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

Insurance Commissioner

Filed on June 22, 2023

TABLE OF CONTENTS

Los Angeles, California
May 15, 2023

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

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

TOPA INSURANCE COMPANY

(hereinafter also referred to as the Company). Its home office is located at 24025 Park Sorrento, Suite 330, Calabasas, California 91302.

SCOPE OF EXAMINATION

We have performed our multi-state examination of the Company. The previous examination of the Company was as of December 31, 2016. This examination covers the period from January 1, 2017 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. 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 other regulators and/or the Company.

The examination was a coordinated examination with the US Virgin Islands, and was conducted concurrently with the examination of its wholly-owned subsidiary, Dorchester Insurance Company, a U.S. Virgin Islands insurance company. California served as the lead state.

SUMMARY OF SIGNIFICANT FINDINGS

Record Accessibility

This examination experienced significant delays in obtaining sufficient information to support Company's procedures utilized to mitigate the risks identified by the examination team and supporting documentation for various information reported in the Company's Annual Statement. This includes routine examination requests such as detailed supporting records, schedules, and reports. 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 examiner appointed pursuant to this article, timely, convenient, and free access to all reasonable documents, and any or all computer or other recordings relating to the property, assets, business, and affairs of the company being examined. It is recommended that the Company implement procedures to ensure compliance with CIC Section 734.

GO Maps, Inc.

Effective November 7, 2019, the Company and GO Maps, Inc. (GO Maps), a Delaware corporation and a licensed insurance agent-broker, entered into a General Agency

Agreement for a technology-based mobile application direct-to-consumer private passenger automobile insurance program. Go Maps was given the authority to sell, manage, and service, policies and claims on behalf of the Company. The California Department of Insurance (CDI) received high volume of complaints regarding improper claims handling by GO Maps and the Company. As a result, GO Maps received a Notice of Suspension of Authority (Notice of Suspension) on November 11, 2021. On December 2, 2021, the Company notified GO Maps, that it would exercise its right to terminate the Agreement, effective December 3, 2021. Subsequently, on June 24, 2022, the CDI brought legal action against GO Maps and the Company for repeatedly violating various consumer protection laws relating to insurance claims. If allegations are substantiated, the Company could face penalties of up to $5,000 for each deceptive or unfair act, or up to $10,000 for each act if committed intentionally. In addition to the monetary penalty, the Company may also be subject to suspension of its Certificate of Authority in California and be prohibited from selling automobile insurance. The legal action is still pending.

Loss Experience

As depicted in the table below, the Company reported net underwriting loss in all years during the examination period and subsequent to the examination period.

Year	Net Underwriting Loss	Net Income (Loss)
2017	(7,372,767)	(2,157,921)
2018	(10,304,232)	(1,218,270)
2019	(4,343,948)	2,116,816
2020	(4,726,345)	(647,908)
2021	(11,292,846)	(4,242,288)
2022*	$ (27,875,628)	$ (24,535,146)

*Subsequent period

The losses sustained by the Company during the examination period were primarily due to poor operating performance across its entire book of business, most notably in the commercial automobile line of business which included significant reserve strengthening at year-end 2021. Significant adverse loss development in the commercial automobile and commercial multi-peril lines of business was driven by years of inadequate rates, inability to obtain approval for necessary rate increases, inflation, social inflation, and increased litigation costs on open claims that were placed on hold due to the pandemic.

In early 2022, the Company began taking corrective action to address its losses. Action taken thus far includes, addressing poor performing classes and reducing the amount of premium written in its commercial automobile book. Other remedial actions include reducing policy limits in other lines to mitigate volatility and future adverse development.

COMPANY HISTORY

The Company was incorporated on October 4, 1984 under the laws of the state of California and commenced transacting property and casualty business on January 1, 1985. The Company is a wholly-owned subsidiary of Topa Insurance Group (TIG), which is a wholly-owned subsidiary of Topa Equities, Ltd., a privately held California insurance holding company.

