REPORT OF EXAMINATION

OF THE

STILLWATER INSURANCE COMPANY

AS OF

DECEMBER 31, 2022

Commissioners Signature

Filed on June 11, 2024

TABLE OF CONTENTS

Los Angeles, California
April 19, 2024

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

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

STILLWATER INSURANCE COMPANY

(hereinafter also referred to as the Company). Its administrative office is located at 6800 Southpoint Parkway, Suite 700, Jacksonville, Florida 32216. The Company's statutory home office is located at 5385 Hollister Avenue, Santa Barbara, California 93111.

SCOPE OF EXAMINATION

We have performed our multi-state examination of the Company. The previous examination of the Company was as of December 31, 2019. This examination covered the period from January 1, 2020 through December 31, 2022.

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 significant 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 was a coordinated examination with participation from New York and was conducted concurrently with the Company's wholly-owned subsidiary, Stillwater Property Insurance Company. California served as the lead state.

SUMMARY OF SIGNIFICANT FINDINGS

The Company's Risk Based Capital (RBC) total adjusted capital was less than 300% of its Authorized Control Level as of December 31, 2022. Its statutory accounting basis combined ratio was in excess of 120% for the year-ended December 31, 2022. The RBC level coupled with the statutory accounting basis combined ratio triggered a Company Action Level Event, see "Loss Experience" section of the Report of Examination.

COMPANY HISTORY

The Company was formerly named Anza Insurance Company and was incorporated in California on April 26, 1990. In June 2001, the Company's name was changed to Fidelity National Insurance Company. Effective October 1, 2013, the Company's name was again changed to Stillwater Insurance Company. In addition, on the same date, its subsidiary Fidelity National Property and Casualty Insurance Company changed its name to Stillwater Property and Casualty Insurance Company (SPAC).

In 2015, the WT Holdings Group began restructuring the organization to simplify the reporting structure, which was completed in June 2016. Duval Holdings, Inc. (Duval) owns 100% of the Company. WT Holdings, Inc. (WT) and Mr. Mark O. Davey, the Company's

President and Chief Executive Officer own 99.3% and 0.7% of Duval, respectively. Mr. William E. Haslam, Ms. Susan B. Haslam, and various other investors own 19.4%, 13.6%, and 67%, respectively, of WT.

During 2020, Mr. William E. Haslam and Ms. Susan B. Haslam relinquished their disclaimer of control, requested authorization for acquisition of control, and became the ultimate controlling persons of the Company, effective December 29, 2020. Pursuant to California Insurance Code Section 1215.22(d), a Form A filing was filed and approved by the California Department of Insurance (CDI) on December 29, 2020.

On August 1, 2021, SPAC, the Company's wholly-owned subsidiary, acquired 100% of the net admitted assets of Tri-State Consumer Insurance Corporation (TSCIC), an affiliated insurer. TSCIC was merged with and into SPAC.

On December 22, 2023, Evergreen/UNI, LLC, a subsidiary of EU Holdings, LLC (EU), which in turn is a subsidiary of the Company, was sold to Accretive Insurance Solutions, Inc., a Delaware corporation for $166.7 million. The Company received proceeds of $107.6 million from the transaction.

Capitalization

The Company is authorized to issue one million shares of Class A voting common stock with a par value of $50 per share. As of December 31, 2022, there were 65,000 shares issued and outstanding.

Dividends Paid

The Company paid an ordinary cash dividend of $10,000,000 in 2020. The CDI was notified in accordance with California Insurance Code (CIC) Section 1215.4(f).

On January 1, 2022, the Company issued a dividend of 12.5% of its ownership in EU, valued at $8,444,617, a Florida limited liability company to WT. Subsequent to the dividend, the Company owned 75% of EU. The CDI received prior notification of this dividend in accordance with CIC Section 1215.4(f).

Dividends and Capital Contributions Received

The Company received ordinary cash dividends from its subsidiary, ProAlliance Corporation, in the amount of $630,000, $508,500, and $540,000 in 2020, 2021, and 2022 respectively.

