjustment expenses portion of the management fee is allocated between the Company and its affiliates based upon their proportionate share of net losses incurred. In 2013, the agreement was amended: 1) authorizing MIS to pay certain expense items that were previously reserved to the insurers, including agent commissions and audit fees and 2) adding a 60-day due date for the payment of management fees, in order to comply with Statement of Statutory Accounting Principles No. 96. The amendment was approved by the CDI on September 25, 2013. In 2015, the agreement was amended again to allow MIS to pursue salvage and subrogation claims on behalf of the insurers, with MIS remitting the recoveries to the insurers. This amendment was approved by the CDI on June 11, 2015. The Company incurred management fees of $42,442,926, $74,902,057, $76,648,935, and $70,970,196 during the years 2018, 2019, 2020, and 2021, respectively.

Service Agreement: Effective January 11, 2005, the Company entered into a Service Agreement with California Automobile Insurance Company (CAIC) and Mercury Insurance Company (MIC). Under the terms of this agreement, the Company collects premiums on behalf of CAIC and MIC. Approval of the agreement was granted by the CDI on January 11, 2005. Effective December 1, 2019, the agreement was amended to add CGU as a party. The amendment was approved by the CDI on December 20, 2019. There are no fees or costs paid by any affiliates under this agreement.

Facilities and Equipment Rental Agreement: Effective December 31, 2009, the Company entered into a Facilities and Equipment Rental Agreement with Mercury Insurance Services, LLC (MIS). Under the terms of this agreement, MIS receives rents owed by affiliates for all facilities and equipment owned by the Company and pays such rents to the Company on behalf of all affiliates managed by MIS. Rental charges are predicated upon the depreciation of the assets utilized. The agreement was approved by the CDI on May 28, 2010. MIS paid the Company $30,691,284, $32,516,077, $35,032,489, and $37,704,768 for the years 2018, 2019, 2020, and 2021, respectively.

Multiple-Cedents Reinsurance Allocation Agreement: Effective July 1, 2013, the Company, American Mercury Insurance Company, California General Underwriters Insurance Company, Inc., CAIC, and MIC entered into a Multiple-Cedents Reinsurance Allocation Agreement, providing for the allocation of premiums and recoveries in connection with external reinsurance treaties covering all the parties at a single rate, as required by Statement of Statutory Accounting Principles No. 62R. The agreement approval was granted by the Oklahoma Department of Insurance (ODI) and the CDI, on March 28, 2014 and June 26, 2014, respectively.

Effective July 1, 2018, the agreement was amended to add affiliate Orion as a party. The amendment also renewed the agreement for three years until June 30, 2022. The amendment was approved by the ODI on June 11, 2019 and by the CDI on September 4, 2019. A total of $33,100 in premiums were transferred between affiliates under this agreement in 2021. The California insurers recovered $2,076,512 under multi-cedent reinsurance in 2021, and reimbursed reinsurers $5,318,712 in subrogation recoveries. Those amounts were paid to or by CAIC, respectively, and allocated as follows pursuant to this agreement:

Insurer	Recoveries	Subrogation Paid
California Automobile Insurance Company	$1,938,859	$(5,144,019)
Mercury Casualty Company	112,311	(104,052)
Mercury Insurance Company	25,335	(70,422)
Orion Indemnity Company	7	(218)

The Multiple-Cedents Reinsurance Allocation Agreement was renewed effective July 1, 2022, and will automatically renew for consecutive one-year terms until June 30, 2025.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2021, the Company was licensed to write various property and casualty coverages in Arizona, California, Florida, Michigan, Nevada, New York, Texas, Virginia, and Washington. During 2021, the Company wrote $189.8 million of direct premiums; 38.3% of the writings pertained to commercial multiple peril; 19.6% and 10.8% pertained to private passenger automobile liability and automobile physical damage, respectively; and 16.2% pertained to homeowners multiple peril. California, New York, Nevada, and Arizona represented 50.7%, 17.9%, 15.6%, and 13.4%, respectively, of the total direct premiums written. The Company's business is distributed and marketed through a network of appointed independent agents.

