REPORT OF EXAMINATION
OF THE
CRUSADER INSURANCE COMPANY
AS OF
DECEMBER 31, 2011

Filed June 6, 2013

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Los Angeles, California
February 22, 2013

Honorable Dave Jones
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

CRUSADER INSURANCE COMPANY

(hereinafter also referred to as the Company) at the statutory home office and primary location of its books and records, 23251 Mulholland Drive, Woodland Hills, California 91364.

SCOPE OF EXAMINATION

The previous examination of the Company was made as of December 31, 2008. This examination covers the period from January 1, 2009 through December 31, 2011, and is conducted by the California Department of Insurance. The examination was conducted in accordance with the National Association of Insurance Commissioners' Financial Condition Examiners' Handbook. The Handbook requires the planning and performance of the examination to evaluate the Company's financial condition, to identify prospective risks, and to obtain information about the Company, including corporate governance, identification and assessment of inherent risks, and the evaluation of the system controls and procedures used to mitigate those risks. The examination also included an assessment of the principles used and the significant estimates made by management, as well as an evaluation of the overall financial

statement presentation, and management's compliance with Statutory Accounting Principles and Annual Statement instructions. All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

In addition to those items specifically commented upon in this report, other phases of the Company's operations were reviewed including the following areas that require no further comment: corporate records; fidelity bonds and other insurance; pensions, stock ownership and insurance plans; accounts and records; growth of company; loss experience; and statutory deposits.

COMPANY HISTORY

Dividends Paid to Parent

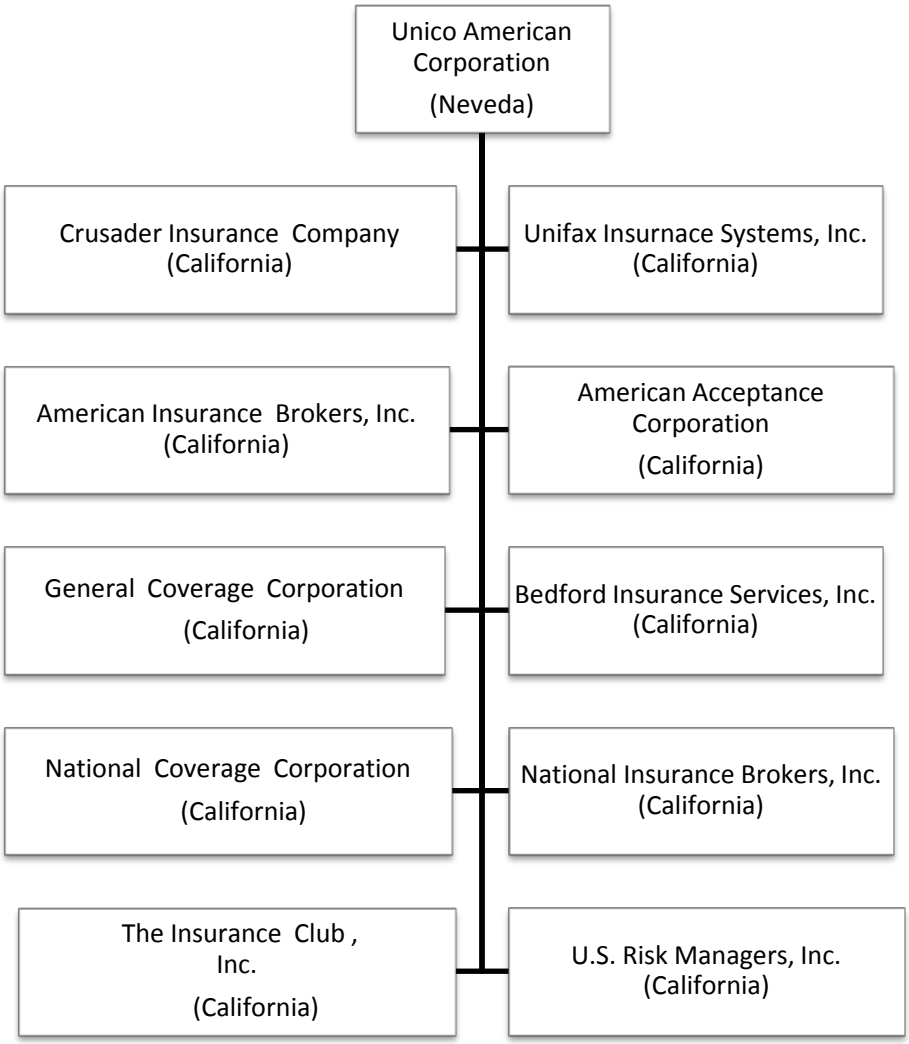
During the examination period, the Company paid the following ordinary cash dividends to its parent, Unico American Corporation.

