

REPORT OF EXAMINATION
OF THE
FALLS LAKE FIRE AND CASUALTY COMPANY
AS OF
DECEMBER 31, 2019

Filed on June 28, 2021

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Oakland, California
May 27, 2021

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

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

FALLS LAKE FIRE AND CASUALTY COMPANY

(hereinafter also referred to as the Company). The Company's statutory home office is located at 6131 Falls of Neuse Road, Suite 306, Raleigh, North Carolina 27609.

SCOPE OF EXAMINATION

We have performed our multi-state examination of the Company. This examination covered the period of January 1, 2016 through December 31, 2019.

The examination was conducted in accordance with the National Association of Insurance Commissioners *Financial Condition Examiners Handbook (Handbook)*. The Handbook requires the planning and performance of the examination to evaluate the Company's financial condition, assess corporate governance, identify current and prospective risks, and evaluate system controls and procedures used to mitigate those risks. The examination also included identifying and evaluating significant risks that could cause the Company's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If 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 findings of fact and general information about the Company and its financial condition. There might be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), were not included within the examination report but separately communicated to other regulators and/or the Company.

This was a coordinated examination whereby Ohio is the lead state for the James River Group. The California Department of Insurance participated in this coordinated examination. It was conducted concurrently with other insurance entities in the group as listed below:

- James River Insurance Company (Ohio)
- James River Casualty Company (Virginia)
- Falls Lake National Insurance Company (Ohio)
- Falls Lake Fire and Casualty Company (California)
- Stonewood Insurance Company (North Carolina)

COMPANY HISTORY

The Company was incorporated on December 11, 2013 under the laws of the state of California and commenced transacting business on January 1, 2016.

Capitalization

The Company was authorized to issue 50,000 shares of common stock at \$100 par value. As of December 31, 2019, the Company had 26,000 shares issued and outstanding, all of which are owned by its immediate parent, Falls Lake National Insurance Company (FLNIC), an Ohio domestic insurer specializing in writing workers' compensation insurance.

The Company received a total of \$39 million cash capital contributions from FLNIC, \$24 million on May 9, 2018, and \$15 million on November 29, 2018. Both contributions were recorded as gross paid-in and contributed surplus on the balance sheet.

MANAGEMENT AND CONTROL

The Company is a member of an insurance holding company system of which James River Group Holdings, Ltd. is the ultimate controlling entity. The following chart depicts the inter-relationship of the insurers within the holding company system as of December 31, 2019 (all ownership is 100%):

- James River Group Holdings, Ltd. (Bermuda)
 - JRG Reinsurance Company, Ltd. (Bermuda)
 - James River Group Holdings UK Ltd. (United Kingdom)
 - James River Group, Inc. (Delaware)
 - Carolina Re. Ltd. (Bermuda)
 - Potomac Risk Services, Inc. (Virginia)
 - James River Management Company, Inc. (Delaware)
 - James River Insurance Company (Ohio)
 - James River Casualty Company (Virginia)
 - Falls Lake Insurance Management Company, Inc. (Delaware)
 - Falls Lake National Insurance Company (Ohio)
 - Falls Lake Fire and Casualty Company (California)**
 - Stonewood Insurance Company (North Carolina)

A seven-member board of directors oversees the business and affairs of the Company. Following are members of the board and principal officers of the Company serving at December 31, 2019:

Directors

Name and Location

Sarah C. Doran
Chapel Hill, North Carolina

Donald T. Hierman
Raleigh, North Carolina

Principal Business Affiliation

Chief Financial Officer
James River Group Holdings, Ltd.

Vice President and Corporate Controller
James River Group Inc.