REINSURANCE

Intercompany

Catastrophe Reinsurance Agreements

Effective September 1, 2020, the Company and California Automobile Insurance Company (CAIC) entered into a Catastrophe Reinsurance Agreement, under which the Company reinsured CAIC for the portion of losses in excess of $40 million (combined between all affiliates) not covered by an existing external reinsurance treaty. The agreement was approved by the California Department of Insurance (CDI) on November 4, 2020. The agreement terminated on its own terms on June 30, 2021, and informal notice was provided to the CDI.

Effective July 1, 2021, the Company and CAIC entered into a new Catastrophe Reinsurance Agreement. Like the prior agreement between the parties, the Company reinsures CAIC for the portion of losses in excess of $40 million (combined between all affiliates) that is not covered by an existing external reinsurance treaty, but the premium terms were materially different from the prior agreement, due to changes in the external reinsurance treaty. Prior approval was not required for this agreement, as the premium and the change in liabilities were below the threshold amounts. Refer to the Ceded reinsurance section below for discussion of the external Catastrophe Reinsurance Treaty.

Effective August 1, 2005, the Company and American Mercury Insurance Company (AMIC) entered into an Aggregate Catastrophe Reinsurance Agreement, providing for aggregate catastrophe reinsurance of property and automobile property damage business written by AMIC in the states of Florida, Oklahoma and Texas. The agreement was terminated effective August 1, 2020, with notice provided to the CDI and the Oklahoma Department of Insurance.

Effective July 1, 2021, the Company and AMIC entered into a new Catastrophe Reinsurance Agreement, under which the Company reinsures AMIC for the portion of losses in excess of $40 million (combined between all affiliates) that is not covered by an existing external reinsurance treaty. Prior approval was not required for this agreement, as the premium and the change in liabilities were below the threshold amounts. Refer to the Ceded reinsurance section below for discussion of the external Catastrophe Reinsurance Treaty.

Quota Share Reinsurance Agreements

Effective January 1, 2002, the Company entered into a 100% Quota Share Reinsurance Agreement with Mercury Insurance Company of Florida (MICFL) and Mercury Indemnity Company of America (MIDA) (collectively, the Florida Companies), providing for the reinsurance by the Company of private passenger automobile policies issued by the Florida Companies. The agreement did not require prior approval by the CDI as the transaction involved amounts below the minimum threshold. Amendments to the agreement have been made to: 1) add the Commercial Automobile business to the lines of business reinsured, 2) to provide that agreement does not apply to business written outside the state of Florida, 3) to add the business written by MICFL in the Commonwealth of Pennsylvania to the business reinsured under the agreement, and 4) various technical amendments. These amendments did not require prior approval by the CDI.

Effective June 15, 2004, the Company entered into a 100% Quota Share Reinsurance Agreement with Mercury National Insurance Company (MNIC), reinsuring the business written by MNIC in the state of Michigan. The agreement did not require prior approval by the CDI as the transaction involved amounts below the minimum threshold. The agreement was amended in 2004, and again in 2010, with notice provided to the CDI. Effective December 9, 2021, MNIC surrendered its certificate of authority in Michigan, with the approval of the Michigan Department of Insurance, and transferred its outstanding liabilities to the Company. The present reinsurance agreement was terminated as of the same date, and notice was provided to the CDI and the Illinois Department of Insurance.

Effective July 1, 2008, the Company entered into a 100% Quota Share Reinsurance agreement with Mercury Insurance Company of Georgia (MICGA), Mercury Indemnity Company of Georgia (MIDGA) and Mercury Insurance Company of Illinois (MICIL), under which the Company reinsures all business written by the ceding companies. The agreement did not require prior approval by the CDI as the transaction involved amounts below the minimum threshold. The agreement was amended in 2010 and 2011 to clarify that the agreement covered "gross" premiums, to add a provision stating that each party is to be treated under the agreement as though there were a separate agreement between each reinsured and the reinsurer, and to clarify that premiums receivable were to be carried by the direct writing reinsured companies rather than ceded to the Company. These amendments did not require prior approval by the CDI.