Dividends

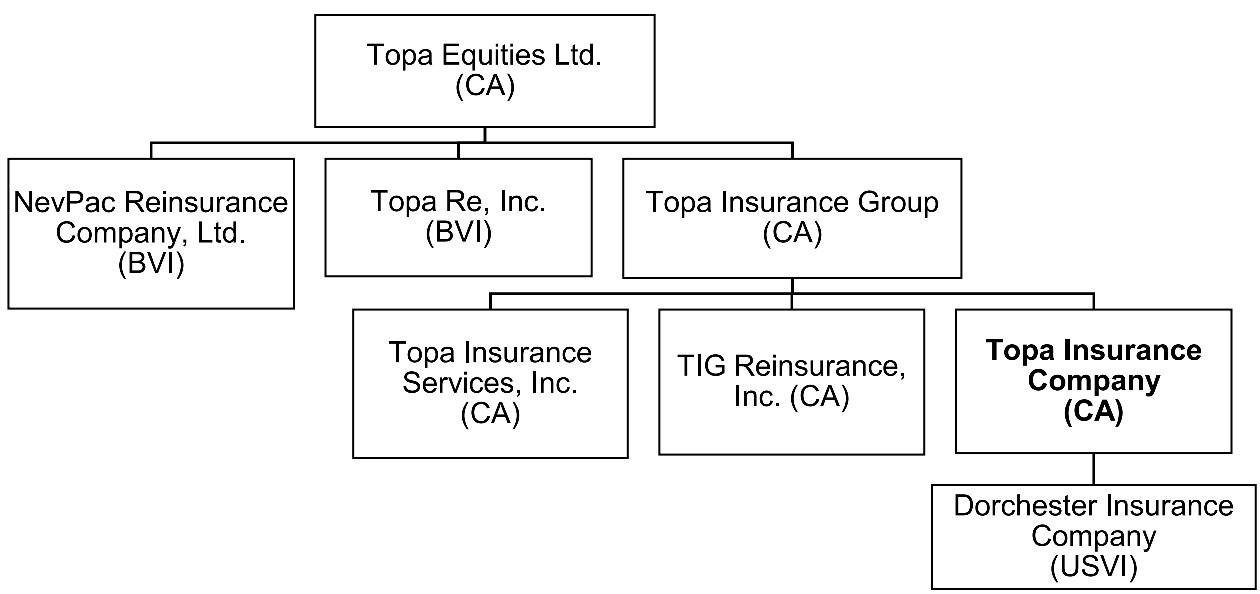
The Company paid ordinary cash dividends to its immediate parent, TIG, in the amount of $3 million for the year 2021.

The payment of the ordinary cash dividend was made without formally notifying the insurance commissioner which is not in compliance to the California Insurance Code (CIC) Section 1215.4(f) which states in part that “each registered insurer shall report all dividends and other distributions to shareholders within five business days following declaration. No dividend or other distribution to shareholders may be paid until at least 10 business days after receipt by the commissioner of a notice of the declaration of the dividend or other distribution”. It is recommended that the Company implement procedures to ensure compliance with CIC Section 1215.4(f). On May 27, 2022, the Company filed a late notice of ordinary dividend to the insurance commissioner pursuant to CIC Section 1215.4(f).

The Company received cash dividends from its wholly-owned subsidiary, Dorchester Insurance Company, in the amount of $1.9 million in 2019 and $3 million in 2021.

MANAGEMENT AND CONTROL

The Company is a wholly-owned subsidiary of Topa Insurance Group (TIG). TIG, in turn, is a wholly-owned subsidiary of Topa Equities, Ltd., a privately held California insurance holding company. The following abridged organizational chart is limited to the entities with which the Company had interrelationships as of December 31, 2021 (all ownership is 100%):



The six members of the board of directors, who are elected annually, oversee the business and affairs of the Company. Illustrated on the next page are members of the board and principal offices of the Company serving on December 31, 2021:

Directors

Name and Location	Principal Business Affiliation
William S. Anderson Los Angeles, California	Chairman of the Board Topa Equities, Ltd.

Name and Location	Principal Business Affiliation
Michael S. Day[1] Las Vegas, Nevada	President and Chief Executive Officer Topa Insurance Group
William Eyre Palm Beach, Florida	Director Topa Insurance Group
Christopher Greco Pasadena, California	Vice Chairman of the Board Topa Insurance Group
Judy Mann Corona Del Mar, California	Director Topa Insurance Group
Judith G. Munzig Ojai, California	Director Topa Insurance Group

Principal Officers

Name	Title
William S. Anderson	Chairman of the Board
Michael S. Day[1]	President and Chief Executive Officer
Christopher Greco	Vice Chairman
Lawrence J. Genalo	Senior Vice President and Chief Financial Officer
Denise Pavlov	Senior Vice President and Chief Operating Officer
Tracy Tillinghast	Vice President and Chief Information Officer

(1) Effective April 10, 2023, Michael Day was replaced by Simon Fascione, as Board Member, President, and Chief Executive Officer.