Name and Location

Principal Business Affiliation

Eric F. Liland*
Raleigh, North Carolina

Senior Vice President and Chief Actuary
Falls Lakes Fire and Casualty Company

Timothy S. MacAleese
Glen Allen, Virginia

Chief Financial Officer
Falls Lake Fire and Casualty Company

Terrence M. McCafferty
South Barrington, Illinois

President and Chief Executive Officer
Falls Lake Fire and Casualty Company

Joseph R. Raia
Raleigh, North Carolina

Assistant Secretary
Falls Lake Fire and Casualty Company

Bakari L. Watkins
Cary, North Carolina

Vice President of Claims
Falls Lake Fire and Casualty Company

The following change in directors occurred subsequent to the examination date:

() Effective November 16, 2020, Eric F. Liland was removed without cause, and Paul M. Kearns was elected to the board of directors.*

Principal Officers

Name

Title

Terence M. McCafferty

President and Chief Executive Officer

Eric F. Liland

Secretary

Timothy S. MacAleese

Senior Vice President and Chief Financial
Officer

Michael E. Crow*

Treasurer

The following change in management occurred subsequent to the examination date:

() Effective September 1, 2020, Michael E. Crow was removed as Treasurer. Timothy S. MacAleese assumed the title of Treasurer. In addition, Daniel A. Shultis was elected as Assistant Treasurer and Controller.*

Management Agreements

Administrative Services Agreement: Effective, January 1, 2016, the Company is a party to an Administrative Services Agreement with its affiliate, Falls Lake Insurance Management Company, Inc. (FLIMC), whereby FLIMC provides various services to the

Company, including but not limited to financial reporting, tax compliance, treasure services, budget and cost accounting, personnel, human resources, electronic fund transfers, legal, office services, marketing and corporate affairs services, computer services, graphic arts, policy production and administration, and additional services that may be requested by the Company from time to time on mutually agreeable terms not inconsistent with this Agreement. As compensation for these services, the Company reimburses FLIMC for actual expenses incurred. The California Department of Insurance (CDI) issued a non-disapproval to the Agreement on October 17, 2016, pursuant to the California Insurance Code (CIC) Section 1215.5(b)(4). Total fees incurred by the Company in 2016, 2017, 2018, and 2019 for services rendered under this Agreement were \$29,205, \$1,438,636, \$2,847,359, and \$3,320,647, respectively.

Tax Allocation Agreement: The Company entered into a Tax Allocation Agreement with its direct parent, Falls Lake National Insurance Company (FLNIC), effective January 1, 2016. As a result, The Company has been included in the consolidated federal income tax as part of the tax allocation agreement FLNIC entered into with James River Group, Inc. Under the terms of the Agreement, the tax charge, refund or use of tax credits, to or by the Company shall be the amount that the Company would have paid in tax, refund received or compensation for credits generated if it had filed on a separate return basis with the Internal Revenue Service. The CDI issued a non-disapproval to the Agreement on December 9, 2016, pursuant to the CIC Section 1215.5(b)(4). Total taxes incurred by the Company in 2016, 2017, 2018, and 2019 under the Agreement were \$514,257, \$169,430, \$314,513, and \$764,932, respectively.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2019, the Company was licensed to transact property and casualty insurance business in California, and eligible to write surplus lines in 46 states and the District of Columbia (DC). In 2020, the Company was approved to write on a surplus lines basis in three additional states: Nebraska, New York, and Wyoming.

Direct premiums written during 2019 totaled \$157.4 million. The majority of the business was written on an admitted basis in California (88.2%), with the remaining 11.8% written on a surplus line basis in 40 states and DC. The Company's primary lines of business were workers' compensation (87.0%), commercial multiple peril (10.0%), other liability occurrence (1.8%), and commercial automobile liability (0.9%). The remaining 0.3% was comprised of boiler and machinery, commercial automobile physical damage, allied lines, fire, and burglary and theft lines of business.

The Company operates on a joint basis with its affiliates. All lines of business are produced by a select group of general agencies and managing general agencies.

REINSURANCE

Intercompany Reinsurance Pooling Agreement

Effective January 1, 2016, the Company entered into a First Amended and Restated Intercompany Reinsurance Pooling Agreement (the Agreement) with Falls Lake National Insurance Company (FLNIC) and its four affiliates. FLNIC is the lead company in the pool. The Agreement was approved by the California Department of Insurance (CDI) on August 1, 2016 pursuant to California Insurance Code (CIC) Section 1011(c). Pursuant to the Agreement, the Company cedes its all lines of business, net of other reinsurance, to FLNIC, and then assumes a proportional share from the pool.