Effective February 1, 2016, the Company and CAIC entered into a 50% Quota Share Reinsurance Agreement under which the Company reinsures CAIC's Private Passenger Automobile Liability and Automobile Physical Damage lines of business. The agreement was approved by the CDI. Effective July 1, 2018, the agreement was amended to increase the ceding percentage from 50% to 100%. Effective January 1, 2021, the agreement was amended to add Commercial Automobile to the lines of business reinsured. The amendments were approved by the CDI on June 26, 2018 and November 24, 2020, respectively.

Effective January 1, 2020, the Company entered into a Quota Share Reinsurance Agreement with California General Underwriters Insurance Company, Inc. (CGU), under which the Company reinsures 100% of the direct business written by CGU. The agreement was approved by the CDI on December 20, 2019. The agreement was amended, effective January 1, 2021, making technical changes that had no material financial impact on either company. The amendment was approved by the CDI on

December 8, 2020.

Effective October 1, 2021, the Company entered into a Quota Share Reinsurance Agreement with Orion Indemnity Company (Orion), under which the Company reinsures 100% of the direct business written by Orion. The agreement was approved by the CDI on September 23, 2021.

Effective October 1, 2022, the Company entered into a 100% Quota Share Reinsurance agreement with American Mercury Insurance Company (AMIC), an affiliated company. Under the terms of the agreement, the Company assumes 100% of premiums, losses incurred, loss adjustment expenses and expenses on all of AMIC's lines of business. The agreement was approved by the CDI on September 21, 2022.

Assumed

Other than the assumed intercompany reinsurance agreement discussed in the Intercompany section above, the Company did not assume significant reinsurance during the period covered by this examination.

Ceded

The Company is party to a Catastrophe Reinsurance Treaty (2021 Treaty) with affiliated companies that are under the ownership, control or management of Mercury General Corporation. The 2021 Treaty covers a wide range of perils that is effective from July 1, 2021 through June 30, 2022. The 2021 Treaty provides $792 million of coverage on a per occurrence basis after covered catastrophe losses exceed the $40 million combined company retention limit. The 2021 Treaty specifically excludes coverage for any Florida business and for California earthquake losses on fixed property policies, such as homeowners, but does cover losses from fires following an earthquake. In addition, the 2021 Treaty provides for one full reinstatement of coverage limits and excludes losses from wildfires on certain coverage layers of the 2021 Treaty.

Coverage on individual catastrophes provided for the 12 months ended June 30, 2022 under the 2021 Treaty is presented below in various layers.

	Catastrophe Loss and LAE		
	In Excess of	Up to	Percentage of Coverage
	(Amounts in Millions)		
Layer of Coverage (1)	$ 40	$ 100	70
Layer of Coverage (2)	100	400	100
Layer of Coverage (2)(3)(4)	400	792	100

(1) The 2021 Treaty covers 70% placement for the layer of $40 million to $100 million. The Company has an additional intercompany agreement with CAIC and AMIC where CAIC and AMIC cede and the Company assumes 30% of the layer between $40 million and $100 million. Effective January 1, 2022, the Company added an additional layer to cover AMIC losses between $20 million and $40 million.

(2) Layer of Coverage represents multiple actual treaty layers that are grouped for presentation purposes.

(3) 13.4% of this layer covers only California wildfires and fires following an earthquake in California, and is not subject to reinstatement.

(4) 14% of this layer includes a territorial restriction covering California, Arizona, and Nevada only.

For California homeowners policies, the Company has reduced its catastrophe exposure from earthquakes by placing earthquake risks directly with the California Earthquake Authority.

ACCOUNTS AND RECORDS

Annual Statement Instructions

Pursuant to the National Association of Insurance Commissioners (NAIC) Annual Statements Instructions, Note to Financial Statements, 14D, Claims Related Extra Contractual Obligation and Bad Faith Losses Stemming from Lawsuits, the Company shall disclose the dollar amount paid (for the extra contractual and bad faith portion of the total claim amount) for claims related extra contractual obligations and bad faith losses stemming from lawsuits, in the current reporting period on a direct basis. The Company's 2021 Annual Statement Note to Financial Statements 14D was not prepared in accordance to the NAIC's Annual Statement Instructions and did not disclose the potential risk and/or uncertainties related to lawsuits in the manner or format required by the NAIC. The Company should compile its bad faith/extra contractual litigation settlements arising from claims and disclose it annually in the Notes to Financial Statements 14D in accordance with the NAIC Annual Statement Instructions. It is recommended the Company implement procedures to ensure compliance with the National Association of Insurance Commissioners Annual Statement Instructions for Note 14D to the Financial Statements, Claims related extra contractual obligations and bad faith losses stemming from lawsuits. The Company has subsequently updated its reporting procedures to ensure Note 14D is in compliance with the NAIC Annual Statement Instructions.