Intercompany Agreements

Brokerage Agreement: Effective February 5, 1996, a Brokerage Agreement was executed between the Company and its affiliate, Topa Insurance Services, Inc. (TIS). Under this Agreement, TIS is not authorized to bind insurance unless the prior submission is made and written approval is obtained from the Company. The commission is calculated based on a negotiated rate on a per policy basis. The agreement was in place before the prior approval provisions of California Insurance Code (CIC) Section 1215.5 (b)(4) went into effect and has never been amended. The commissions paid by the Company to TIS for the years 2017, 2018, 2019, 2020, and 2021 were $17,129, $4,498, $9,803, $658, and $1,096, respectively.

Tax Sharing Agreement: On November 5, 2018, the Company, its affiliates, Nevada Pacific Insurance Services, Inc., Interstate Specialty Insurance Services, Inc., and Alphyn Universal Insurance Services, LLC (collectively known as members), and its parent, Topa Insurance Group, Inc. (TIG) entered into a Tax Sharing Agreement (Agreement). Under the terms of the Agreement, the consolidated federal tax liability is allocated among the members in the ratio that each member's separate tax return liability bears to the total consolidated federal tax liabilities. Intercompany tax balances and deposits are settled monthly, based on the consolidated return. The Agreement replaced the Tax Savings Agreement and the first consolidated filings was filed as of taxable year ending December 31, 2016.

The updated Agreement was approved by the California Department of Insurance (CDI) on November 5, 2018. Taxes paid by the Company under the Agreement for the years, 2017, 2018, 2019, 2020, and 2021 were $0, $400,000, ($399,000), $0, and ($1,000), respectively.

Assignment and Assumption Agreement: Effective March 16, 2020, the Company entered into the Assignment and Assumption Agreement with TIG. Under the terms of the Agreement the Company assigns and TIG assumed the Lease Agreement with Kilroy Realty, L.P., a Delaware limited partnership for the leased space located at 24025 Park Sorrento, Calabasas, California. The Agreement was approved by the CDI on November 5, 2018.

Program Administration Agreement: Effective June 1, 2021, the Company and its subsidiary, Dorchester Insurance Company (DIC) entered into a Program Administrator Agreement to facilitate the Cannasure Insurance Program (Program) produced by CIS Insurance Services, LLC (CIS), an independent producer, in which the Company and DIC jointly participate. Under the terms of the Agreement, all premiums collected by CIS are remitted to the Company regardless of which insurer has issued the policy. The Company maintains premiums collected on DIC's behalf in a fiduciary account and remits to DIC no later than ninety (90) days of the policy effective date. If the payment is not made timely, interest will begin accruing at the legal rate of ten percent (10%). Under the terms of the Agreement, the Company shall keep and maintain separate, identifiable, orderly, accurate, complete, and timely records and accounts of all business and transactions pertaining to the Program and all other services provided by the Company. In addition, the Company provides the following additional services upon DIC's request: accounting, tax, auditing, underwriting, claims, investment, and certain defined functional support services, such as actuarial, legal, and purchasing. Services rendered under the Agreement are paid at cost. No fees were paid in 2021, as a result of the Company and DIC entering into a Multi-Line Common Account Reinsurance Contract. Refer to the Intercompany Reinsurance in the Reinsurance Section. The Agreement was approved by the CDI on November 18, 2021.

During the course of the examination, it was observed that the Company did not make timely premium remittance to DIC in accordance with the terms of the Agreement by policy effective date but rather remitted premiums in aggregate for policies written during the quarter. As a result, the Company did not maintain sufficient records necessary to determine the interest due by the policy effective date. Therefore, the examination team could not verify the premium distribution amount between the Company and DIC by policy effective date in order to calculate the total interest that should have been paid under the terms of the Agreement. It is recommended that the Company maintain sufficient records for premium distribution by policy effective date to calculate and pay any interest due to DIC in accordance with the terms of the Agreement.

<u>Related Party Transactions</u>

Effective December 31, 2020, the Company executed an Unsecured Promissory Note (Note) pursuant to which the Company borrowed $7,000,000 from DIC, payable with interest on the unpaid principal balance at the rate of 2% per annum. Principal and interest are due on the Note on or before December 31, 2021. The Company failed to file Form

D for prior approval from the CDI as required by CIC Section 1215.5(b). In April 2021, the Company submitted a late filing on Form D filing , and following discussions with the CDI, the Form D filing was withdrawn and the Note was immediately paid in full. It is recommended that the Company implement procedures to ensure compliance with CIC Section 1215.5(b).