Effective January 1, 2017, the Agreement was revised and named as Second Amended and Restated Intercompany Reinsurance Pooling Agreement (the Second Amended Agreement) to exclude James River Insurance Company's commercial automobile line of business from the pooling arrangement. The CDI consented to the Second Amended Agreement on June 30, 2017, contingent upon the Company's commitment to amend the language in Article III to conform to Title 10, Section 2303.14(b)(1)(A) of the California Code of Regulations, and also in Article XIX to better reflect CIC Section 922.2(a)(2) upon the next occasion to amend or within one year of June 30, 2017. The Company has not amended the Agreement as of the examination date; however, the Company has

communicated with the CDI that they are currently in the process of amending the Agreement and will incorporate the recommended changes above as part of amendment.

In November 2018, Falls Lake General Insurance Company (FLGIC) was merged into FLNIC. As a result, FLGIC's pooling participation was absorbed by FLNIC. The pooling percentages of the pool members as of December 31, 2019 are as follows:

<u>Company</u>	<u>Participation</u>
Falls Lake Fire and Casualty Company	6%
Falls Lake National Insurance Company	10%
James River Casualty Company	9%
James River Insurance Company	61%
Stonewood Insurance Company	14%
Total	<u>100%</u>

Assumed

The Company reported an immaterial amount of premiums assumed from California Commercial Auto Insurance Procedure during 2019.

Ceded

Effective January 1, 2018, the Company entered into a 70% Quota Share Reinsurance Agreement (the QS Agreement) with its affiliate, Carolina Re, Ltd. (Carolina Re), a Bermuda domiciled reinsurer. The CDI issued a non-disapproval to the QS Agreement pursuant to CIC Section 1215.5(b)(3) on September 24, 2018. Under the terms of the QS Agreement, the Company cedes and Carolina Re assumes a 70% quota share of its net premiums earned and net losses and allocated loss adjusting expenses arising from the business covered. The Company receives a provisional ceding commission of 26% of the net written premium that will be adjusted to actual costs at the end of each year.

Additionally, the Company had the following principal reinsurance agreements in force with external reinsurers as of December 31, 2019:

Type of Contract	Line(s) of Business	Reinsurer(s) and Participation	Company's Net Retention	Reinsurer's Limit
Workers' Compensation & Employers Liability Quota Share Reinsurance	Workers' Compensation and Employers Liability	<u>Authorized:</u> Axis Reinsurance Company (4.5%) Endurance Assurance Corporation (11.0%) Munich Reinsurance America, Inc. (12.0%) Odyssey Reinsurance Company (2.5%) Partner Reinsurance Company of the U.S. (10.0%) Safety National Casualty Corporation (11.0%) Swiss Reinsurance America Corporation (38.0%)	11%	\$1 million each loss occurrence
Workers' Compensation & Employers Liability Excess of Loss Reinsurance First Excess Layer	Workers' Compensation and Employers Liability	<u>Authorized:</u> Safety National Casualty Corporation (100%)	11% of the primary \$1 million per occurrence	\$9 million per occurrence excess of \$1 million, each and every loss occurrence \$9 million maximum limit of liability for all loss occurrences resulting from terrorism
Second Excess Layer		<u>Authorized:</u> Safety National Casualty Corporation (20.0%) Munich Reinsurance America, Inc. (15.0%) Partner Reinsurance Company of the U.S. (7.5%) Various Lloyd's syndicates (57.5%)	11% of the primary \$1 million per occurrence and 0% of \$9 million excess of \$1 million per occurrence	\$10 million excess of \$10 million each and every loss occurrence with \$50 million term limit \$20 million maximum limit of liability for all loss occurrence resulting from terrorism Maximum of \$15 million net loss any one life
Third Excess Layer		<u>Authorized:</u> Arch Reinsurance Company (32.5%) Munich Reinsurance America, Inc. (30.0%) Various Lloyd's syndicates (30.0%) Cincinnati Insurance Company (5.0%) Partner Reinsurance Company, Ltd. (2.5%)	11% of the primary \$1 million per occurrence and 0% of \$19 million excess of \$1 million per occurrence	\$30 million excess of \$20 million net loss per occurrence with \$90 million term limit \$30 million maximum limit of liability for all loss occurrences resulting from terrorism Maximum of \$15 million net loss any one life
Commercial Property and Liability Reinsurance and Indemnification	Commercial Real and Personal Property, Corp, Inland Marine, General Liability	<u>Authorized:</u> Hannover Ruck SE (100%)	None	\$10 million for Crop any one location \$10 million for all other property any one location \$2 million for primary liability any one policy and up to \$4 million excess liability any one policy
Equipment Breakdown Coverage 100% Quota Share Reinsurance	Equipment Breakdown endorsements to Commercial policies or Equipment Breakdown coverage sections within Commercial policies	<u>Authorized:</u> Factory Mutual Insurance Company (100%)	None	\$25 million on any one risk for Cannabis & Hemp Program \$100 million for Auto Dealers Program on any one risk One Policy constitutes one risk