Year	Amount
2009	$ 7,000,000
2010	4,250,000
2011	1,250,000
Total	12,500,000

MANAGEMENT AND CONTROL

The Company is a wholly-owned subsidiary of Unico American Corporation (Unico). Unico is a publicly owned insurance holding company that underwrites property and casualty insurance through the Company and provides various insurance related services through its other subsidiaries. The following organizational chart reflects the

Company's position within the holding company system (all ownership is 100% unless otherwise stated):



The three members of the board of directors, who are elected annually, manage the business and affairs of the Company. Following are members of the board and principal officers of the Company serving at December 31, 2011:

Directors

Name and Residence	Principal Business Affiliation
Lester A. Aaron Calabasas, California	Treasurer and Chief Financial Officer Unico American Corporation
Cary L. Cheldin Ojai, California	Chairman of the Board and President Unico American Corporation
Erwin Cheldin Pacific Palisades, California	Retired Chairman of the Board and President, Unico American Corporation

Principal Officers

Name	Title
Cary L. Cheldin	President and Chief Executive Officer
Lester A. Aaron	Executive Vice President and Chief Financial Officer
Terry L. Kinigstein	Senior Vice President and Secretary

Management Agreements

General Agency Agreement: The Company has a General Agency Agreement with its affiliate, Unifax Insurance Systems, Inc. (Unifax). Unifax provides production, underwriting, accounting, data processing, administration, and other management services to the Company. The Company pays Unifax a commission of 27.5% of direct premiums written. Payments made to Unifax for the years 2009, 2010, and 2011 were $12,730,670, $10,861,720, and $10,573,307, respectively. The California Department of Insurance (CDI) approved this agreement on June 16, 2009.

Intercompany Cost Allocation Agreement: The Company and its parent, Unico, are parties to an Intercompany Cost Allocation Agreement. Under the terms of the agreement, the Company reimburses Unico for operating expenses primarily related to the claims department which includes salaries and related employee benefits, profit sharing, rent, and other expenses. Payments made to Unico for the years 2009, 2010, and 2011 were $1,401,276, $1,216,895, and $4,046,536, respectively. The CDI approved this agreement on June 5, 2009.

Intercompany Federal Income Tax Allocation Agreement: The Company and its affiliates, are part of a consolidated federal income tax agreement with its parent, Unico. Allocation of taxes is based upon separate return calculations. Intercompany tax allocations are settled within 30 days after the filing of the consolidated income tax return. The Payments made by the Company during 2009, 2010, and 2011 were $990,984, $964,328, $814,473, respectively. The CDI approved this agreement on June 5, 2009.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2011, the Company was licensed to transact multiple lines of property and casualty insurance in Arizona, California, Nevada, Oregon, and Washington. Although licensed in other states, the Company has written exclusively in California since 2004. In 2011, the Company wrote $32.1 million of direct premiums.

The principal line of business written is commercial multiple peril, which amounted to approximately 98% of the Company's total premiums written. Classes of business include apartments, commercial buildings, auto-body shops, auto dealers, towing operators, bars, and restaurants. Business is produced primarily through the Company's affiliated general agent, Unifax Insurance Systems, Inc., which works with independent agents and brokers. In 2011, the Company started appointing insurance agents to market its product. Currently, the Company has 12 agents.

REINSURANCE

Assumed

The Company has no assumed reinsurance.

Ceded

The following is a summary of the principal ceded reinsurance treaties inforce with authorized reinsurers as of December 31, 2011:

Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Maximum Limits
1st Excess of Loss	Platinum Underwriters Reinsurance, Inc. – 55% Hannover Ruckversicherungs – 25% TOA Reinsurance Company of America – 10%	$500,000 each loss occurrence	90% of $2,000,000 each loss occurrence
2nd Excess of Loss	Platinum Underwriters Reinsurance, Inc. – 55% Hannover Ruckversicherungs – 30% TOA Reinsurance Company of America – 10%	$1 million each loss occurrence	95% of $1 million each loss occurrence
3rd Excess of Loss	Platinum Underwriters Reinsurance, Inc. – 60% Hannover Ruckversicherungs – 30% Liberty Mutual Insurance Company – 10%	$2 million each loss occurrence	100% of $5 million each loss occurrence
1st Catastrophe Excess of Loss	Platinum Underwriters Re. – 25% Arch Reinsurance Company – 15% Paladin Cat Management – 9.5% Odyssey American Re Corp – 5% Ariel Reinsurance Company Ltd.- 15% Flagstone Re Suisse SA – 12.5% SCOR Global P&C SE – 5% Sirius Intl Insurance Corp – 3%	$1 million each loss occurrence	$9 million each loss occurrence, $18 million all occurrences
2nd Catastrophe Excess of Loss	Paladin Cat Management – 15% Shelter Mutual Insurance Co. – 10% Arch Reinsurance Company – 3% Allied World Assurance Co. Ltd. - 6.5% Ariel Reinsurance Company Ltd. – 17.5% Hanover Re (Bermuda) Ltd. – 5% Mapfre Re Compania SA – 10% SCOR Global P&C SE – 5.5% Sirius Intl Insurance Corp – 10% Lloyds Amlin Syndicate 2001 – 17.5%	$10 million each loss occurrence	$31 million each loss occurrence, $62 million all occurrences