During the course of the examination, it was noted there were several immaterial intercompany transactions between the Company and TIG without any written agreement. Transactions between related parties must be in the form of a written agreement pursuant to Statement of Statutory Account Principles (SSAP) No. 25. It is recommended the Company execute written agreements for all transactions with affiliates per SSAP No. 25 and file with CDI in accordance with the CIC Section 1215.5(b), if applicable.

Corporate Records

Significant transactions during the examination period including the election or termination of its directors and officers, were not approved by the board or disclosed in the minutes. This is a repeat finding from the previous examination. It is again recommended that the board document in its minutes its review and approval of all significant events and transactions affecting the Company, including the election and/or the termination of its directors and officers.

Additionally, the first three quarters of 2020 there were only five members on the board while the Company conducted a search to fill the vacancy created by its former President and Chief Executive Officer leaving the Company at year-end 2019. In accordance with the Company's bylaws the exact number of directors shall be six. This is a repeat finding from the previous examination. Again, it is recommended that the Company maintain the exact number of directors stated in its bylaws. It was noted that the board has been in compliance with its bylaws since the fourth quarter of 2020.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2021, the Company was licensed and authorized to write various property and casualty lines of insurance in the following 22 states and the District of Columbia:

Arizona	Maryland	Oregon
Arkansas	Missouri	Pennsylvania
California	Nebraska	South Carolina
Colorado	Nevada	Utah
Delaware	New Jersey	Virginia
Georgia	New Mexico	Washington
Iowa	Ohio	
Kansas	Oklahoma	

During 2021, the Company wrote $115.4 million in direct premiums. The top 5 lines of business written were commercial automobile liability $27.7 million (24.0%), commercial multiple peril (non-liability portion) $19.2 million (16.6%), other liability occurrence $16.7 million (14.5%), private passenger automobile liability $11 million (9.6%), and $10.6 million (9.2%) was private passenger automobile physical damage. The total direct premiums were predominantly written in the following states: $80.9 million (70.1%) in California; $16.4 million (14.2%) in Utah; $5.9 million (5.2%) in Massachusetts; $3.4 million (2.9%) in Illinois, and $2.8 million (2.4%) in Michigan. Business is generated through a combination of independent agents and wholesale brokers.

As of the examination date, the Company was also authorized to write surplus lines in the following 11 states:

Alabama	Massachusetts	Texas
Florida	Michigan	Wisconsin
Hawaii	North Carolina	U.S. Virgin Islands
Illinois	Tennessee	

REINSURANCE

Intercompany Reinsurance

Adverse Development Cover Reinsurance Agreement: Effective January 1, 2019, the Company entered into the Adverse Development Cover Reinsurance Agreement. (ADC Agreement) with its affiliate, NevPac Reinsurance Company, Ltd., (NevPac), a British Virgin Islands unauthorized reinsurer. Under the terms of the ADC Agreement, NevPac agrees to provide reinsurance on a stop-loss basis not to exceed $25 million on all lines of insurance written by the Company, including those which have been placed into run-off; for all accident years 2018 and prior. The ADC Agreement was approved by the California Department of Insurance (CDI) on October 5, 2020.

Novation and Release Agreement: Effective December 15, 2020, the Company entered into the Novation and Release Agreement. (Novation Agreement) with NevPac and Topa Re Inc. (Topa Re), a British Virgin Islands captive reinsurer. Under the terms of the Novation Agreement, NevPac transferred all rights, liabilities, duties, and obligations under the ADC Agreement to Topa Re. Upon the effective date, the Company releases NevPac of all rights, liabilities, duties, and obligations under the ADC Agreement. The Novation Agreement was approved by the CDI on February 19, 2021.

Multiple Lines Common Account Reinsurance Contract: Effective January 1, 2021, the Company and Dorchester Insurance Company (DIC) entered into a Multiple Lines Common Account Reinsurance Contract (Reinsurance Contract). Under the terms of the Reinsurance Contract, DIC will cede, and the Company will assume 100% of the net liability of its cannabis related policy packages offered and sold by an unaffiliated insurance producer, CIS Insurance Services, LLC. The Reinsurance Contract was approved by the CDI on March 22, 2022.

Assumed

The Company assumes a minimal amount of commercial property reinsurance covering risks originating in the U.S. Virgin Islands that are produced by its wholly-owned subsidiary, Dorchester Insurance Company, Ltd.

