REPORT OF EXAMINATION
OF THE
CALIFORNIA INSURANCE COMPANY
AS OF
DECEMBER 31, 2021

Filed on October 10, 2023

TABLE OF CONTENTS

PAGE

SCOPE OF EXAMINATION 1

SUMMARY OF SIGNIFICANT FINDINGS 2

COMPANY HISTORY: 4
- Form A Filing 4
- Conservation Order 4
- Dividends 6

MANAGEMENT AND CONTROL: 6
- Affiliation between AU Holding Company Group and Applied Underwriters, Inc. 9
- Management Agreements 9

TERRITORY AND PLAN OF OPERATION 12

REINSURANCE: 12
- Intercompany 12
- Assumed 15
- Ceded 15

ACCOUNTS AND RECORDS: 16
- Audited Financial Statements 17
- Communication of Prior Examination Report 17

FINANCIAL STATEMENTS: 18
- Statement of Financial Condition as of December 31, 2021 19
- Underwriting and Investment Exhibit for the Year Ended December 31, 2021 20
- Reconciliation of Surplus as Regards to Policyholders from December 31, 2017 through December 31, 2021 21
- Analysis of Changes to Surplus as of December 31, 2021 22

COMMENTS ON FINANCIAL STATEMENT ITEMS: 23
- Common Stocks 23
- Real Estate 24
- Other Invested Assets 25
- Various Reinsurance Accounts 28
- Losses and Loss Adjustment Expenses 28

SUBSEQUENT EVENTS 28

SUMMARY OF COMMENTS AND RECOMMENDATIONS: 29
- Current Report of Examination 29
- Previous Report of Examination 32

ACKNOWLEDGMENT 34

Oakland, California
August 31, 2023

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

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

CALIFORNIA INSURANCE COMPANY

(hereinafter also referred to as the Company), which has its home office located at 10805 Old Mill Road, Omaha, Nebraska 68154.

SCOPE OF EXAMINATION

We have performed our multi-state examination of California Insurance 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.

This 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. As permitted by the *Handbook*, some of the work performed in support of the conclusions in this examination report was performed within the reporting period on an interim basis. The examination does not attest to the fair presentation of the financial statements included herein. If an adjustment was identified during the course of the examination, the impact of such adjustment would 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 the Company.

This was a coordinated examination with California as the lead state of the AU Holding Company Group. It was conducted concurrently with other insurance entities in the holding company group, including Continental Indemnity Company, Applied Underwriters Captive Risk Assurance Company, Inc., Pennsylvania Insurance Company, Illinois Insurance Company, Texas Insurance Company, Florida Casualty Insurance Company, Centaur Specialty Insurance Company, Centauri National Insurance Company, Oklahoma Property & Casualty Insurance Company, and Constitution Insurance Company. The Florida Office of Insurance Regulation, Louisiana Department of Insurance, New Mexico Office of Superintendent of Insurance, New York State Department of Financial Services, Oklahoma Insurance Department and Texas Department of Insurance participated in the examination.

SUMMARY OF SIGNIFICANT FINDINGS

Several examination adjustments were made to the Company's financial statements as a result of this examination. The adjustments were made because the examination could not substantiate the valuation and/or existence of multiple invested assets. The impact of all the adjustments is a decrease to the Company's surplus as regards policyholders as of December 31, 2021 in the amount of $210,507,858. These examination adjustments are discussed in the "Comments on Financial Statement Items" section of the report.

In addition, several investment transactions were noted to have been entered into without the prior notice and consent of the Conservator as required by the Conservation Order, paragraph 15 (refer to "Company History" section). These transactions are discussed in the "Comments on Financial Statement Items" section of the report.

During the course of the examination, it was determined that Applied Underwriters, Inc. (AUI) and the Company are affiliates under California Insurance Code (CIC) Section 1215(a). Consequently, all transactions between AUI and the Company that were entered into subsequent to October 9, 2019 are transactions between affiliates and subject to Commissioner's prior approval requirements pursuant to CIC Section 1215.5 (refer to "Management and Control" section). The Company failed to adhere to the requirements of CIC Section 1215.5 for multiple material affiliated transactions. These transactions are discussed in the "Comments to Financial Statements Items" section of the report.

The Company is operating under an unapproved Addendum No. 5 to the Second Restated Reinsurance Pooling Agreement, and as such, the financial statements, schedules, and exhibits for all the participants in the Agreement are misstated. Refer to the "Reinsurance – Intercompany" section of the report for more information.

As of the date of this Report of Examination, the Company has not obtained 2021 and 2022 annual audits by a qualified independent certified public accountant, and file its audited financial reports with the Commissioner pursuant to CIC Section 900.2 and California Code of Regulation Section 2309.4(a). Refer to the "Accounts and Records – Audited Financial Statements" section of the report for more information.

COMPANY HISTORY

Form A Filing

The Company is a wholly-owned subsidiary of North American Casualty Co. (NAC). Until May 1, 2019, NAC was a subsidiary of Applied Underwriters, Inc. (AUI), which was a subsidiary of AU Holding Company, Inc. (AUH), a subsidiary of Berkshire Hathaway, Inc. (Berkshire). Effective May 1, 2019, AUI was removed as the intermediate holding company for NAC, resulting in AUH having two intermediate holding companies: AUI, whose subsidiaries are comprised of various service companies, and NAC, whose subsidiaries are comprised of the insurance entities. Through a series of transactions with Berkshire (81% owner of AUH), Sydney Ferenc (7.5% owner of AUH), Steven M. Menzies (11.5% owner of AUH) and entities owned by the Quasha Group, Steven M. Menzies became the 100% owner of AUH, effective October 10, 2019. While Steven M. Menzies acquired the NAC insurance entities, the Quasha Group acquired the AUI service companies.

On April 8, 2019, a Form A application was initially filed with the California Department of Insurance (CDI) for the proposed sale by Berkshire. On October 18, 2019, as a result of the Form A filing being materially deficient and because the Company failed to disclose or describe its plan to merge the Company with and into California Insurance Company, New Mexico (CIC NM), a newly formed New Mexico insurer and the Company's attempts to effectuate the merger without requesting and obtaining the prior approval of the California Insurance Commissioner, the Form A filing was denied by the CDI pursuant to California Insurance Code (CIC) Sections 1215.2(d)(1), 1215.2(d)(2), 1215.2(d)(4), and 1215.2(d)(5).