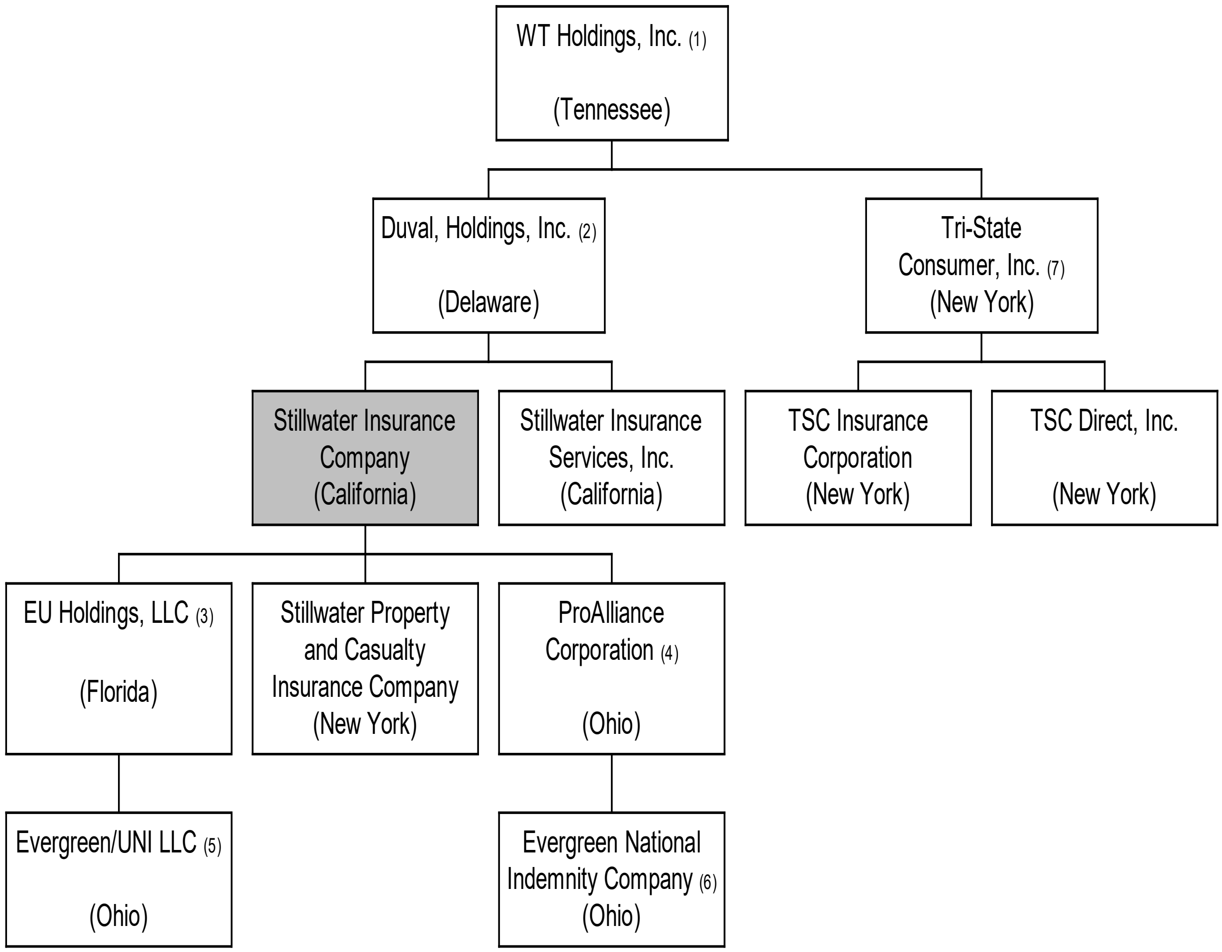
The Company received distributions from EU in the amount of $4,768,750, $8,881,250, and $9,152,831 in 2020, 2021, and 2022 respectively.

On June 29, 2023, the Company received a capital contribution in the amount of $60,000,000 from Duval as a downstream contribution from WT and Mr. Mark O. Davey.

The Company received a capital contribution in the amount of $2,500,000 from Duval on August 4, 2023.

MANAGEMENT AND CONTROL

The Company is a member of an insurance holding company system, of which WT Holdings, Inc. (WT) is the ultimate controlling entity. Mr. William E. Haslam and Ms. Susan B. Haslam are the ultimate controlling persons of WT, which is incorporated in the State of Tennessee. The following abridged organizational chart depicts the inter-relationship of the companies as of December 31, 2022:



(1) WT Holdings, Inc. owns 99.3% of Duval Holdings, Inc. and the remaining 0.7% is owned by Mark Davey, President and Chief Executive Officer of the Company.

(2) Duval Holdings, Inc., owns 100% of the Company and the Company owns 100% of Stillwater Property and Casualty Insurance Company. Duval Holdings, Inc. also owns 100% of Stillwater Insurance Services.

(3) The Company owns 75% membership interest of EU Holdings, LLC. WT Holdings, Inc. owns 22.4% membership interest and the remaining 2.6% membership interest is held by the Company management.

(4) The Company owns 90% of ProAlliance Corporation and the remaining 10% interest is owned by Company management.