Ceded

The Company has designed its reinsurance program to limit its retention to $500,000 for its property and casualty cessions that provides up to $30 million and $11 million of coverage, respectively. The $2 million retention for excess catastrophe coverage affords the Company up to $30 million in coverage.

The Company had the following ceded reinsurance programs in effect as of December 31, 2021 and is summarized in the chart below:

Line of Business and Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Limit
Casualty Cessions			
1st Excess of Loss – 95% Participation	Authorized: Everest Re Co. (30%) Munich Re (25%) Swiss Re America (15%) Partner Re US (10%) Hamilton Re, Ltd (5%) Unauthorized: Greenlight Re, Ltd. (10%)	$1 million	$5 million
2nd Excess of Loss	Authorized: Swiss Re America (65%) Munich Re, America (25%) Unauthorized: Greenlight Re, Ltd. (10%)	$5 million	$5 million
Casualty Per Occurrence			

Line of Business and Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Limit
1st Excess of Loss – 78.5% Participation	Authorized: Everest Re Co. (39%) Swiss Re America (10%) Partner Re US (12%) Hannover Ruck SE (7.5%) Unauthorized: Greenlight Re, Ltd. (10%)	$500,000	$500,000
2nd Excess of Loss – 97% Participation	Authorized: Everest Re Co. (35%) Swiss Re America (40%) Partner Re US (12%) Unauthorized: Greenlight Re, Ltd. (10%)	$1 million	$5 million with an aggregate limit of $15 million.
Property Per Risk Excess of Loss			
1st Excess of Loss – (Section A) 92.5% Participation	Authorized: Swiss Re America (20%) Hannover Ruck SE (20%) Everest Re (17.5%) Allied World Re (17.5%) SCOR Re (10%) Hamilton Managing General Agency America, LLC (7.5%)	$500,000	$500,000, per risk; $1.5 million, per occurrence limit; & $1 million, terrorism limit
2nd Excess of Loss – (Section A)	Authorized: Swiss Re America (20%) Hannover Ruck SE (20%) Everest Re (17.5%) Allied World Re (17.5%) SCOR Re (10%) Hamilton Managing General AgencyAmerica, LLC. (7.5%) Dual Commercial LLC (7.5%)	$1 million	$4 million, per risk, per occurrence & terrorism limit with an aggregate limit of $16 million.

Line of Business and Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Limit
1st Excess of Loss – (Section B) 92.5% Participation	Authorized: Swiss Re America (20%) Hannover Ruck SE (20%) Everest Re (17.5%) Allied World Re (17.5%) SCOR Re (10%) Hamilton Managing General Agency America, LLC (7.5%)	$500,000	$500,000, per risk; & $1.5 million per occurrence
2nd Excess of Loss – (Section B)	Authorized: Swiss Re America (20%) Hannover Ruck SE (20%) Everest Re (17.5%) Allied World Re (17.5%) SCOR Re (10%) Hamilton Managing General AgencyAmerica, LLC. (7.5%) Dual Commercial LLC (7.5%)	$1 million	$2 million, per risk & per occurrence $4 million, per occurrence all Sections with an aggregate limit of $16 million.
Property Quota Share			
95% Quota Share- ARC Stormpeace Program	Authorized: Swiss Re America (100%)	5% of $100,000	95% of $100,000
Property Auto Facultative	Authorized: Berkley Re (100%)	$5 million	$25 million
Property Catastrophe			

Line of Business and Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Limit
Excess of Loss	Authorized: Lloyds Syndicate (various) – (37.5%) Shelter Mutual Insurance Company (14%) Aspen Bermuda Ltd. – (10%) American Agricultural Insurance Company – (8%) DUAL Commercial LLC – (7%) Allied World Reinsurance Management Co – (5%) Arch Reinsurance Co – (5%) Employers Mutual Casualty Co – (5%) Hannover Ruck SE Re (3.5%) Swiss Re America Corp (2.5%) Partner Re Company Ltd. (1.5%) Validus Re Ltd. (1%)	$2 million	$28 million
Cannasure			
Products Liability Coverage – 50% Quota Share up to $5 million	Authorized: Sirius America Ins Co (20%) Unauthorized: Greenlight Re (10%) LoanPeak RE (20%)	50% of $5 million	50% of $5 million
General Liability up to $1 million and Excess Coverage up to $5 million	Authorized: Hannover RE (25%) Unauthorized: Greenlight Re (10%)	65% of $1 million for General Liability and 65% of $5 million for Excess Coverage	35% of $1 million for General Liability and 65% of $5 million for Excess Coverage.
Property Coverage up to $35 million – Excess of Loss	Authorized: Odyssey Reinsurance Company (80%) Hannover Ruck SE (20%)	$2.5 million + $3 million for net loss in excess of $7.5 million	$5 million per risk; per occurrence.