Conservation Order

On November 4, 2019, in response to the Company's violation of CIC Section 1215.2(a) when it attempted to merge its business with and into CIC NM without obtaining prior approval from the CDI, the Superior Court of San Mateo County, California issued an order (Conservation Order) appointing the California Insurance Commissioner as Conservator of the Company. Pursuant to the Conservation Order, paragraph 15, the Conservator is authorized to exercise all the powers of the directors, officers and managers of the Company for the orderly conservation of the Company. The Company's officers, directors, agents, and employees are prohibited, except upon the express written authorization of the Conservator, from entering into any transactions outside the ordinary course of business.

On October 19, 2020, the Conservator filed an Application for Order Approving Rehabilitation Plan (the Plan) to address and resolve the pending conservation proceeding and other regulatory matters. The Plan specifies the steps for the efficient and orderly Rehabilitation of the Company. A hearing on the merits of the rehabilitation plan has been delayed several times, but was subsequently held in July and August of 2023 (see "Subsequent Events" section of the report).

On September 30, 2022, the Conservator filed a Status Report with the Superior Court of San Mateo County, California, regarding additional management controls the Conservator has implemented, effective September 12, 2022. The Conservator implemented additional management controls over the Company due to actions undertaken by the Company that led to the withdrawal of the Company's auditors. Until the prohibitions, conditions, and procedures are withdrawn in writing by the Conservator, all persons authorized to act on behalf of the Company, the Company's estate, or the Conservator, are prohibited from initiating or engaging in any of the actions noted within the letter, either directly or indirectly, unless prior approval has been granted in writing by the Conservator.

It was noted preceding and during the examination that the Company repeatedly engaged in actions that required prior notice and consent of the Conservator as required by the Conservation Order, paragraph 15, but the Company did not provide such prior notice or receive consent for those actions. The Conservator in conjunction with CDI Legal staff are working to identify all violations, direct the Company to take appropriate action to address the violations, and is exploring all available options to prevent further violations.

Dividends

On December 27, 2018, the Company declared an ordinary cash dividend of $97 million to North American Casualty Co. and paid the dividend on August 7, 2019.

MANAGEMENT AND CONTROL

The Company is a wholly-owned subsidiary of North American Casualty Co., which in turn is owned by AU Holding Company, Inc. (AUH), an insurance holding company incorporated in Delaware. The Company has no employees and its day-to-day operations are carried out by employees of Applied Underwriters, Inc. (AUI). The ultimate controlling person of this holding company group is Steven M. Menzies. The following organizational chart depicts the interrelationship of the entities within the holding company system as of December 31, 2021. All ownership is 100% unless otherwise noted:

Steven M. Menzies
- AU Holding Company, Inc. (Delaware)
  - North American Casualty Co. (Nebraska)
    - **California Insurance Company (California)**
      - CIC NEB RE ONE, LLC (Nebraska) (49.9%)
        - CIC Land 1, LLC (Nebraska)
      - CIC NEB RE TWO, LLC (Nebraska) (49.9%)
        - CIC Land 2, LLC (Nebraska)
      - CIC NEB RE THREE, LLC (Nebraska) (49.9%)
        - CIC Land 3, LLC (Nebraska)
      - CIC Land 4, LLC (Nebraska)
    - Continental Indemnity Company (New Mexico)

CNI NEB RE ONE, LLC (Nebraska) (49.9%)

CNI Land 1, LLC (Nebraska)

Applied Underwriters Captive Risk Assurance Company, Inc. (New Mexico)

AUCRA NEB RE ONE, LLC (Nebraska) (49.9%)

AUCRA Land 1, LLC (Nebraska)

Illinois Insurance Company (New Mexico)

IIC NEB RE ONE, LLC (Nebraska) (49.9%)

IIC Land 1, LLC (Nebraska)

Pennsylvania Insurance Company (New Mexico)

Oklahoma Property and Casualty Insurance Company (Oklahoma)

Texas Insurance Company (Texas)

Commercial General Indemnity, Inc. (Hawaii)

California Insurance Company (New Mexico)

Applied Warranty and Insurance Services, LLC (Delaware)

Applied Group Insurance Holdings, Inc. (Hawaii)

Centauri Acquisition Corporation, LLC (Delaware)

Centauri Specialty Managers, Inc. (Florida)

Centauri Specialty Insurance Holdings, Inc. (Delaware)

Centauri Specialty Insurance Company, Inc. (Florida)

Centauri National Insurance Company (Louisiana)

Constitution Group, LLC (New York)

Constitution Insurance Company (New York)

Simon New York Inc. (New York) (50.0%)

Bernard Acquisition Company LLC

Applied Underwriters, Inc. (Nebraska) – Affiliated through common control

Applied Risk Services, Inc. (Nebraska)

CIC NEB RE ONE, LLC (Nebraska) (50.1%)

CIC NEB RE TWO, LLC (Nebraska) (50.1%)

CIC NEB RE THREE, LLC (Nebraska) (50.1%)

CNI NEB RE ONE, LLC (Nebraska) (50.1%)
AUCRA NEB RE ONE, LLC (Nebraska) (50.1%)
IIC NEB RE ONE, LLC (Nebraska) (50.1%)

The five members of the board of directors oversee the business and affairs of the Company. The following are members of the board and principal officers of the Company serving at December 31, 2021:

Directors

Name and Location	Principal Business Affiliation
Steven M. Menzies Omaha, Nebraska	Chairman and Chief Executive Officer AU Holding Company, Inc.
Jeffrey A. Silver Omaha, Nebraska	Executive Vice President, Secretary, General Counsel, and Director AU Holding Company, Inc.
Robert L. Stafford Omaha, Nebraska	Vice President of Finance AU Holding Company, Inc.
Jon M. McCright Cedar Rapids, Iowa	Attorney Lynch Dallas, P.C.
Mark M. Tract New York, New York	Attorney Katten, Muchin, Rosenmann LLP

Principal Officers

Name	Position
Steven M. Menzies	Chairman and Chief Executive Officer
Jeffrey A. Silver	Secretary and General Counsel
Justin N. Smith	Chief Underwriting Officer
Ace Rowley	Chief Operating Officer
Robert L. Stafford	Vice President of Finance

Affiliation between AU Holding Company Group and Applied Underwriters, Inc.

As discussed under the "Company History" section of this report, the ultimate owner of AUH is Steven M. Menzies and the owner of Applied Underwriters, Inc. (AUI) is Bernard Acquisition Company, LLC of which the ultimate owners are the Everest Trust and the Townsend Family Trust. Pursuant to California Corporations Code Section 300 and Nebraska Revised Statute Section 21-284, all corporate powers are exercised by or under the authority of the board of directors of the corporation. It was observed that Steven M. Menzies and Jeffrey A. Silver, as officers and directors of AUI, exercise the oversight and manage the operations of AUI.