FINANCIAL STATEMENTS

The following financial 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, 2021. The accompanying comments to the amounts reported in the annual statements should be considered an integral part of the financial statements. No adjustments were made to the statutory financial statements filed by the Company.

Statement of Financial Condition as of December 31, 2021

Underwriting and Investment Exhibit for the Year Ended December 31, 2021

Reconciliation of Surplus as Regards Policyholders from December 31, 2017 through December 31, 2021

Statement of Financial Condition
as of December 31, 2021

Assets	Ledger and Nonledger Assets	Assets Not Admitted	Net Admitted Assets	Notes
Bonds	$ 1,239,663,984	$	$ 1,239,663,984	
Preferred stocks	23,367,140		23,367,140	
Common stocks	1,239,720,183		1,239,720,183	
Real estate: Properties occupied by the company	83,927,986		83,927,986	
Cash and short-term investments	(45,302,614)		(45,302,614)	
Derivatives	9,458		9,458	
Other invested assets	33,806,104		33,806,104	
Investment income due and accrued	14,357,026		14,357,026	
Premiums and agents' balances in course of collection	54,098,945	114,855	53,984,090	
Premiums, agents' balances and installments booked but deferred and not yet due (including $0 earned but unbilled premiums.	20,244,090		20,244,090	
Amounts recoverable from reinsurers	1,512,245		1,512,245	
Funds held by or deposited with reinsured companies	296,351		296,351	
Current federal and foreign income tax recoverable and interest there on	21,574,135		21,574,135	
Electronic data processing equipment and software	98,004,380	91,507,314	6,497,066	
Furniture and equipment	8,571,286	8,571,287	(1)	
Receivables from parents, subsidiaries and affiliates	83,194		83,194	
Health care and other amounts receivable	51,258		51,258	
Aggregate write-ins for other than invested assets	6,605,287	214,658	6,390,629	
Total assets	$ 2,800,590,437	$ 100,408,114	$ 2,700,182,323	

Liabilities, Surplus and Other Funds	Current Year	Notes
Losses	$ 673,025,316	(1)
Reinsurance payable on paid loss and loss adjustment expenses	40,546,676	
Loss adjustment expenses	165,861,909	(1)
Commissions payable, contingent commissions and other similar charges	3,744,999	
Other expenses	1,677,591	
Taxes, licenses and fees	928,245	
Net deferred tax liability	2,642,807	
Unearned premiums	376,368,882	
Advance premiums	3,891,631	
Ceded reinsurance premiums payable	459,830	
Remittances and items not allocated	381,415	
Payable to parent, subsidiaries and affiliates	89,347,617	
Derivatives	272,386	
Aggregate write-ins for liabilities	2,984,513	
Total liabilities	1,362,133,817	
Common capital stock	10,000,000	
Gross paid-in and contributed surplus	240,774,124	
Unassigned funds (surplus)	1,087,274,382	
Surplus as regards policyholders	1,338,048,506	
Total liabilities, surplus, and other funds	$ 2,700,182,323	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2021

State of Income

Underwriting Income	Current Year
Premium earned	$ 968,066,134
Deductions:	
Losses incurred	$ 648,371,453
Loss adjustment expenses incurred	140,372,252
Other underwriting expenses incurred	270,776,358
Aggregate write-ins for underwriting deductions	203,010
Total underwriting deductions	1,059,723,072
Net underwriting loss	(91,656,938)
Investment Income	
Net investment income earned	$ 251,309,597
Net realized capital gains	7,436,990
Net investment gain	258,746,587
Other Income	
Net loss from agents' or premium balances charged off (amount recovered $335,644 amount charged off $1,679,549)	$ (1,343,905)
Finance and service charges not included in premiums	7,834,511
Aggregate write-ins for miscellaneous income	(21,186)
Total other income	6,469,420
Net income after dividends to policyholders, after capital gains tax and before federal and foreign income taxes	173,559,069
Federal and foreign income taxes incurred	(6,296,757)
Net income	$ 179,855,826