Line of Business and Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Limit
Property Coverage up to $35 million – 70% Quota Share	Authorized: Hannover Re (21.5%) K2/PeakRe (14.5%) Sirius America Ins Co (20%) Unauthorized Greenlight Re (10%) Taiping Re (4%)	30 % of $35 million	70% of $35 million.
Property Automatic Facultative	Authorized: Berkley Re America (100%)	$35 million	$5 million

ACCOUNTS AND RECORDS

Information System Controls

During the course of the examination, a review was made of the Company's general controls over its information systems. As a result of this review, some findings were noted and were presented to the Company along with recommendations to strengthen its controls. This is a repeat finding from the previous examination. The Company should evaluate the recommendation and make appropriate changes to strengthen its information system controls.

Annual Statement Instructions

Pursuant to the Statement of Statutory Accounting Principle (SSAP) No. 55 and the Annual Statement Instructions prescribed by the National Association of Insurance Commissioners (NAIC), Notes to the Financial Statements Number 14D, Claims Related Extra Contractual Obligation and Bad Faith Losses Stemming from Lawsuits, the Company shall disclose the dollar amount paid (for the extra contractual and bad faith portion of the total claim amount) for claims related extra contractual obligations and bad faith losses stemming from lawsuits, in the current reporting period on a direct basis. The Company's Annual Statement Note to Financial Statements 14D was not prepared in accordance to the NAIC's Annual Statement Instructions and did not disclose the potential risk and/or uncertainties related to lawsuits in the manner or format required by the NAIC.

The Company should compile its bad faith/extra contractual litigation settlements arising from claims and disclose it annually in the Notes to Financial Statements 14D in accordance with the NAIC Annual Statement Instructions. The Company failed to comply with the instructions for all years under examination. It is recommended that the Company implement procedures to ensure compliance with the NAIC Annual Statement Instructions and SSAP No. 55.

Insurance Holding Company System Annual Registration Statement (Form B)

Pursuant to California Insurance Code (CIC) Section 1215.4(b), all insurers subject to registration are required to file a registration statement on a form and in a format prescribed by the NAIC. The Insurance Holding Company System Annual Registration Statement (Form B) instructions require the insurer to submit annual financial statements of the ultimate controlling person (UCP) as of the end of the person's latest fiscal year. Unless permitted by the Commissioner, the annual financial statements shall be accompanied by a certificate of an independent public accountant to the effect that the statements present fairly the financial position of the UCP and the results of its operations for the year then ended, in conformity with generally accepted accounting principles or with requirements of insurance or other accounting principles prescribed or permitted under law. The Company failed to submit a copy of the audited financial statements of its UCP as an attachment to their Form B as required by CIC Section 1215.4(b). It is recommended the Company comply with CIC Section 1215.4(b) and submit a copy of the audited financial statements of its UCP as an attachment to the Form B.

Audit Committee

Pursuant to the California Code of Regulations (CCR), Title 10, Chapter 5, Subchapter 3, Article 3.3, Sections 2309.14(a) and 2309.14(f)(1), the Audit Committee shall be directly responsible for the appointment, compensation and oversight of the work of any accountant for the purpose of preparing or issuing the audited financial report; and shall require the accountant to report timely to the Audit Committee in accordance with the requirements of Statement of Auditing Standards (SAS) 61, Communication with Audit Committee. A review of the Board minutes showed no evidence that the Audit Committee was directly responsible for the appointment, compensation, and oversight of the work of the independent certified public accountant, nor was there any indication that the accountant reported its findings to the Board as required under SAS 61. It is recommended that the Company implement procedures to ensure compliance with CCR, Title 10, Chapter 5, Subchapter 3, Article 3.3, Sections 2309.14(a) and 2309.14(f)(1) as well as SAS 61.

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, 2021. The accompanying comments to the amounts in the financial statements should be considered an integral part of the financial statements. There were no examination adjustments made as a result of the examination.