Based on the authority that Steven M. Menzies and Jeffrey A. Silver exercise as directors of AUI and the Company, and Steven M. Menzies as owner of AUH, both AUI and the Company are deemed to be under common control. As such, AUI and the Company are deemed affiliates under California Insurance Code (CIC) Section 1215(a). Consequently, all transactions between AUI and the Company that were entered into subsequent to October 9, 2019 are transactions between affiliates subject to the Insurance Commissioner's prior approval pursuant to CIC Section 1215.5. During the examination, it was noted that several transactions between AUI and the Company are material affiliated transactions and are subject to the requirements of CIC Section 1215.5. These transactions are discussed in the "Comments on the Financial Statement Items" section of the report.

Management Agreements

Management Services Agreement: Effective July 1, 2005, the Company entered into a Management Services Agreement (Agreement) with AUI. Under the terms of the Agreement, AUI agrees to provide all underwriting, investment, administrative, actuarial, and claim services to the Company at cost. This Agreement was approved by the California Department of Insurance (CDI) on June 25, 2008. The costs incurred by the Company under this Agreement in 2018, 2019, 2020, and 2021 were $47,149,885,

$49,736,129, $49,329,511, and $52,538,778, respectively. On September 16, 2019 and September 20, 2019, the Company submitted two Form D applications. One to extend the Agreement to two years, and the latter to amend the Agreement to extend it to two years and delete certain services in the Agreement. The Form D applications were not processed and closed by the California Department of Insurance (CDI) due to the approval by the New Mexico Office of Superintendent of Insurance (OSI) of the Form A submitted to merge the Company with California Insurance Company, New Mexico (CIC NM) and the entry of the Conservation Order.

Pursuant to Statements of Statutory Accounting Principles (SSAP) No. 70, paragraph 9, the basis adopted to apportion expenses shall be one which yields the most accurate results and may result from special studies of employee activities, salary ratios, premium ratios, or similar analyses. The Company was unable to provide documentation of its analysis pertaining to the development of allocation percentages and ratios. The examination team was unable to determine if the basis adopted to apportion expenses yields the most accurate results and was unable to obtain any evidence of special studies of employee activities, salary ratios, premium ratios, or similar analyses in accordance with SSAP No. 70. It is recommended the Company conduct and document special studies of employee activities, salary ratios, premium ratios or similar analyses that yield the most accurate results and support the basis adopted to apportioned expenses.

Claim Service Agreement: Effective June 1, 2005, the Company entered into a Claim Service Agreement (Agreement) with Applied Risk Services, Inc. (ARS). Under the terms of the Agreement, ARS agrees to provide all claim-adjusting services to the Company and the Company agrees to reimburse ARS for all reasonable and necessary expenses incurred in connection with adjusting workers' compensation claims. This Agreement was approved by the CDI on June 25, 2008. The Agreement expired on December 31, 2014; however, it was allowed to remain in effect under paragraph 8 of the Conservation Order. The costs incurred by the Company under this Agreement in 2018, 2019, 2020 and 2021, were $446,603, $28,413, $485,927, and $110,418, respectively. The Company submitted a Form D application to extend the Agreement to two years. The application was not processed and closed by the CDI due to the approval by the New Mexico OSI of the Form A submitted to merge the Company with CIC NM and the entry of the Conservation Order.

Agency Agreement**:** Effective June 1, 2005, the Company entered into an Agency Agreement (Agreement) with ARS. Under the terms of the Agreement, ARS receives premium from policyholders and pays commissions to brokers on behalf of the Company. For this service, the Company reimburses ARS for the actual commissions paid to brokers and agents who write workers' compensation insurance for the Company. Continental Indemnity Company (CNI), Applied Underwriters Captive Risk Assurance Company, Inc. (AUCRA), Pennsylvania Insurance Company (PIC), and Illinois Insurance Company (IIC) each have separate Management Services Agreements in place with ARS. The Agreement was approved by the CDI on June 25, 2008. The Agreement expired on December 31, 2014; however, it was allowed to remain in effect under paragraph 8 of the Conservation Order. The costs incurred by the Company under this Agreement in 2018, 2019, 2020, and 2021 were $19,710,972, $12,732,136, $7,853,750, and $4,996,781, respectively. The Company submitted a Form D application to extend the Agreement to two years. The application was not processed and closed by the CDI due to the approval by the New Mexico OSI of the Form A submitted to merge the Company with CIC NM and the entry of the Conservation Order.

Tax Allocation Agreement**:** Effective September 1, 2020, the Company entered into a Consolidated Federal Income Tax Allocation Agreement (Agreement) with its ultimate parent AU Holding Company, Inc. and its affiliates CNI, AUCRA, PIC, IIC, Texas Insurance Company, California Insurance Company (New Mexico), and Commercial General Indemnity Company. The Agreement calls for each company to be responsible for no more than the amount which would be paid as if filing a separate return. The Agreement was approved by the CDI on December 24, 2020.

TERRITORY AND PLAN OF OPERATION

The Company's operations are conducted jointly with its affiliates at its administrative office in Omaha, Nebraska. As of December 31, 2021, the Company was licensed to transact workers' compensation, employment practices liability insurance (other liability claims made), employment practices liability insurance (write-in), and surety and warranty lines of business in the following 26 states: Alaska, Arizona, California, Connecticut, Georgia, Hawaii, Idaho, Illinois, Indiana, Iowa, Kansas, Maryland, Missouri, Montana, Nevada, New Jersey, New York, North Carolina, North Dakota, Oregon, Pennsylvania, Texas, Utah, Virginia, Washington, and Wisconsin.

In 2021, the Company wrote $55.5 million in direct premiums. Of that amount, 88.9% was for workers' compensation insurance. Premiums written in California comprised 96.3% of the total direct premiums written and the remaining 3.7% were written in the other 25 licensed states.

The Company predominantly writes workers' compensation in California and employment practices liability products through its affiliated licensed insurance agent, Applied Risk Services, Inc. (ARS). The products are sold through independent brokers with most of the business written in conjunction with payroll services that is administered by another affiliate, Applied Underwriters, Inc. (AUI), under a separate agreement with policyholders.