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2020		$ 1,279,622,873
Net income	$ 179,855,826	
Change in net unrealized capital gains	58,125,888	
Change in net deferred income tax	7,766,735	
Change in nonadmitted assets	(11,322,816)	
Dividends to stockholders	(176,000,000)	
Change in surplus as regards policyholders for the year		58,425,633
Surplus as regards policyholders, December 31, 2021		$ 1,338,048,506

Reconciliation of Surplus as Regards to Policyholders
from December 31, 2017 through December 31, 2021

	Gain in Surplus	Loss in Surplus	
Surplus as regards policyholders, December 31, 2017			$ 1,071,771,942
Net income	$ 494,614,888	$	
Net unrealized capital gains	294,224,084		
Change in net deferred income tax	8,535,006		
Change in nonadmitted assets		42,379,414	
Change in provision for reinsurance	282,000		
Dividends to stockholders		489,000,000	
Total gains and losses	$ 797,655,978	$ 531,379,414	
Net increase in surplus as regards policyholders			266,276,564
Surplus as regards policyholders, December 31, 2021			$ 1,338,048,506

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

Based on an analysis by a Senior Casualty Actuary from the California Department of Insurance, the Company's loss and loss adjustment expense reserves as of December 31, 2021 were found to be reasonably stated and have been accepted for the purpose of this examination.

SUBSEQUENT EVENTS

On September 10, 2021, the California Department of Insurance (CDI) served the Company a Notice of Non-Compliance (NNC), alleging violations in connection with its 2014 Rating & Underwriting Examination Report, which was adopted by the CDI in 2019. On August 1, 2022, the CDI publicly announced its intention to pursue an administrative action against the Company with respect to certain outstanding issues. The Company filed a written response to the NNC on September 29, 2022. On November 9, 2022, the CDI served objections and non-substantive responses to the Company's discovery requests. The Company is continuing settlement discussions with the CDI. The Company cannot reasonably predict the likelihood, timing or outcome of any hearing process or administrative action, nor can it reasonably estimate the amount of penalties, if any.

Most of the Company's workforce chooses to work from home, as a result of the "Mercury's My Workplace" policy that allows most of the Company's employees to work from anywhere in the U.S. beginning January 2022. Consequently, the Company is in the process of reducing its office footprint. Per the statutory financial statements filed by the Company with the CDI, for the year ended December 31, 2022, the Company reported properties occupied by the company of $19.64 million, properties held for the production of income of $40.28 million and properties held for sale of $20.21 million compared to the year ended December 31, 2021, in which the Company reported properties occupied by the company of $83.93 million.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Accounts and Records – Annual Statement Instructions (Page 16): It is recommended the Company implement procedures to ensure compliance with the National Association of Insurance Commissioners Annual Statement Instructions for Note 14D to the Financial Statements, Claims related extra contractual obligations and bad faith losses stemming from lawsuits.

Previous Report of Examination

Accounts and Records – Automobile Assessment File (Page 13): It was recommended the Company maintain an automobile assessment file in compliance with California Code of Regulations 10 § 2698.62(d). The Company has complied with this recommendation.

ACKNOWLEDGMENT

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

Respectfully submitted,

Elizabeth Nielson

Digitally signed by Elizabeth Nielson
DN: cn=Elizabeth Nielson, o=Noble Consulting Services Inc., ou, email=enielson@noblecon.net, c=US
Date: 2023.05.25 15:49:15 -07'00'

Elizabeth Nielson, CFE, CPA
Examiner-In-Charge
Contract Examiner
Department of Insurance
State of California

Briggs, Anjanette

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Anjanette Briggs, CFE
Senior Insurance Examiner, Supervisor
Department of Insurance
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