(5) EU Holdings, LLC, owns 100% of Evergreen/UNI LLC.

(6) ProAlliance Corporation owns approximately 65% of the issued and outstanding voting stock of Evergreen National Indemnity Company and various investors own the remaining 35%.

(7) The Tri-State Consumer, Inc., owns 100% of TSC Insurance Corporation and TSC Direct Inc.

The ten 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, 2022:

Directors

Name and Location	Principal Business Affiliation
Mark O. Davey Jacksonville, Florida	President and Chief Executive Officer Stillwater Insurance Company
W. Blair Farinholt Atlanta, Georgia	Managing Director Stephens, Inc.
John D. Ferguson Nashville, Tennessee	Retired
Emmel B. Golden III Memphis, Tennessee	Partner NFC Investments, LLC
Patrick M. Kerney Riverside, Connecticut	Principal Kerney Insurance Agency, LLC
James D. Lackie Memphis, Tennessee	Managing Partner River Street Management, LLC
Charles K. Slatery Memphis, Tennessee	Managing Partner NFC Investments, LLC
David W. Smith Locust Valley, New York	Retired
William V. Thompson III Memphis, Tennessee	Partner NFC Investments, LLC
Henri L. Wedell Memphis, Tennessee	Retired

Principal Officers

Name	Title
Mark O. Davey	President and Chief Executive Officer
Julia B. Edmonston	Chief Financial Officer
Tommye M. Frost	Regulatory and Compliance Counsel Corporate Secretary
Michael K. Whatley	Vice President, Chief Actuary
Todd P. McGrath[1]	Vice President, Claims
Daniel P. Merrigan	Vice President, Auto and Casualty Claims

Name	Title
Eric W. Neely	Vice President, Commercial Product Development
Larry W. Mortensen	Vice President, Property Product Development
Marc Crawford	Vice President, National Accounts
Kevin M. Karl	Vice President, Auto Product Development
Daniel M. Duffy	Chief Information Officer

1 Effective July 1, 2023, Todd McGrath, Vice President, Claims, was replaced by Jerry Reich as Vice President, Property and Commercial Claims.

Management Agreements

Administrative Services Agreement: On May 1, 2012, the Company entered into an Administrative Services Agreement with its affiliate, Stillwater Property and Casualty Insurance Company (SPAC), to perform certain administrative and special services, including use of facilities and employees. The Agreement was made under the former names of the companies, Fidelity National Insurance Company and Fidelity National Property and Casualty Insurance Company, with no name changes subsequent to 2012. Pursuant to the Agreement, the Company provides accounting services, including the preparation and maintenance of financial statements and reports, assistance with respect to taxes and auditing, underwriting services, claims adjudication services, actuarial services, telecommunications and electronic data processing services, including software programming, documentation, and hardware utilization, and legal services. Charges to SPAC for services and facilities shall include all direct and directly allocable expenses, reasonably and equitably determined to be attributable to SPAC by the Company. The actual incidence of the cost incurred by the Company on behalf of SPAC shall not exceed SPAC's cost if provided by itself. Payments are due by SPAC within thirty days after receipt of billing details. SPAC paid the Company $0, $492,835, and $835,635 in 2020, 2021, and 2022, respectively. It is recommended that the Company amend the Agreement to reflect the correct names of the parties.

During the examination period, it was noted that the Company's affiliate Stillwater Insurance Services, Inc (SIS) provided personnel services and shared facilities with SPAC and the Company. The services are shared utilizing the expense sharing section noted in the General Agency Agreement with the Company and SIS noted below and a separate General Agency Agreement with SIS and SPAC.

General Agency Agreement: On July 11, 2016, the Company entered into a General Agency Agreement with its affiliate, SIS. SIS is authorized to solicit and bind policies on behalf of the Company. SIS underwrites and issues 100% of the Company's insurance business. Effective July 11, 2021, the Agreement was amended to include a termination date of December 31, 2022, and to authorize SIS to negotiate reinsurance on behalf of the Company. The amendment was approved by CDI on February 7, 2022. Under the terms of the Agreement, the Company pays SIS a commission of 25% of net written premiums less cancellations for all non-wind programs in states the Company is authorized to transact business, 35% commission of net written premium less cancellations for Florida wind bearing homeowner policies excluding wind, 6% commission of net written premium less cancellations for Florida wind bearing homeowner policies with wind, and 97.5% of fees collected related to the issuance of the policies. For 2020, 2021, and 2022, the Company paid $56,024,553, $72,480,826, and $86,442,366 to SIS, respectively.