Type of Contract	Line(s) of Business	Reinsurer(s) and Participation	Company's Net Retention	Reinsurer's Limit
Transportation Program Quota Share Reinsurance (85%)	Public Automobile Insurance business Commercial Auto Liability, Automobile Physical Damage, General Liability, and Garage Keepers Liability	<u>Authorized:</u> Swiss Reinsurance America Corporation (70.13%) Axis Reinsurance Company (16.94%) Arch Reinsurance Company (9.4%) Odyssey Reinsurance Company (3.53%)	15%	Limits for Automobile: \$1.5 million each accident – Limousines; \$1 million each accident – other than Limousines and Taxis; \$0.75 million CSL each accident – Taxis; \$1 million Uninsured/Underinsured Motorist; \$1 million Garage Keepers Liability; \$3 million maximum Terminal or Yard limit \$10 thousand Medical Payments Limits for General Liability: \$1 million each occurrence; \$2 million general aggregate; \$1 million/\$2 million Employee Benefits Liability; \$2 million Products Completed Operations Aggregate; \$1 million Personal and Advertising injury; \$100 thousand Fire Damage
Commercial Automobile Liability Quota Share Reinsurance	Automobile Dealers Liability Business For-Hire Trucking business: Automobile Liability, Automobile Physical Damage, General Liability, Non-Trucking Liability and Cargo business	<u>Authorized:</u> Swiss Reinsurance America Corporation (30.0%) Arch Reinsurance Company (20.0%) Munich Reinsurance America, Inc. (10.0%) Nationwide Mutual Fire Insurance Company (10.0%) XL Reinsurance America Inc. (10.0%) Odyssey Reinsurance Company (5.0%) General Reinsurance Corporation (2.5%) Transatlantic Reinsurance Company (2.5%)	10%	\$5 million per occurrence for automobile physical damage coverages For Automobile Liability: \$1 million Bodily Injury/Physical Damage Liability Maximum Combined Single Limit; \$10 thousand Medical Payments; Physical Damage will be written on a Stated Amount (SA) Basis, limit not to exceed \$5 million; \$250 thousand Maximum Tractor Value; \$100 thousand Maximum Trailer Value; \$5 million for Terminal and per Occurrence General Liability: \$1 million each occurrence; \$2 million General Aggregated Limit; \$2 million Products Completed Operations Aggregate Limit; \$1 million Personal and Advertising Injury Limit; \$1 million /\$2 million Employee Benefits Liability Limit (\$1,000 deductible); \$100 thousand Fire Damage Limit; \$5 thousand Medical Expense Limit – any one person; Up to \$500 thousand for Cargo Liability