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, 2016 through December 31, 2021

Statement of Financial Condition
as of December 31, 2021

Assets	Ledger and Nonledger Assets	Assets Not Admitted	Net Admitted Assets	Notes
Bonds	$ 89,321,489	$	$ 89,321,489	
Common stocks	56,842,210		56,842,210	
Cash and short-term investments	18,262,304		18,262,304	
Investment income due and accrued	607,148		607,148	
Uncollected premiums and agents' balances in the course of collection	35,147,704	544,915	34,602,789	
Deferred premiums, agents' balances and installments booked but deferred and not yet due (including $0 earned but unbilled premiums)	286,391		286,391	
Amounts recoverable from reinsurers	21,131,300		21,131,300	
Net deferred tax asset	3,335,935		3,335,935	
Electronic data processing equipment and software	874,488	792,819	81,669	
Furniture and equipment, including health care delivery assets	256,075	256,075		
Aggregate write-ins for other than invested assets	6,236,226	2,731,139	3,505,087	
Total assets	$ 232,301,269	$ 4,324,948	$ 227,976,321	

Liabilities, Surplus and Other Funds			Notes
Losses		$ 54,484,787	(1)
Reinsurance payable on paid losses and loss adjustment expenses		2,178,707	
Loss adjustment expenses		5,006,558	(1)
Commissions payable, contingent commissions and other similar charges		1,156,390	
Other expenses		3,636,529	
Unearned premiums (after deducting unearned premiums for ceded reinsurance of $19,859,517)		32,928,299	
Ceded reinsurance premiums payable (net of ceding commissions)		13,840,280	
Funds held by company under reinsurance treaties		9,541,672	
Payable to parent, subsidiaries and affiliates		1,030,038	
Aggregate write-ins for liabilities		21,337,847	
Total liabilities		145,141,107	
Common capital stock	$ 5,000,000		
Gross paid-in and contributed surplus	26,639,733		
Unassigned funds (surplus)	51,195,480		
Surplus as regards policyholders		$ 82,835,213	
Total liabilities, surplus and other funds		$ 227,976,321	

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

Underwriting Income		
Premiums earned		$ 65,076,313
Deductions:		
Losses incurred	$ 36,940,575	
Loss adjustment expenses incurred	9,195,561	
Other underwriting expenses incurred	30,233,023	
Total underwriting deductions		76,369,159
Net underwriting loss		(11,292,846)
Investment Income		
Net investment income earned	$ 6,269,448	
Net realized capital gain	572,636	
Net investment gain		6,842,084
Other Income (Losses)		
Net loss from agent's or premium balances charged off (amount charged off $26,183)	$ (26,183)	
Total other losses		(26,183)
Net loss after dividends to policyholders, after capital gains tax and before federal and foreign income taxes		(4,476,945)
Federal and foreign income taxes incurred		(234,657)
Net loss		$ (4,242,288)

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2020		$ 88,299,451
Net loss	$ (4,242,288)	
Change in net unrealized capital gains	672,570	
Change in net deferred income tax	2,512,843	
Change in nonadmitted assets	(1,407,363)	
Dividends to stockholders	(3,000,000)	
Change in surplus as regards policyholders for the year		(5,464,238)
Surplus as regards policyholders, December 31, 2021		$ 82,835,213

Reconciliation of Surplus as Regards Policyholders from December 31, 2016 through December 31, 2021

	Gain in Surplus	Loss in Surplus	
Surplus as regards policyholders, December 31, 2016			$ 78,685,942
Net loss	$	$ 6,149,572	
Change in unrealized capital gains	10,206,100		
Change in net deferred income tax	1,559,075		
Change in nonadmitted assets	1,533,668		
Dividends to stockholders		3,000,000	
Total gains and losses	$ 13,298,843	$ 9,149,572	
Net increase in surplus as regards policyholders			4,149,271
Surplus as regards policyholders, December 31, 2021			$ 82,835,213

COMMENTS ON FINANCIAL STATEMENT ITEMS

(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, 2021 were found to be reasonably stated and have been accepted for the purpose of this examination. However, it was noted the carried reserves were on the lower-end of the actuarial range. Given the Company reported adverse development from 2020 to 2022, it is recommended that the Company increase its carried reserves to be more aligned to the actuarial mid-point estimate to allow for additional development.

SUBSEQUENT EVENTS

On March 25, 2022, the Company received $5,000,000 capital cash contribution from Topa Insurance Group.

On March 31, 2023, the California Department of Insurance received a Form A Statement (Form A) regarding the acquisition of control of the Company by Granada Financial Group, LLC. The Form A is currently under review.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Summary of Significant Findings – Record Accessibility (Page 2): It is recommended that the Company implement procedures to ensure compliance with California Insurance Code (CIC) Section 734.