Tax Sharing Agreement: Effective May 1, 2012, the Company entered into a Tax Sharing Agreement with WTJ Holdings, Inc. (former parent company), Duval Holdings, Inc. (Duval), SIS, and SPAC. In January 2015, the CDI approved an amendment to reflect name changes for the Company, SPAC, and SIS. On January 5, 2016, an amendment to include the Company's 90% owned affiliate, ProAlliance Corporation (ProAlliance), was approved by the CDI.

The agreement was further amended in June 2016 to reflect reorganizational changes. The Company and other affiliates reimburse WT Holdings, Inc. (WT) for their tax amounts determined in accordance with the provision of U.S. Treasury Regulations. The tax payable by each service beneficiary under the agreement shall not exceed the amount that such member would pay had it filed a separate federal income tax return. Allocation, reporting, and remittances shall be completed within 30 days after the receipt of funds or credits by WT with the service beneficiary's obligation to compensate WT for actual cost without a profit factor built into the cost. The amendment was approved on May 24, 2016, by the CDI. For 2020, 2021, and 2022, the Company paid federal income taxes of $5,262,477, $3,651,285, and $3,775,459, respectively.

Investment Advisory Services Agreement: Effective May 1, 2012, the Company entered into an Investment Advisory Services Agreement with then affiliate, NFC Investments, LLC (NFC). NFC was no longer considered an affiliate after the reorganization in June 2016, as discussed in the "Company History" section. NFC provides investment advisory and/or consulting services for the Company's Investment Security Portfolio pursuant to written investment guidelines provided by the Company's board of directors. In 2015, the agreement was amended to revise fees to 0.20% per annum for all categories. The investment guidelines were amended in August 2018. For 2020, 2021, and 2022, the Company paid $451,697, $578,170, and $667,937 to NFC, respectively.

TERRITORY AND PLAN OF OPERATION

The Company's operations are conducted jointly with its subsidiary, Stillwater Property and Casualty Insurance Company (SPAC), at its administrative office in Jacksonville, Florida. As of December 31, 2022, the companies are principally engaged in writing personal lines insurance, including homeowners and renters insurance, dwelling fire, private passenger automobile insurance, personal umbrella, small commercial multi-peril, and business owner policies.

Both companies generate business through a general agency agreement with Stillwater Insurance Services, Inc. (SIS), an affiliate, as previously discussed in the "Management Agreements" section. The Company and SPAC are both licensed in all 50 states and the District of Columbia. The companies distribute their personal lines products through a combination of independent agents, affiliated agents, and direct offerings. The Company distributes greater than 90% of its traditional personal line business through more than 3,500 independent agencies and brokers.

For the year ending December 31, 2022, the Company wrote $315.9 million in direct premiums. Of this amount, $134.2 million (42.5%) was written in California, $40.3 million (12.7%) was written in Arizona, $15.1 million (4.8%) was written in Texas, and $14.5 million (5.3%) was written in New York. Nationwide the Company wrote $213.9 million (67.7%) in homeowners' multiple peril. The second largest line of direct business was allied lines with $21.8 million (6.9%) written by the Company in 2022.

LOSS EXPERIENCE

The Company reported incurred loss and loss expense, underwriting losses, and net losses under the examination as follows:

Year	Incurred Loss and Loss Expense	Net Underwriting Gains/(Losses)	Net Income (Losses)
2020	$ 168,976,672	$ 1,428,957	$ 10,568,870
2021	219,256,849	(19,059,390)	4,067,124
2022	377,299,545	(110,001,599)	(61,394,778)
2023*	415,348,620	(119,368,027)	15,442,102
Total	$1,180,881,686	$ (247,000,059)	$ (31,316,682)

*subsequent period

The Company's underwriting performance shifted from underwriting gains in 2020 to underwriting losses in 2021, 2022, and 2023. The Company's underwriting performance was significantly impacted by inadequate rates, higher underwriting expenses, and higher losses and losses expenses due to rapid inflation, labor shortages, and supply chain disruptions. In addition, the Company reported adverse developments in the severity and frequency of the reported claims, which were mainly attributed to severe weather-related catastrophe events in the Midwest and West Coast. As a result of the adverse development, at year-end 2022, the Company triggered the Risk-Based Capital Company Action Level.

As a property and casualty insurance company, the Company is subject to Risk-Based Capital (RBC) requirements. RBC is a method developed by the National Association of Insurance Commissioners (NAIC) and adopted in California Insurance Code (CIC) Section 739 to determine the minimum amount of statutory capital appropriate for an insurance company to support its overall business operations in consideration of its size and risk profile. The Company's RBC total adjusted capital was 284.24% of its Authorized Control Level, and its statutory accounting basis combined ratio was 123.86% for the year ended December 31, 2022. The RBC level, coupled with the statutory accounting basis combined ratio, triggered a Company Action Level Event.