Type of Contract	Line(s) of Business	Reinsurer(s) and Participation	Company's Net Retention	Reinsurer's Limit
Property Quota Share Reinsurance	Inland Marine, Crime, and Garage Keepers Legal Liability	<u>Authorized:</u> Swiss Reinsurance America Corporation (75.0%) MotoRS Insurance Corporation (5.0%)	20%	\$0.5 million each loss, each risk \$1.5 million per occurrence \$10 million in terrorism aggregate
Property Per Risk Excess of Loss Reinsurance First Excess Layer	Inland Marine, Crime, and Garage Keepers Legal Liability	<u>Authorized:</u> Everest Reinsurance Company (10.0%) Hannover Ruck SE (20.0%) Various Lloyd's syndicates (65.5%) <u>Unauthorized:</u> The New India Assurance Company Limited (2.5%) Convex Insurance UK Limited (2.0%)	20% of primary \$0.5 million quota share	\$0.5 million excess of \$0.5 million per risk \$2 million per occurrence \$5 million term limit
Second Excess Layer		<u>Authorized:</u> Everest Reinsurance Company (10.0%) Hannover Ruck SE (20.0%) Various Lloyd's syndicates (68.0%) <u>Unauthorized:</u> Convex Insurance UK Limited (2.0%)	20% of primary \$0.5 million quota share and 0% of \$0.5 million primary quota share	\$1 million excess of \$1 million per risk \$3 million per occurrence \$5 million term limit
Third Excess Layer		<u>Authorized:</u> Everest Reinsurance Company (10.0%) Hannover Ruck SE (20.0%) Various Lloyd's syndicates (63.05%) <u>Unauthorized:</u> The New India Assurance Company Limited (3.25%) Convex Insurance UK Limited (1.7%) Peak Reinsurance Company Limited (2.0%)	20% of primary \$0.5 million quota share and 0% of \$1.5 million excess of \$0.5 million primary quota share	\$3 million excess of \$2 million per risk \$6 million per occurrence \$12 million term limit
Fourth Excess Layer		<u>Authorized:</u> Everest Reinsurance Company (10.0%) Hannover Ruck SE (20.0%) Various Lloyd's syndicates (62.8%) <u>Unauthorized:</u> The New India Assurance Company Limited (3.4%) Convex Insurance UK Limited (1.6%) Peak Reinsurance Company Limited (1.75%)	20% of primary \$0.5 million quota share and 0% of \$9.5 million excess of \$0.5 million primary quota share	\$10 million excess of \$5 million per risk \$5 million per occurrence \$15 million term limit
Fifth Excess Layer		<u>Authorized:</u> Everest Reinsurance Company (10.0%) Hannover Ruck SE (20.0%) Various Lloyd's syndicates (63.25%) <u>Unauthorized:</u> The New India Assurance Company Limited (3.4%) Convex Insurance UK Limited (1.6%) Peak Reinsurance Company Limited (1.75%)	20% of primary \$0.5 million quota share and 0% of \$9.5 million excess of \$0.5 million primary quota share	\$10 million excess of \$10 million per risk \$10 million per occurrence \$20 million term limit

Type of Contract	Line(s) of Business	Reinsurer(s) and Participation	Company's Net Retention	Reinsurer's Limit
Sixth Excess Layer		<u>Authorized:</u> Hannover Ruck SE (20.0%) Various Lloyd's syndicates (69.0%) <u>Unauthorized:</u> The New India Assurance Company Limited (5.0%) Convex Insurance UK Limited (2.0%) Peak Reinsurance Company Limited (4.0%)	20% of primary \$0.5 million quota share and 0% of \$19.5 million excess of \$0.5 million primary quota share	\$20 million excess of \$20 million per risk \$20 million per occurrence \$40 million term limit
Casualty and Umbrella Quota Share Reinsurance	Section A: Automobile Dealers Liability business: Garage Liability, Cyber Liability, Pollution Liability, Employee Benefits and Employment Practices Liability	<u>Authorized:</u> Swiss Reinsurance America Corporation (75.0%) Renaissance Reinsurance U.S. Inc. (7.5%) Motors Insurance Company (5.0%)	12.5%	\$50 thousand per occurrence for Cyber Liability business \$1 million per occurrence for all other business
	Section B: Umbrella Liability	<u>Authorized:</u> Swiss Reinsurance America Corporation (75.0%) Renaissance Reinsurance U.S. Inc. (7.5%) Motors Insurance Company (5.0%) Lloyd's Syndicate 2987 (Brit) (5.0%)	7.5%	\$10 million per occurrence
Umbrella Liability Semiautomatic Facultative Excess of Loss Reinsurance	Casualty Umbrella Liability	<u>Authorized:</u> General Reinsurance Corporation (40.0%) Transatlantic Reinsurance Company (40.0%) Lloyd's Syndicate 5678 (20.0%)	7.5% of primary quota share	\$5 million each occurrence excess of \$10 million each loss occurrence each policy