REINSURANCE

Intercompany

Master Facultative Reinsurance Agreement: Effective July 1, 2005, the Company and Applied Underwriters Captive Risk Assurance Company, Inc. (AUCRA) entered into a Master Facultative Reinsurance Agreement (Agreement) whereby premiums and losses of the profit-sharing workers' compensation policies are ceded to AUCRA under a segregated cell arrangement. The Agreement was approved by the California Department of Insurance (CDI) on June 25, 2008.

Second Restated Reinsurance Pooling Agreement: On January 1, 2013, the Company entered into a Restated Intercompany Pooling Agreement with affiliates Continental Indemnity Company (CNI), Illinois Insurance Company (IIC), and Pennsylvania Insurance Company (PIC). Effective January 1, 2015, this Agreement was superseded by a Second Restated Reinsurance Pooling Agreement (the Agreement), whereby Texas Insurance Company (TIC) was added as a participant.

Addendum No. 5, effective November 1, 2020, changed the lead company of the pool from the Company to CNI. However, the Company did not submit a Form D for Addendum No. 5 for prior approval as required by California Insurance Code (CIC) Section 1215.5(b)(3). Upon the request of the California Department of Insurance, the Company submitted a Form D application for the Addendum No. 5 on June 24, 2021. It was determined that Addendum No. 5 would negatively impact the pending Application for Order Approving Plan of Reorganization filed on October 19, 2020 in the pending conservation proceeding and notice was given to the Company that the review of the Form D application could not be completed. Additionally, Addendum No. 5 was not disclosed in the Company's 2020 Insurance Holding Company System Annual Registration Statement (Form B and C) pursuant to CIC Section 1215.4(b)(3) and 1215.4(c).

The Company has been operating under the unapproved Addendum No. 5 since 2020. As a result, all financial statements, schedules, and exhibits in the Company's annual and quarterly financial statements since 2020 that are related to and/or impacted by the intercompany pooling agreement are misstated and do not comply with the Second Restated Reinsurance Pooling Agreement that was last approved by the California Insurance Commissioner. The Company is directed to amend and refile all annual and quarterly financial statements subsequent to November 1, 2020 so that the Company's financial statements reflect the intercompany pooling transactions in accordance with the

Second Restated Reinsurance Pooling Agreement as previously approved by the California Insurance Commissioner.

It is also noted that the actions taken to enter into Addendum No. 5 were taken without prior notice given and consent of the Conservator as required by the Conservation Order, paragraph 15. The Company is directed to comply with the Conservation Order, paragraph 15, and provide prior notice and obtain consent from the Conservator before entering into any transactions outside the ordinary course of business.

The pooling participation of the pool members are as follows:

Company	State of Domicile	Pooling Share
California Insurance Company	CA	70.0%
Continental Indemnity Company	NM	15.0%
Illinois Insurance Company	NM	5.0%
Pennsylvania Insurance Company	NM	5.0%
Texas Insurance Company	TX	5.0%
Pool Total		100.0%

Intercompany Quota Share Reinsurance Agreement: Effective January 1, 2021, Constitution Insurance Company (CTIC) and the Company entered into an Intercompany Quota Share Reinsurance Agreement where CTIC cedes 75% of losses from its California Homeowners and Dwelling Property Policies in the 2021 accident year to the Company.

Intercompany Quota Share Reinsurance Agreement: Effective January 1, 2021, the Company along with its affiliates CNI, IIC, PIC, and TIC (collectively the NAC Group) entered into a Quota Share Reinsurance Agreement with affiliates CTIC, where the NAC Group cedes 100% of losses of its Workers' Compensation JumboGC and SolutionOne policies.

Assumed

As of December 31, 2021, the Company did not assume any other reinsurance business besides the intercompany agreements mentioned above.

Ceded

The following is a summary of principal reinsurance agreements in-force as of December 31, 2021:

Line of Business and Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Limit
Directors and Officers, Employment Practices, and Fiduciary Liability Insurance Fidelity Insurance and Financial Institution E&O Quota Share	Authorized AXIS Reinsurance Company (10%) The Cincinnati Insurance Company (4%) Munich Reinsurance America, Inc. (13%) Partner Reinsurance Company of the US (15%) QBE Reinsurance Corporation (8%) Renaissance Reinsurance US Inc. (5%) Various Underwriters of Lloyd's, London (10%)	35% of $10 million	65% of $10 million
Workers' Compensation and Employer's Liability Quota Share	Unauthorized United Insurance Company (100%)	The Company shall retain and be liable for its proportionate Quota Share of its Net Liability	The ratio between Ultimate Ceded Net Earned Premium over the Final Adjusted Net Earned Premium income expressed as a percentage; $1 million each loss occurrence each policy.
Casualty Quota Share	Authorized Renaissance Reinsurance US Inc. (20%) JRG Reinsurance Company Ltd. (15%) QBE Reinsurance Corporation (10%) MS Amlin AG Bermuda Branch (10%) Partner Reinsurance Company of the US (5%)	None*	100% of the Group's Net Liability. $2 million each occurrence or claim made; $4 million in the aggregate.
Excess Casualty Quota Share	Authorized Renaissance Reinsurance US Inc. (20%) Partner Reinsurance Company of the US (15%) QBE Reinsurance Corporation (10%) JRG Reinsurance Company, Ltd. (5%) MS Amlin AG Bermuda Branch (5%)	None*	100% of the Group's Net Liability. $5 million each occurrence or claim made.

Line of Business and Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Limit
Facultative Property Risk Excess Collections	Authorized Lloyd's Underwriter Syndicate 2001 AML (20%) Lloyd's Underwriter Syndicate 4711 ASP (10%) Lloyd's Underwriter Syndicate 2987 BRT (20%) Lloyd's Underwriter Syndicate 4444 CNP (15%) Lloyd's Underwriter Syndicate 1084 CSL (15%) Lloyd's Underwriter Syndicate 1221 HIG (10%) Lloyd's Underwriter Syndicate 1618 KII (5%) Unauthorized Convex Insurance UK Limited (5%)	$25 million ultimate net loss	$125 million excess of $25 million each loss occurrence or risk; $625 million maximum
Property Excess and Surplus and FL Wind Excess of Loss	Authorized Odyssey Reinsurance Company (3.5%) Everest Reinsurance Company (7.5%)	$20 million ultimate net loss each loss occurrence*	$20 million excess of $20 million each loss occurrence; $40 million all loss occurrence
Terrorism Workers' Compensation Excess of Loss	Authorized Munich Reinsurance America (15%) Arch Reinsurance Company (10%) Lloyd's Syndicates (75%)	$42.5 million each loss occurrence	$100 million excess of $42.5 million each loss occurrence; $200 million all net loss

*Any amounts that were not placed with reinsurers were retained by the Company.