To comply with the CIC Section 739, the Company is required to submit an RBC Corrective Action Plan (RBC Plan), which was provided on April 17, 2023. The RBC Plan addressed actions taken by the Company to increase its adjusted capital above the regulatory requirement level. The corrective actions taken included but were not limited to $62.5 million cash capital infusions, renewing the reinsurance program at the current level and increasing catastrophe coverage to $300 million, filing for rate increases, tightening underwriting standards to manage exposure, exiting unprofitable areas of business, maintaining tight control over operating expenses, and implementing a moratorium to writing new homeowners' business in the state of California until pending rate filings are approved.

As part of the RBC plan, the Company filed several rate increase filings with the California Department of Insurance in 2023 and 2024, and which are pending review.

As of December 31, 2023, the Company's RBC total adjusted capital was 341.2% of its Authorized Control Level. The increase was primarily a result of capital cash infusions and the sale of Evergreen/UNI, LLC, as discussed in the COMPANY HISTORY section above. Offsetting factors include unfavorable underwriting results attributed to high catastrophe events in 2023.

REINSURANCE

Assumed

Since August 25, 2003, the Company has been party to a 100% Quota Share Reinsurance Agreement with its subsidiary, Stillwater Property and Casualty Insurance Company (SPAC). All lines of insurance that SPAC was authorized to write were covered under this agreement, except for flood business written through the National Flood Insurance Program (NFIP) with the Federal Emergency Management Agency (FEMA). Additionally, the agreement does not cover 100% of the Gramercy Risk Management, LLC (Gramercy) written premiums and 100% of the Tri-State Consumer Insurance Company run-off premium activity. In 2015, the agreement was replaced by a similar 100% Quota Share Reinsurance Agreement to reflect current names, which was approved by the California Department of Insurance (CDI). In July 2019, the agreement was amended at the stipulation of the New York Department of Financial Services (NYDFS) that in the event that SPAC's reinsurance recoverable exceeds 250% of SPAC's policyholder surplus, the Company shall establish a trust account and deposit funds into the account that exceed the threshold. The amended agreement was approved by the CDI on July 24, 2019. Effective July 24, 2022, the agreement was further amended and restated to remove the automatic renewal language; remain in force for a period of three (3) years to July 23, 2025; update the written notice of termination to be provided to NYDFS within 45 days; add a provision to reflect that the agreement is to be interpreted under New York law; and add a new provision to provide that coverage shall not be provided to the extent such coverage is not permitted under New York law. Pursuant to California Insurance Code Section 1215.5(b)(3), a Form D filing was subsequently submitted for the amended and restated agreement to the CDI on September 15, 2023, and was approved on February 26, 2024.

Effective July 1, 2019, the Company also assumes 2.5% of SPAC's commercial business produced by Gramercy on behalf of SPAC. The agreement was rewritten for a one-year term, effective September 1, 2022.

Ceded

The Company participates in mandatory and voluntary pools including the Florida Hurricane Catastrophe Fund and various state mine subsidence funds. Through the Florida Hurricane Catastrophe Fund, in accordance with Section 215.555 of the Florida Statutes, the Company is reimbursed up to 90% of its ultimate net losses on covered policies in effect at the time of the storm declared to be a hurricane by the National Hurricane Center commencing during the contract year which causes insured losses in Florida, to the extent funds are available. Additionally, the Company has coverage through the State of Florida's Reinsurance to Assist Policyholders Program for 90% reimbursement of ultimate net losses incurred as a result of two covered events with the largest covered losses commencing during the contract year, to the extent funds are available, but not to exceed $2 billion aggregate limit.

The Company's ceded reinsurance program principally consisted of multi-layer property, catastrophe excess of loss, quota share, and facultative coverage with various reinsurers. The following is a summary of the principal ceded reinsurance treaties in-force as of December 31, 2022:

Line of Business and Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Limit
Multiple line Excess of Loss - High Value Homeowners			
First layer	Hannover Ruck SE-40% authorized reinsurer Odyssey Reinsurance Company - 32.5% authorized reinsurer Partner Reinsurance Co-15% authorized reinsurer Renaissance Reinsurance-12.5% authorized	$450,000	$1.55 million each risk, $3.1 million each loss occurrence, $6.2 million all loss occurrences per contract year
Second layer	Same as first layer	$2 million	$8 million each risk/each risk occurrence, $16 million all loss occurrences per contract year.
100% Quota Share- Identity Fraud Coverage	Virginia Surety Company, Inc-authorized reinsurer	0%	Limited to a maximum of $ 300,000 (contract) coverages during the term of the treaty
100% Quota Share- Multiple Line (Personal and Commercial) Reinsurance Agreement	Hartford Steam Boiler Inspection and Insurance Company- authorized	0%	100%, limited to maximums based on coverage type. No policies written with coverage in excess of maximums
Property Catastrophe Excess of Loss			
First layer	Multiple authorized and unauthorized reinsurers	$20 million	$30 million xs $20 million each loss occurrence arising from at least 2 risks. Reinsurers maximum liability for all occurrences $60 million per contract year
Second layer	Multiple authorized and unauthorized reinsurers	$50 million	$50 million xs $50 million each loss occurrence arising from at least 2 risks. Reinsurers maximum liability for all occurrences $100 million per contract year
Third layer	Multiple authorized and unauthorized reinsurers	$100 million	$100 million xs $100 million each loss occurrence arising from at least 2 risks. Reinsurers maximum liability for all loss occurrences $200 million per contract year

Line of Business and Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Limit
Fourth layer	HCC Casualty, London Branch – 100% - authorized reinsurer	$200 million	$20 million xs $200 million each loss occurrence arising from at least 2 risks. Reinsurers maximum liability for all loss occurrences $40 million per contract year
Personal Umbrella Quota Share	Swiss Reinsurance America Corporation - 100% authorized	50% on policies with limits less than $2 million and 20% on policies with limits equal to or greater than $2 million any one risk.	50% on policies with limits less than $2 million and 80% on policies with limits equal to or greater than $2 million any one risk. $5 million any one risk
Inland Flood Property Quota Share (covers the Company and subsidiary Stillwater Property and Casualty Company)	Munich Reinsurance America, Inc. – 100% - authorized	25% of inland flood coverage liability	75% of the Company's inland flood coverage liability not to exceed $100,000 net loss nor $200,000 annual aggregate per policy. Annual aggregate per policy does not apply within the state of New York. Additionally, Reinsurer's liability not to exceed $300,000 for extra-contractual obligations and excess judgments and $300,000 of declaratory judgment expenses

ACCOUNTS AND RECORDS

Annual Information Statement

The Company failed to timely file the Annual Information Statement, as required by California Insurance Code (CIC) Section 701 for all years under examination. Statements were not filed for years ending 2020 or 2021; the 2022 statement was subsequently filed on July 14, 2023. It is recommended that the Company implement procedures to ensure that it files its Annual Information Statement in a timely manner in accordance with CIC Section 701.

Annual Statement Instructions

The Company was not in compliance with the National Association of Insurance Commissioners (NAIC) Property and Casualty Annual Statements Instructions as the following areas were incomplete or had missing information:

1. Compensation paid to Directors and Officers is to be reported on the Supplemental Compensation Exhibit, with amounts paid to officers and employees that are part of a group of insurers or other holding company system filing amounts paid either on a total gross basis or by allocation to each insurer. The Company failed to include the Director and Chief Executive Officer's compensation on the Supplemental Compensation Exhibit for all years under examination.

2. The Company failed to identify all its investment advisors, managers, brokers/dealers in the General Interrogatory 29.05, which is required by the NAIC Annual Statement Instructions.

3. Pursuant to the NAIC Annual Statements Instructions, the Appointed Actuary must report to the Board of Directors each year on the items within the scope of the Actuarial Opinion, the Actuarial Opinion and the Actuarial Report must be made available to the Board of Directors, and the Board of Director meeting minutes should indicate that the Appointed Actuary has presented such information to the Board of Directors and identify the manner of presentation. The Company failed to document the presentation of the Appointed Actuary's report and the manner of presentation in the Board of Director meeting minutes for all years under examination.

4. The Company did not accurately report its investments in accordance with the NAIC Annual Statement Filing Instructions. Instances of incorrect valuation disclosures, NAIC asset level classifications, reporting of effective rates, and placement of invested assets on the annual statement schedules were noted. No examination adjustments were required as a result of the inaccuracies.

It is recommended the Company implement procedures to ensure compliance with the NAIC Annual Statement Instructions.

Insurance Holding Company System Annual Registration Statement (Form B)

A review of the Company's Form B for the year ending December 31, 2022, noted that Item 5. Transactions and Agreements erroneously disclosed the Administrative Service Agreement between the Company and Stillwater Property and Casualty Insurance Company (SPAC) was amended to reflect the current names of the companies and was accepted by the California Department of Insurance by letter dated, January 28, 2015. As mentioned in the Management Agreement section, there were no name changes made since 2012. It is recommended that the Company implement procedures to ensure information disclosed in its Form B is complete and accurate in accordance with CIC Section 1215.4.