ACCOUNTS AND RECORDS

Vehicle Fraud Assessment

Each insurer doing business in California is required to pay an annual special purpose assessment for each vehicle it insures in this state pursuant to Sections 1872.8, 1872.81, and 1874.8 of the California Insurance Code.

According to California Code of Regulations (CCR), Title 10, Chapter 5, Subchapter 9, Article 4, Section 2698.62(b), the assessment shall be due on each vehicle, identified by its vehicle identification number for each quarter that a policy is in force on such vehicle and when a vehicle is added to or replaces one under an existing policy.

Additionally, in order to verify the number of vehicles for which an assessment is due and has been paid, each insurer shall maintain a file known as the Automobile Assessment File (AAF) for a minimum of five years after each calendar year pursuant to CCR Section 2698.62(d). The AAF shall contain the vehicle identification, policy number, and transaction date for every vehicle for which a policy of insurance was in-force for each quarter or any part thereof. During the course of the examination, it was noted that the Company's methodology for counting vehicles consists of a calculation based on the surcharges collected and reported by its general agents and which is amortized it over four quarters. The methodology does not comply with the methodology prescribed in CCR Section 2698.62(b). In addition, it was observed that the Company did not generate and maintain AAFs containing the vehicle identification, policy number, and transaction date for every vehicle for which a policy of insurance was in-force for each quarter or any part thereof during the examination period pursuant to CCR Section 2698.62(d).

It is recommended that the Company follow the methodology prescribed in CCR Section 2698.62(b) and also maintain an AAF in accordance with CCR Section 2698.62(d)

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, 2019. The accompanying comments to the amounts in the financial statements should be considered an integral part of the financial statements. No adjustments were made to the statutory financial statements filed by the Company.

Statement of Financial Condition as of December 31, 2019

Underwriting and Investment Exhibit for the Year Ended December 31, 2019

Reconciliation of Surplus as Regards Policyholders from December 31, 2014 through December 31, 2019

Statement of Financial Condition
as of December 31, 2019

<u>Assets</u>	Ledger and Nonledger Assets	Assets Not Admitted	Net Admitted Assets	<u>Notes</u>
Bonds	\$ 58,975,851	\$	\$ 58,975,851	
Cash and cash equivalents	19,624,079		19,624,079	
Investment income due and accrued	355,263		355,263	
Uncollected premiums and agents' balances in the course of collection	15,682,802	6,842,198	8,840,604	
Deferred premiums, agents' balances and installments booked but deferred and not yet due	15,099,212		15,099,212	
Amount recoverable from reinsurers	8,462,308		8,462,308	
Funds held by or deposited with reinsured companies	17,588,272		17,588,272	
Net deferred tax asset	2,011,275	410,466	1,600,809	
Receivable from parent, subsidiaries and affiliates	207,548		207,548	
Aggregate write-ins for other than invested assets	4,747,643	10,000	4,737,643	
Total assets	\$ 142,754,253	\$ 7,262,664	\$ 135,491,589	
<u>Liabilities, Surplus, and Other Funds</u>				<u>Notes</u>
Losses			\$ 8,588,179	(1)
Reinsurance payable on paid losses and loss adjustment expenses			1,404,327	
Loss adjustment expenses			5,418,496	(1)
Commissions payable, contingent commissions and other similar charges			5,928,085	
Other expenses			79,815	
Taxes, licenses and fees			2,103,033	
Current federal and foreign income taxes			181,956	
Unearned premiums			3,581,595	
Advance premiums			25,379	
Ceded reinsurance premiums			30,327,725	
Funds held by company under reinsurance treaties			17,863,004	
Payable to parent, subsidiaries and affiliates			303,255	
Aggregate write-ins for liabilities			8,468,271	
Total liabilities			84,273,120	
Common capital stock		\$ 2,600,000		
Gross paid-in and contributed surplus		51,402,000		
Unassigned funds (surplus)		<u>(2,783,531)</u>		
Surplus as regards policyholders			51,218,469	
Total liabilities, surplus, and other funds			\$ 135,491,589	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2019