ACCOUNTS AND RECORDS

California Insurance Code (CIC) Section 734 states that "Every company or person from whom information is sought, and its officers, directors, employees, and agents, shall provide to the examiners appointed pursuant to this article, timely, convenient, and free access at all reasonable hours at its office to all books, records, accounts, papers, documents, and any or all computer or other recordings relating to the property, assets, business, and affairs of the company being examined." Throughout the course of the examination, the Company has failed to comply with its statutory obligations. It is recommended that the Company provide timely and free access to all books, records, accounts, papers, documents, and any or all computer or other recordings relating to the property, assets, business, and affairs of the companies being examined and implement procedures to ensure future compliance with CIC Section 734.

Audited Financial Statements

RSM US LLP (RSM) was originally engaged by the Company to perform its 2021 financial audit. Effective June 22, 2022 and before the audit was complete, RSM resigned from the engagement. As such, the Company did not meet the June 1 deadline for submitting its annual audited financial report for the year ended December 31, 2021 to the California Department of Insurance (CDI) as required under CIC Section 900.2 and California Code of Regulations (CCR), Title 10, Section 2309.4(a).

On July 11, 2022, the Company engaged Armanino LLP (Armanino) to complete its 2021 audit. The CDI reviewed the prior work and engagements that Armanino had with the Company and its affiliates and determined that Armanino is not a qualified independent certified public accountant pursuant to CCR, Title 10, Sections 2309.7(g)(1), 2309.7(g)(1)(A), 2309.7(g(1)(I) and 2309.7(g)(2). As a result, the audited financial report prepared by Armanino for the Company was not accepted by the CDI. On October 13, 2022, the Conservator directed the Company to engage a qualified independent certified public accountant (CPA) to complete the 2021 annual audit. As of the date of this Report of Examination, the Company is not in compliance with CIC Section 900.2 and CCR Section 2309.4(a) for the 2021 and 2022 audit years. The Company is directed to obtain annual audits for years 2021 and 2022 by a qualified independent certified public accountant and file its audited financial reports with the Insurance Commissioner pursuant to CIC Section 900.2 and CCR Section 2309.4(a). Due to the Company being unable to engage a qualified independent CPA to complete the 2021 and 2022 annual audits, the Conservator has taken initiatives to engage a CPA firm.

Communication of Prior Examination Report

CIC Section 735 states that the Company must inform the board members of the receipt of the Report of Examination, both in the form first formally prepared by the examiners and in the form as finally settled and officially filed by the Insurance Commissioner, and enter that fact in the board minutes. It was noted that the Board of Directors meeting minutes did not reflect any communication on the receipt, both in first formally prepared and the final filed Report of Examination for the prior examination pursuant to CIC Section 735. It is recommended that the Company notify the board members of the receipt of the Report of Examination, both in the form first formally prepared by the examiners and in the form as finally settled and officially filed by the Insurance Commissioner, and enter that fact in the board minutes pursuant to CIC Section 735.

FINANCIAL STATEMENTS

The following statements are based on the statutory financial statements filed by the Company with the California Department of Insurance for the period ending December 31, 2021. As noted previously, the Company has not submitted an annual audited financial report by a qualified independent certified public accountant. The accompanying comments on financial statements should be considered an integral part of the financial statements.

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

Analysis of Changes to Surplus as of 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	$ 43,215,243	$	$ 43,215,243	
Common stocks	108,269,265	107,241,044	1,028,221	(1)
Real estate:				
Properties occupied by the company	131,818,446		131,818,446	(2)
Properties held for production	2,115,317		2,115,317	
Cash, cash equivalents and short-term investments	595,278,516		595,278,516	
Other invested assets	103,652,404	25,161,538	78,490,866	(3)
Investment income due & accrued	937,401		937,401	
Deferred premiums, agents' balances and installments booked but deferred and not yet due	80,268,069		80,268,069	
Amount recoverable from reinsurers	4,756,092		4,756,092	(4)
Funds held by or deposited with reinsured companies	25,000,000		25,000,000	(4)
Net deferred tax asset	17,878,086	4,238,555	13,639,531	
Guaranty funds receivable or on deposit	14,361,531		14,361,531	
Receivables from parent, subsidiaries and affiliates	4,587,894		4,587,894	
Aggregate write-ins for other than invested assets	9,644,757	114,717	9,530,040	
Total assets	$ 1,141,783,021	$ 136,755,854	$ 1,005,027,167	

Liabilities, Surplus and Other Funds			Notes
Losses		$ 323,865,714	(5)
Loss adjustment expenses		54,890,008	(5)
Reinsurance payable on paid losses and loss adjustment expenses		19,066,189	(4)
Commissions payable, contingent commissions and other similar charges		2,001,643	
Other expenses (excluding taxes, licenses and fees)		9,583,172	
Taxes, licenses and fees (excluding federal and foreign income tax)		341,115	
Current federal and foreign income taxes		4,815,138	
Unearned premiums		146,209,882	
Ceded reinsurance premiums payable		9,547,301	(4)
Remittances and items not allocated		30,989	
Payable to parent, subsidiaries and affiliates		259	
Aggregate write-ins for liabilities		597,988	
Total liabilities		570,949,398	
Common capital stock	$ 4,000,000		
Gross paid in and contributed surplus	54,060,000		
Unassigned funds (surplus)	376,017,769		
Surplus as regards policyholders		$ 434,077,769	
Total liabilities, surplus and other funds		$ 1,005,027,167	

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

Underwriting Income			Notes
Premiums earned		$ 254,817,452	
Deductions:			
Losses incurred	$ 79,589,960		
Loss adjustment expenses incurred	26,824,742		
Other underwriting expenses incurred	101,237,114		
Total underwriting deductions		207,651,816	
Net underwriting loss		47,165,636	
Investment Income			
Net investment income earned	$ 4,452,009		
Net realized capital losses	(90,038,758)		(3)
Net investment loss		(85,586,749)	
Other income			
Aggregate write-ins for miscellaneous income	1,627		
Total other income		1,627	
Net loss before dividends to policyholders, after capital gains tax and before federal and foreign income taxes		(38,419,486)	
Federal and foreign income taxes incurred		13,347,075	
Net loss		$ (51,766,561)	

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2020		$ 593,668,524
Net loss	$ (51,766,561)	
Change in net unrealized capital losses	(3,832,949)	
Change in net deferred income tax	4,113,866	
Change in nonadmitted assets	(108,105,111)	
Change in surplus as regards policyholders for the year		(159,590,755)
Surplus as regards policyholders, December 31, 2021		$ 434,077,769

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			$ 622,597,671
Net income	$ 67,548,740		
Change in net unrealized capital losses		37,258,120	
Change in net deferred income tax	14,817,591		
Change in nonadmitted assets		136,628,113	
Dividends to stockholders		97,000,000	
Total gains and losses	$ 82,366,331	$ 270,886,233	
Net decrease in surplus as regards policyholders			(188,519,902)
Surplus as regards policyholders, December 31, 2021			$ 434,077,769

Analysis of Changes to Surplus as of December 31, 2021

As a result of the examination, the following adjustments was made to the Company's reported balance sheet items.