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2011

Underwriting and Investment Exhibit for the Year Ended December 31, 2011

Reconciliation of Surplus as Regards Policyholders from December 31, 2008 through December 31, 2011

Statement of Financial Condition
as of December 31, 2011

Assets	Ledger and Nonledger Assets	Assets Not Admitted	Net Admitted Assets	Notes
Bonds	$ 89,902,677		$ 89,902,677	
Cash and short-term investments	36,874,845		36,874,845	
Investment income due and accrued	680,626		680,626	
Premiums and considerations:				
Uncollected premiums and agents' balances in the course of collection	1,153,738		1,153,738	
Reinsurance:				
Amounts recoverable from reinsurers	60,300		60,300	
Current federal and foreign income tax and interest thereon	264,310		264,310	
Net deferred tax asset	2,446,402	326,364	2,120,038	
Guaranty funds receivable or on deposit	15,196		15,196	
Aggregate write-ins for other than invested assets	178,852	4,879	173,973	
Total assets	$ 131,576,946	$ 331,243	$ 131,245,703	
Liabilities, Surplus and Other Funds				
Losses			$ 4,258,594	(1)
Loss adjustment expenses			2,253,585	(1)
Other expenses			7,348	
Taxes, licenses and fees			(25,943)	
Unearned premiums			15,837,500	
Advance premiums			329,935	
Ceded reinsurance premiums payable			1,233,495	
Aggregate write-ins for liabilities			74,154	
Total liabilities			$ 63,968,668	
Common capital stock		$ 3,000,200		
Gross paid-in and contributed surplus		8,100,000		
Unassigned funds (surplus)		56,176,835		
Surplus as regards policyholders			67,277,035	
Total liabilities, surplus and other funds			$ 131,245,703	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2011

Statement of Income

Underwriting Income		
Premiums earned		$ 26,723,942
Deductions:		
Losses incurred	$ 8,413,805	
Loss adjustment expenses incurred	5,853,521	
Other underwriting expenses incurred	8,449,412	
Total underwriting deductions		22,716,738
Net underwriting gain		4,007,204
Investment Income		
Net investment income earned	$ 2,896,774	
Net investment gain		2,896,774
Other Income		
Aggregate write-ins for miscellaneous income	$ 1,170,453	
Total other income		1,170,453
Net income before federal income taxes		8,074,431
Federal income taxes incurred		2,413,033
Net income		$ 5,661,398

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2010		$ 62,520,958
Net income	$ 5,661,398	
Change in net deferred income tax	(335,281)	
Change in non-admitted assets	679,960	
Dividends to stockholders	(1,250,000)	
Change in surplus as regards policyholders for the year		4,756,077
Surplus as regards policyholders, December 31 ,2011		$ 67,277,035

Reconciliation of Surplus as Regards Policyholders
From December 31, 2008 through December 31, 2011

Surplus as regards policyholders, December 31, 2008 per Examination			$ 64,736,230

	Gain in Surplus	Loss in Surplus
Net income	$ 15,117,411	
Change in net deferred income tax		$ 954,906
Change in non-admitted assets	878,300	
Dividends to stockholders		12,500,000
Totals gains and losses	$ 15,117,411	$ 13,454,906

Net increase in surplus as regards policyholders for the examination period	2,540,805
Surplus as regards policyholders, December 31, 2011 per Examination	$ 67,277,035

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

The Company's reserves were evaluated by a Casualty Actuary from the California Department of Insurance (CDI). Based on the analysis by the Casualty Actuary from the CDI, the Company's December 31, 2011 reserves for losses and loss adjustment expenses appear reasonable and have been accepted for purposes of this examination report.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

None.

Previous Report of Examination

None.

ACKNOWLEDGMENT

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

Respectfully submitted,

_____/S/_____
Gintaras Prismantas, CFE
Examiner-In-Charge
Senior Insurance Examiner
Department of Insurance
State of California