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, 2022. The accompanying comments to the amounts in the financial statements should be considered an integral part of the financial statements. An adjustment was made to the statutory financial statements reported by the Company.

Statement of Financial Condition as of December 31, 2022

Underwriting and Investment Exhibit for the Year Ended December 31, 2022

Reconciliation of Surplus as Regards Policyholders from December 31, 2019 through December 31, 2022

Statement of Financial Condition
as of December 31, 2022

Assets	Ledger and Nonledger Assets	Assets Not Admitted	Net Admitted Assets	Notes
Bonds	$ 211,211,693	$	$ 211,211,693	
Preferred stocks	48,912,079		48,912,079	
Common stocks	176,677,903		176,677,903	
Cash, cash equivalents, and short-term investments	27,861,290		27,861,290	
Other invested assets	69,176,529	228,891	68,947,638	(1)
Receivables for securities	34,250		34,250	
Investment income due and accrued	2,468,246		2,468,246	
Uncollected premiums and agents' balances in the course of collection	10,497,684		10,497,684	
Deferred premiums, agents' balances and installments booked but deferred and not yet due	14,829,148		14,829,148	
Amounts recoverable from reinsurers	694,990		694,990	
Current federal and foreign income tax recoverable and interest thereon	10,976,760		10,976,760	
Net deferred tax asset	15,423,713	563,372	14,860,341	
Electronic data processing equipment and software	745,500	745,500	0	
Aggregate write-ins for other than invested assets	2,097,576	268,817	1,828,759	
Total assets	$ 591,607,360	$ 1,806,580	$ 589,800,781	

Liabilities, Surplus and Other Funds			Notes
Losses		$ 150,555,248	(2)
Reinsurance payable on paid loss and loss adjustment expenses		8,018,663	
Loss adjustment expenses		9,442,269	(2)
Commissions payable, contingent commissions and other similar charges		500,000	
Other expenses		1,819,323	
Taxes, licenses and fees		2,728,632	
Unearned premiums		228,509,521	
Ceded reinsurance premiums payable		246,449	
Payable for parent, subsidiaries and affiliates		6,025,750	
Total liabilities		407,845,855	
Common capital stock	$ 3,250,000		
Gross paid-in and contributed surplus	61,993,824		
Unassigned surplus	116,711,099		
Surplus as regards policyholders		181,954,923	
Total liabilities, surplus, and other funds		$ 589,800,778	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2022

Statement of Income

Underwriting Income

Premium earned		$ 412,019,419
Deductions:		
Losses incurred	$ 336,976,829	
Loss adjustment expenses incurred	40,322,716	
Other underwriting expenses incurred	144,721,473	
Total underwriting deductions		522,021,018
Net underwriting loss		(110,001,599)

Investment Income

Net investment income earned	$ 25,622,611	
Net realized capital losses	11,014,209	
Net investment gain		36,636,820

Other Income

Aggregate write-ins for miscellaneous income	$ 1,877,540	
Total other income		1,877,540
Net loss before dividends to policyholders, after capital gains tax, and before all other federal and foreign income taxes		(71,487,238)
Net loss after dividends to policyholders, after capital gains tax, and before all other federal and foreign income taxes		(71,487,238)
Federal and foreign income taxes incurred		(10,092,460)
Net loss		$ (61,394,778)

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2021		$ 280,667,656
Net loss	$ (61,394,778)	
Change in net unrealized capital gains less capital gains tax of $(8,551,075)	(35,942,622)	
Change in net deferred income tax	5,165,450	
Change in nonadmitted assets	1,903,835	
Dividends to stockholders	(8,444,617)	
Change in surplus as regards policyholders for the year		(98,712,733)
Surplus as regards policyholders, December 31, 2022		$ 181,954,923

Reconciliation of Surplus as Regards to Policyholders from December 31, 2019 through December 31, 2022

	Gain in Surplus	Loss in Surplus	
Surplus as regards policyholders, December 31, 2019			$ 222,456,692
Net loss	$	$ 46,758,784	
Change in net unrealized capital gains	17,473,027		
Change in net deferred income tax	8,001,522		
Change in nonadmitted assets		772,916	
Dividend to stockholders		18,444,617	
Total gains and losses	$ 25,474,549	$ 65,976,317	
Net decrease in surplus as regards policyholders			(40,501,768)
Surplus as regards policyholders, December 31, 2022			$ 181,954,923