Surplus as regards policyholders, December 31, 2021 per Annual Statement			$ 644,585,627
	Increase	Decrease	
Common Stock	$	$ 94,502,546	
Other Invested Assets		116,005,312	
Net increase or (decrease)	$ 0	$ 210,507,858	
Net decrease in surplus as regards policyholders			(210,507,858)
Surplus as regards policyholders, December 31, 2021, after adjustment			$ 434,077,769

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Common Stocks

Brean Holdings, LLC/Brean Capital, LLC: On July 7, 2021, the Company acquired 1,647 shares in Brean Holdings, LLC/Brean Capital, LLC from BMUR Holdings for a cost of $59,366,939. At December 31, 2021, the investment was carried at cost with a reported carrying value of $59,366,939. The methodology used by the Company to value this investment is not in compliance with the National Association of Insurance Commissioners (NAIC) Statements of Statutory Accounting Principles (SSAP) No. 48, paragraph 6. Pursuant to this SSAP, investments in joint ventures, partnerships and limited liability companies, shall be reported using the audited U.S. GAAP equity method as defined in SSAP No. 97 paragraphs 8.b.i. through 8.b.iv. In addition, the Company was unable to provide evidence of its ownership in either Brean Holding, LLC nor Brean Capital, LLC. An examination adjustment of $59,366,938 was made to non-admit the full asset amount.

On December 20, 2022, the Company reclassified its holdings in Brean Holdings, LLC/Brean Capital, LLC into a reverse repurchase agreement.

Both the initial purchase and subsequent reclassification transactions were made without the prior notice and consent of the Conservator as required by the Conservation Order, paragraph 15. The Company is directed to comply with the Conservation Order, paragraph 15, and provide prior notice and obtain consent from the Conservator before entering into any transactions outside the ordinary course of business.

PQN Holdings Ltd: On October 10, 2019, the Company purchased 3,408.2616 shares of PQN Holdings Ltd (PQN) for $55,849,103 directly from its affiliate, Applied Underwriters, Inc. (AUI), which were directly purchased from PQN on September 27, 2019. PQN functions as an investment vehicle that holds certain underlying investments of which its valuation is derived. Pursuant to the Purposes and Procedures Manual of the NAIC Investment Analysis Office, General Rule on Presentation of Financial Results, paragraph

94, any security owned or eligible for purchase by an insurance company that is issued or otherwise the obligation of a non-U.S. obligor, must be accompanied by an Audited Financial Statements prepared in accordance with a Global Financial Presentation Standard or a Reconciled Financial Presentation Standard. The Company was unable to produce audited financial statements for PQN and a significant majority of the underlying investments. An examination adjustment of $47,874,106 was made to non-admit a portion of the underlying investments of PQN that were not supported by audited financial statements.

In addition, the transaction was made in violation of California Insurance Code (CIC) Section 1215.5(b)(1) because the Company did not notify the Commissioner in writing of its intention to enter into the transaction at least 30 days prior, due to the transaction exceeding 3 percent of admitted assets. It is recommended that the Company file a Form D application for the PQN investment pursuant to CIC Section 1215.5(b)(1). Additionally, the transaction was not disclosed in the Company's 2019 Insurance Holding Company System Annual Registration Statement (Form B and C) pursuant to CIC Section 1215.4(b)(3) and 1215.4(c). It is recommended that the Company submit the proper filings and disclosures in accordance with CIC Section 1215.4(b)(3) and 1215.4(c) for this transaction.

In addition, the Company did not disclose the transactions in accordance with SSAP No. 25 in its 2019 Annual Statement, Notes to the Financial Statements section. Pursuant to SSAP No. 25, the financial statements shall include disclosures of all material related party transactions. It is recommended that the Company implement procedures to ensure appropriate disclosures are made in its Annual Statements in accordance with SSAP No. 25.

(2) Real Estate

On October 9, 2019, the Company purchased land from AUI in the amount of $7,679,529 for the construction of a home office to be occupied by AUI. The Company made additional investments in the build out of the home office in 2020, 2021, and subsequently in 2022 in the amounts of $57,203,260, $66,935,657, and $69,708,580, respectively. These transactions were made without the prior notice and consent of the Conservator as required by the Conservation Order, paragraph 15. The Company is directed to comply with the Conservation Order, paragraph 15, and provide prior notice and obtain consent from the Conservator before entering into any transactions outside the ordinary course of business.

According to the Appraisal Report dated June 29, 2023, the home office is valued at $201,500,000. The value conclusion noted within the Appraisal Report is subject to the "extraordinary assumptions" that the appraisal is based on an unexecuted lease agreement between the Company (owner) and Applied Underwriters, Inc. (tenant) where the tenant will pay an Average Contract Rent Per Square Feet (PSF) of $90.86, a rate that is 324.5% of the $28.00 Market Rent PSF. An extraordinary assumption is defined by the Uniform Standards of Professional Appraisal Practice as "an assignment-specific assumption as of the effective date regarding uncertain information used in an analysis which, if found to be false, could alter the appraiser's opinions or conclusions." This is a significant concern due to the unexecuted lease being among affiliates where the terms may vary at the time of execution, or if the subject property were to be sold on the open market, the Market Rent PSF would not support the appraised valuation.