Underwriting Income

Premiums earned		\$ 6,511,376
Deductions:		
Losses incurred	\$ 2,853,996	
Loss adjustment expenses incurred	114,717	114,717
Other underwriting expenses incurred	<u>1,161,053</u>	
Total underwriting deductions		<u>6,220,495</u>
Net underwriting gain		290,881

Investment Income

Net investment income earned	\$ 1,560,351	
Net realized capital losses	<u>(2,141)</u>	
Net investment gain		1,558,210

Other income

Net loss from agents' or premium balances charged off	(91)	
Finance and service charges not included in premiums	70,661	
Aggregate write-ins for miscellaneous income	<u>296,254</u>	
Total other income		<u>366,824</u>

Net income after dividends to policyholders, after capital gains tax and before federal and foreign income taxes		2,215,915
Federal and foreign income taxes incurred		<u>(639,776)</u>
Net income		<u>\$ 1,576,139</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2018		\$ 50,615,866
Net income	\$ 1,576,139	
Change in net deferred income tax	1,622,020	
Change in nonadmitted assets	(2,736,650)	
Change in provision for reinsurance	<u>141,094</u>	
Change in surplus as regards policyholders for the year		<u>602,603</u>
Surplus as regards policyholders, December 31, 2019		<u>\$ 51,218,469</u>

Reconciliation of Surplus as Regards Policyholders
from December 31, 2015 through December 31, 2019

Surplus as regards policyholders, December 31, 2015			\$ 15,002,005
	Gain in Surplus	Loss in Surplus	
Net income	\$ 2,467,851	\$	
Change in net deferred income tax	2,011,276		
Change in nonadmitted assets		7,262,664	
Change in provision for reinsurance	1		
Surplus adjustment: Paid- in	39,000,000		
Total gains and losses	\$ 43,479,128	\$ 7,262,664	
Net increase in surplus as regards policyholders			36,216,464
Surplus as regards policyholders, December 31, 2019			\$ 51,218,469

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

The Property and Casualty Chief Actuary from the Ohio Department of Insurance (ODI) reviewed the Actuarial Opinion as of December 31, 2019 as prepared by the Company's independent actuary, and performed other procedures as considered necessary to evaluate the loss and loss adjustment expense reserves. Based on the evaluation, it was concluded that the Company's loss and loss adjustment expense reserves as of December 31, 2019 were reasonable.

A Senior Casualty Actuary from the California Department of Insurance reviewed the work performed by the ODI's Property and Casualty Chief Actuary and concurred with the conclusion.

SUBSEQUENT EVENTS

The coronavirus disease 2019 (COVID-19) global pandemic has triggered unprecedented government mandates and health and safety measures, which have significantly impacted the global economy and financial markets. However, the Company reported minimal business and financial impact as a result of COVID-19 as of December 3, 2020. As of the date of this report, significant uncertainty remains regarding the effect that the pandemic will have on the insurance industry and the global economy at large.

On May 10, 2021, the Company's ultimate controlling party, James River Group Holdings Ltd., closed a public offering of 6,497,500 common shares at a price of \$31.00 per share. The net processed of \$192,000,000 will be utilized for general corporate purposes.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Accounts and Records – Vehicle Fraud Assessment (Page 12): It is recommended that the Company follow the methodology and also maintain an Automobile Assessment File in accordance with California Code of Regulations Title 10, Chapter 5, Subchapter 9, Article 4, Section 2698.62.

Previous Report of Examination

Not applicable as this was the first examination since the Company commenced business in 2016.

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/_____

Mei Gu, CFE
Examiner-In-Charge
Senior Insurance Examiner, Specialist
Department of Insurance
State of California

_____/S/_____

Ber Vang, CFE
Supervising Insurance Examiner
Department of Insurance
State of California