Company History – Dividends (Page 4): It is recommended that the Company implement procedures to ensure compliance with CIC Section 1215.4(f).

Management and Control - Program Administration Agreement (Page 7): It is recommended the Company maintain sufficient records for premium distribution and pay appropriate interest to Dorchester Insurance Company in accordance with the terms of the Program Administration Agreement.

Management and Control – Related Party Transactions (Page 9): It is recommended the Company implement procedures to ensure compliance with CIC Section 1215.5(b). It is also recommended the Company execute written agreements for all transactions with affiliates per Statement of Statutory Account Principles (SSAP) No. 25.

Management and Control – Corporate Records (Page 9): It is again recommended that the board should document in its minutes that review and approval of all significant events and transactions affecting the Company including the election and/or the termination of its directors and officers.

Management and Control – Corporate Records (Page 9): It is again recommended that Company maintain the exact number of directors stated in its bylaws.

Accounts and Records – Information Systems Controls (Page 15): The Company should evaluate the recommendation and make appropriate changes to strengthen its information system controls.

Accounts and Records – Annual Statement Instructions (Page 16): It is recommended that the Company implement procedures to ensure its Notes to Financial Statements Number 14D complies with the National Association of Insurance Commissioners (NAIC) Annual Statement Instructions and Statement of Statutory Accounting Principles No. 55. During the course of the examination and in filing its 2021 Annual Statement the Company did not comply with the NAIC Annual Statement Instructions Number 14D.

Accounts and Records – Insurance Holding Company System Annual Registration Statement (Form B) (Page 16): It is recommended the Company comply with CIC Section 1215.4(b) and submit a copy of the audited financial statements of its ultimate controlling person as an attachment to the Form B.

Accounts and Records – Audit Committee (Page 17): It is recommended that the Company implement procedures to ensure compliance with California Code of

Regulations (CCR), Title 10, Chapter 5, Subchapter 3, Article 3.3, Sections 2309.14(a) and 2309.14(f)(1) as well as Statement of Auditing Standards 61.

Comments on Financial Statements Items - Loss and Loss Adjustment Expenses (Page 22): It is recommended that the Company increase its carried reserves to be more aligned to the actuarial mid-point estimate to allow for additional development.

Previous Report of Examination

Management and Control – Intercompany Agreement (Page 6): It was recommended that the Company draft a new tax sharing agreement to obtain approval by the California Department of Insurance (CDI) pursuant to CIC Section 1215.5(b)(4), CIC Section 923, and SSAP No. 25, and SSAP No. 101. On May 18, 2018, the Company filed a Form D with the CDI to obtain approval for its new tax sharing agreement. The Company complied with this recommendation.

Management and Control – Corporate Records (Page 8): It was recommended that the Company implement procedures in its board meetings to ensure adherence to CIC Section 735. The Company complied with this recommendation.

Management and Control – Corporate Records (Page 8): It was recommended that the board document in its minutes the review and approval of all significant events and transactions affecting the Company including the election and/or the termination of its directors and officers. The Company has not complied with this recommendation, therefore, it is again recommended that the board document in its minutes the review and approval of all significant events and transactions affecting the Company including the election and/or the termination of its directors and officers.

Management and Control – Corporate Records (Page 8): It was recommended that the board amend its bylaws to reflect the current number of directors. On June 15, 2018, the Company amended its bylaws to comply with this recommendation.

Accounts and Records – Information Systems Controls (Page 13): The Company should evaluate the recommendations and make appropriate changes to strengthen its information system controls. The Company has not complied with this recommendation, therefore, it is again recommended that the Company evaluate the recommendations and make appropriate changes to strengthen its information system controls.

Accounts and Records – Taxes, Licenses, and Fees (Page 13): It was recommended that the Company establish and implement procedures to ensure that adequate and complete documentation is maintained to support its filing with CDI in accordance with CCR Section 2698.62. The Company complied with this recommendation.

<u>ACKNOWLEDGMENT</u>

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

Respectfully submitted,

Briggs, Anjanette

Digitally signed by Briggs, Anjanette
Date: 2023.06.22 15:18:35 -07'00'

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

Dillon, Sayaka

Digitally signed by Dillon, Sayaka
Date: 2023.06.22 14:24:34 -07'00'

Sayaka Dillon, CFE
Supervising Insurance Examiner
Department of Insurance
State of California