(3) Other Invested Assets

NEB RE ONE, LLC, NEB RE TWO, LLC, and NEB RE THREE, LLC: On October 9, 2019, the Company contributed cash in the amounts of $38,562,948, $71,602,710, and $48,455,216 as part of the formation of CIC NEB RE ONE LLC, CIC NEB RE TWO LLC, and CIC NEB RE THREE, LLC (together referred to as CIC NEB RE LLCs), respectively, for a 49.9% ownership stake in each of the companies. Its affiliate, AUI, contributed land as part of the formation of the CIC NEB RE LLCs and has a 50.1% ownership stake. In conjuction with the forementioned transactions, all of the contributed cash to the CIC NEB RE LLCs were loaned to AUI in the form of unsecured notes. The financial statements for

CIC NEB RE LLCs were reviewed and it was observed that the key assets consist primarily of land and loans receivables from AUI. An analysis of the 2021 Audited Financial Statements of AUI was performed and it was determined that the likelihood of the loans being uncollectible is probable. Pursuant to SSAP No. 48, paragraph 18 and 19, any decline in the fair value of an investment in a limited liability company which is determined to be other than temporary, the investment shall be written down to fair value as the new cost basis and the amount of the write down shall be accounted for as a realized loss. An impairment shall be considered to have occurred if it is probable that the reporting entity will be unable to recover the carrying amount of the investment. An examination adjustment of $90,843,774 was made to the fair value due to collectibility concerns around the loans to AUI.

In addition, the transaction was made in violation of CIC Section 1215.5(b)(1) because the Company did not notify the Insurance Commissioner in writing of its intention to enter into the transaction at least 30 days prior, due to the transaction exceeding 3 percent of admitted assets. It is recommended that the Company file a Form D application for the investments pursuant to CIC Section 1215.5(b)(1). On September 28, 2022, the Company filed the Form D for the transactions under the direction of the Conservator and is pending review by the California Department of Insurance. Additionally, the transaction was not disclosed in the Company's 2019 Insurance Holding Company System Annual Registration Statement (Form B and C) pursuant to CIC Sections 1215.4(b)(3) and 1215.4(c). It is recommended that the Company submit the proper filings and disclosures in accordance with CIC Sections 1215.4(b)(3) and 1215.4(c) for this transaction.

The Appraisal Report dated September 20, 2019 reflected an aggregate retail value of the real estate development projects for the CIC NEB RE ONE, LLC, CIC NEB RE TWO, LLC, CIC NEB RE THREE, LLC, CNI NEB RE ONE, LLC, IIC NEB RE ONE, LLC, and AUCRA NEB RE ONE, LLC at $230,285,513. An updated Appraisal Report dated April 26, 2023 was provided that reflected a fair market value of the real estate development projects of $120,865,000, a decrease of $109,420,513.

Loans to Applied Underwriters, Inc.: On October 10, 2019 and March 31, 2020, the Company issued $15 million and $20 million in unsecured loans to AUI. An analysis of the 2021 Audited Financial Statements of AUI was performed and it was determined that the likelihood of the loans being uncollectible is probable. Pursuant to the NAIC SSAP No. 25, paragraph 11, evaluation of the collectibility of loans shall be made periodically. If it is probable the balance is uncollectible, any uncollectible receivable shall be written off. An examination adjustment of $19,300,000 was made to non-admit the full asset amount.

In addition, the Company did not notify the Insurance Commissioner in writing of its intention to enter into the transactions at least 30 days prior due to the transactions exceeding 3 percent of admitted assets as required by California Insurance Code (CIC) Sections 1215.5(b)(1) and 1215.5(c). It is recommended that the Company file Form D applications for the investments pursuant to CIC Sections 1215.5(b)(1) and 1215.5(c). Additionally, the transactions were not disclosed in the Company's 2019 and 2020 Insurance Holding Company System Annual Registration Statement (Form B and Form C) pursuant to CIC Sections 1215.4(b)(3) and 1215.4(c). It is recommended that the Company submit the proper filings and disclosures in accordance with CIC Sections 1215.4(b)(3) and 1215.4(c) for the transactions. Additionally, the March 31, 2020 transaction was made without the prior notice and consent of the Conservator as required by the Conservation Order, paragraph 15. The Company is directed to comply with the Conservation Order, paragraph 15, and provide prior notice and obtain consent from the Conservator before entering into any transactions outside the ordinary course of business.

Collateral Loan to United Holding Corporation: On October 23, 2019, the Company issued a $5,861,538 collateral loan to United Holding Corporation. Pursuant SSAP No. 21, paragraph 4.b, collateral loans secured by assets that do not qualify as investments shall be nonadmitted. The Company was unable to provide evidence of the collateral backing the underlying loan. An examination adjustment of $5,861,538 was made to non-admit the full asset amount.

(4) Various Reinsurance Accounts

As previously discussed under the "Reinsurance – Intercompany" section, the Company has been operating under the unapproved Addendum No. 5 to the Second Restated Reinsurance Pooling Agreement which changed the pool leader from the Company to Continental Indemnity Company (CNI). As a result, all financial statements, schedules, and exhibits in the Company's annual and quarterly financial statements since 2020 that are related to and/or impacted by the intercompany pooling agreement are misstated and do not comply with the Second Restated Reinsurance Pooling Agreement that was last approved by the California Insurance Commissioner. The Company is directed to amend and refile all annual and quarterly financial statements subsequent to November 1, 2020 so that the Company's financial statements reflect the intercompany pooling transactions in accordance with the Second Restated Reinsurance Pooling Agreement as previously approved by the California Insurance Commissioner.

(5) 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 April 10, 2023, the Company acquired a new asset that was reported on Schedule BA, BAM CREDIT TRS FUND I. LP, for a cost of $30 million. An additional $2.5 million investment was made after the initial acquisition. The transactions were made without the prior notice and consent of the Conservator as required by the Conservation Order, paragraph 15. The Company is directed to comply with the Conservation Order, paragraph 15, and provide prior notice and obtain consent from the Conservator before entering into any transactions outside the ordinary course of business.

On May 24, 2023, the Company acquired a new asset reported on Schedule BA, Rain Technologies, Inc., for a cost of $5 million. The transaction was made without the prior notice and consent of the Conservator as required by the Conservation Order, paragraph 15. The Company is directed to comply with the Conservation Order, paragraph 15, and provide prior notice and obtain consent from the Conservator before entering into any transactions outside the ordinary course of business.

On July 25, 2023, the Company rehabilitation plan hearing took place in the Superior Court of San Mateo County, California. The Conservator focused on the events that led to the Conservation and the components of the rehabilitation plan that are designed to allow the Company to re-domesticate to New Mexico after extinguishing its liabilities. On August 23, 2023, the Superior Court of San Mateo County, California, affirmed its tentative ruling to approve the rehabilitation plan subject to the submission of a proposed Order by the Conservator's counsel no later than October 6, 2023 with the Company's proposed revisions thereto by November 17, 2023 based upon which the Superior Court will issue its written order.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Management and Control – Management Agreement (Page 9): It is recommended the Company conduct and document special studies of employee activities, salary ratios, premium ratios or similar analyses that yield the most accurate results and support the basis adopted to apportioned expenses in accordance with Statements of Statutory Accounting Principles (SSAP) No. 70.