Analysis of Changes to Surplus as of December 31, 2022

As a result of the examination, the following adjustments were made to the Company's reported balance sheet items. Other than invested assets were decreased due to the Company using a valuation method that did not comply with the National Association of Insurance Commissioners (NAIC)'s Statement of Standard Accounting Principles (SSAP) No. 48. The sum of the effect on surplus is shown below:

	Increase	Decrease	
Surplus as regards policyholders, December 31, 2022, per Annual Statement			$ 182,183,815
Other invested assets		$ (228,891)	
Net Increase or (decrease)			(228,891)
Surplus as regards policyholders, December 31, 2022, after adjustment			$ 181,954,924

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Other Invested Assets

Pursuant to the National Association of Insurance Commissioners (NAIC) Statement of Standard Accounting Principles (SSAP) No. 48, Paragraph 6, investments in joint ventures, partnerships and limited liability companies, except for joint ventures, partnerships and liability companies with a minor ownership interest, shall be reported using an equity method as defined in SSAP No. 97, Paragraphs 8.b.i. through 8.b.iv. For investments in US noninsurance entities which do not qualify under Paragraph 8.b.ii, these investments shall be recorded on the audited US GAAP equity of the investees.

In addition, pursuant to SSAP No. 48, Paragraphs 8 and 9, for investments in joint ventures, partnerships and limited liability companies with a minor interest (defined in paragraphs 15 and 16, i.e. less than 10% ownerships or lack of control) shall be recorded based on the audited US GAAP equity of the investees. If the audited US GAAP basis financial statements are not available, then the investments may be recorded based on the underlying audited US tax basis equity. In the prior Report of Examination, it was recommended that the Company implement procedures to ensure compliance with SSAP

No. 48, Paragraphs 6, 8, and 9. During the course of the examination, it was noted that two of the Company's other invested assets were still valued using IRS Form Schedule K-1, instead of audited financial statements. The Company elected not to follow the SSAP requirements as recommended in the prior Report of Examination. As a result, an examination adjustment in the amount of $228,891 was made to non-admit the two other invested assets. This amount represents 0.00039 or 0.039%, of the Company's admitted assets as of December 31, 2022. It is again recommended that the Company implement procedures to ensure compliance with SSAP No. 48, Paragraphs 6, 8, and 9 or non-admit the assets.

(1) Losses and Loss Adjustment Expenses

Based on an analysis by a Senior Casualty Actuary for the California Department of Insurance, the Company's loss and loss adjustment expense reserves as of December 31, 2022 were found to be reasonably stated and have been accepted for the purpose of this examination.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Management Agreements – Administrative Service Agreement – (Page 7): It is recommended that the Company amend the Agreement to reflect the correct names of the parties.

Accounts and Records – Annual Information Statement (Page 15): It is recommended that the Company implement procedures to ensure it files its Annual Information Statement in a timely manner in accordance with the California Insurance Code (CIC) Section 701.

Accounts and Records – Annual Statement Instructions (Page 15): It is recommended the Company implement procedures to ensure compliance with the National Association of Insurance Commissioners (NAIC) Annual Statement Instructions.

Accounts and Records - Insurance Company Holding System Annual Registration Statement (Form B) (Page 15): It is recommended the Company implement procedures to ensure information disclosed in its Form B is complete and accurate in accordance with CIC Section 1215.4.

Comments on Financial Statement Items – Other Invested Assets (Page 22): It is again recommended that the Company implement procedures to ensure compliance with Statement of Standard Accounting Principles No. 48, Paragraphs 6, 8, and 9 or non-admit the assets.

Previous Report of Examination

Corporate Records (Page 8) – It was recommended that the Company comply with its Bylaws and hold annual meetings to elect the Company's directors. The Company complied with this recommendation.

Accounts and Records, Annual Statement Instructions (Page 12) - It was recommended that the Company implement procedures to ensure compliance with the NAIC Annual Statement Instructions when completing Note 14D of the Annual Statement. The Company complied with this recommendation.

Other Invested Assets (Page 17) – It was recommended that the Company implement procedures to ensure compliance with NAIC's Statement of Statutory Accounting Principles No. 48, Paragraphs 6, 8, and 9. The Company did not comply 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,

Robin Roberts Digitally signed by Robin Roberts
DN: cn=Robin Roberts, o, ou, email=rroberts@noblecon.net, c=US
Date: 2024.06.11 14:42:38 -04'00'

Robin Roberts, CFE
Examiner-In-Charge
Noble Consulting Services, Inc.
representing the State of California
Department of Insurance

Briggs, Anjanette Digitally signed by Briggs, Anjanette
Date: 2024.06.11 11:37:28 -07'00'

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