Reinsurance – Intercompany (Page 13): The Company is directed to amend and refile all annual and quarterly financial statements subsequent to November 1, 2020 so that the Company's financial statements reflect the intercompany pooling transactions in accordance with the Second Restated Reinsurance Pooling Agreement as previously approved by the California Insurance Commissioner. It is also recommended that the Company submit the proper filings and disclosures in accordance with California Insurance Code (CIC) Sections 1215.4(b)(3) and 1215.4(c) for this transaction. In addition, the Company is directed to comply with the Conservation Order, paragraph 15, and provide prior notice and obtain consent from the Conservator before entering into any transactions outside the ordinary course of business.

Accounts and Records (Page 16): It is recommended that the Company provide timely and free access to all books, records, accounts, papers, documents, and any or all computer or other recordings relating to the property, assets, business, and affairs of the companies being examined and implement procedures to ensure future compliance with CIC Section 734.

Accounts and Records – Audited Financial Statements (Page 17): The Company is directed to obtain annual audits for years 2021 and 2022 by a qualified independent certified public accountant and file its audited financial reports with the Commissioner pursuant to CIC Section 900.2 and California Code of Regulation Section 2309.4(a).

Accounts and Records – Communication of Prior Examination Report (Page 17): It is recommended that the Company notify the board members of the receipt of the Report of Examination, both in the form first formally prepared by the examiners and in the form as finally settled and officially filed by the Commissioner, and enter that fact in the board minutes pursuant to CIC Section 735.

Comments on Financial Statements Items – Common Stocks (Page 23): An examination adjustment of $59,366,938 was made to non-admit the full asset amount of Brean Holding, LLC/Brean Capital, LLC. The Company was unable to provide evidence of its ownership in either Brean Holding, LLC nor Brean Capital, LLC. The Company's initial purchase and subsequent reclassification of the investment was done without the prior notice and consent of the Conservator. The Company is directed to comply with the Conservation Order, paragraph 15, and provide prior notice and obtain consent from the Conservator before entering into any transactions outside the ordinary course of business.

Comments on Financial Statements Items – Common Stocks (Page 23): An examination adjustment of $47,874,106 was made to non-admit a portion of PQN Holdings Ltd (PQN). The Company was unable to produce audited financial statements for PQN and a significant majority of the underlying investments. It is recommended that the Company file a Form D application for the investment pursuant to CIC Section 1215.5(b)(1). It is also recommended that the Company submit the proper filings and disclosures in accordance with CIC Sections 1215.4(b)(3) and 1215.4(c) for this transaction. In addition, it is recommended the Company implement procedures to ensure appropriate disclosures are made in its Annual Statements in accordance with SSAP No. 25.

Comments on Financial Statements Items – Real Estate (Page 24): The Company's additional investments in the Home Office were made without the prior notice and consent of the Conservator. The Company is directed to comply with the Conservation Order, paragraph 15, and provide prior notice and obtain consent from the Conservator before entering into any transactions outside the ordinary course of business.

Comments on Financial Statements Items – Other Invested Assets (Page 25): An examination adjustment of $78,490,866 was made to the fair value of the NEB RE ONE, LLC, NEB RE TWO, LLC, and NEB RE THREE, LLC assets due to collectibility concerns around the loans to AUI portion of the asset. It is recommended that the Company comply with CIC Sections 1215.4(b)(3) and 1215.4(c) in future Holding Company System Annual Registration Filings.

Comments on Financial Statements Items – Other Invested Assets (Page 27): An examination adjustment of $19,300,000 was made to non-admit the loans to AUI. Based on our review of the 2021 Audited Financial Statements of AUI, the likelihood of the receivables being uncollectible is probable. It is recommended that the Company file Form D applications for the investments pursuant to CIC Sections 1215.5(b)(1) and 1215.5(c). It is also recommended that the Company submit the proper filings and disclosures in accordance with CIC Sections 1215.4(b)(3) and 1215.4(c) for the transactions. The Company is also directed to comply with the Conservation Order, paragraph 15, and provide prior notice and obtain consent from the Conservator before entering into any transactions outside the ordinary course of business.

Comments on Financial Statements Items – Other Invested Assets (Page 27): An examination adjustment of $5,861,538 was made to non-admit the full asset amount of the Collateral Loan to United Holding Corporation.

Subsequent Events (Page 28): The Company's investments in BAM CREDIT TRS FUND I, LP were made without the prior notice and consent of the Conservator. The Company is directed to comply with the Conservation Order, paragraph 15, and provide prior notice and obtain consent from the Conservator before entering into any transactions outside the ordinary course of business.

Subsequent Events (Page 29): The Company's investment in Rain Technologies, Inc. was made without the prior notice and consent of the Conservator. The Company is directed to comply with the Conservation Order, paragraph 15, and provide prior notice and obtain consent from the Conservator before entering into any transactions outside the ordinary course of business.

Previous Report of Examination

Summary of Significant Findings – (Page 2): It was recommended that the Company enter into a new agreement with the California Department of Insurance (CDI) that stipulates that the lower of the Company's LDFs and the Consent Order LDFs will be applied to all

California policies issued in connection with a Reinsurance Participation Agreement (RPA), in force as of July 1, 2016. It is also recommended that the Company apply the new set of LDFs to California policies with active RPAs moving forward. The Company indicated that it did not enter into a new agreement with the CDI that stipulates that the lower of the Company's LDFs and the Consent Order LDFs will be applied to all California policies issued in connection with a RPA, in force as of July 1, 2016. Nonetheless, the Company has been applying the lower of the Company's LDFs and the Consent Order LDFs to all California policies issued in connection with RPAs in force as of July 1, 2016. Based on our review, the Company is now in compliance.

ACKNOWLEDGMENT

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

Respectfully submitted,

Lau, Allen Digitally signed by Lau, Allen Date: 2023.10.10 11:22:20 -07'00'

Allen Lau, CFE
Examiner-In-Charge
Senior Insurance Examiner, Specialist
Department of Insurance
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Chu, Kyo Digitally signed by Chu, Kyo Date: 2023.10.10 11:41:22 -07'00'

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