REPORT OF EXAMINATION

OF THE

FIDELITY NATIONAL INSURANCE COMPANY

AS OF

DECEMBER 31, 2012

Dave Jones

Insurance Commissioner

FILED 5-21-14

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Los Angeles, California
March 21, 2014

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

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

FIDELITY NATIONAL INSURANCE COMPANY

(hereinafter also referred to as the Company) at its home office located at 4905 Belfort Road, Suite 110, Jacksonville, Florida 32256.

SCOPE OF EXAMINATION

We have performed our multi-state examination of the Company. 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, 2012. 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.

The examination was a coordinated examination and was conducted concurrently with the Company's wholly-owned subsidiary, Fidelity National Property and Casualty Insurance Company (New York) with California serving as the lead state.

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; growth of company; loss experience; and statutory deposits.

SUBSEQUENT EVENTS

Subsequent to the examination period, and effective October 1, 2013, the Company's name was changed to Stillwater Insurance Company. In addition, on the same date, its wholly-owned subsidiary, Fidelity National Property and Casualty Insurance Company, changed its name to Stillwater Property and Casualty Insurance Company.

Effective January 31, 2014, the Company and an affiliate, WTJ Holdings, Inc., acquired a combined 50% membership interest in EU Holdings, LLC (EU) for the amount of $43.5 million. EU owns Evergreen/UNI, LLC (the Agency) and the Agency writes specialty surety bonds for Evergreen National Indemnity Company (Ohio). The Company's portion of the investment totaled $22.5 million and was funded on February 3, 2014. This transaction was approved by the California Department of Insurance on January 29, 2014.

On June 6, 2013, the Company paid an ordinary cash dividend of $7 million to its sole shareholder, Duval Holdings, Inc.

On February 20, 2014, the Company paid an ordinary cash dividend of $6.5 million to its sole shareholder, Duval Holdings, Inc.

COMPANY HISTORY

The Company was formerly named Anza Insurance Company (Anza). Anza was incorporated in California on April 26, 1990. In June 2001, Anza's name was changed to Fidelity National Insurance Company and its corporate headquarters was relocated to Santa Barbara, California. In August 2003, the Company's administrative office was relocated to Jacksonville, Florida.

On June 28, 2005, Fidelity National Financial, Inc. (FNF), an insurance holding company incorporated in Florida and traded on the New York Stock Exchange under the trading symbol "FNF" acquired 100% of the outstanding shares of the Company, following approval of the transaction by the California Department of Insurance. Prior to this acquisition date, the Company was owned by an affiliate, Fidelity National Title Insurance Company, a California domiciled title insurer.

On October 24, 2006, the Company was contributed by FNF to National Alliance Marketing Group, Inc. (NAMG) as part of an internal restructuring of FNF; with FNF remaining as the ultimate parent of the Company.

On January 18, 2012, NAMG contributed all of its stock of the Company to a subsidiary, Duval Holdings, Inc. (Delaware). FNF remained as the ultimate parent of the Company until the sale on May 1, 2012.

On May 1, 2012, FNF sold 85% of its interest in Duval Holdings, Inc., the Company's immediate parent, to WTJ Holdings, Inc. (WTJ). FNF retained a minority interest in Duval through its 100% of ownership of NAMG who owns the remaining 15% share. WTJ is controlled by WT Holdings, Inc. (WTH) which owns 75% of WTJ's shares. The California Department of Insurance approved the Form A filing for this change of control on March 30, 2012. After the May 1, 2012 transaction, WBL Partners, LLC (WBL), a Tennessee limited liability company and various other investors became the ultimate controlling entity or persons of the Company and Fidelity National Property and Casualty Insurance Company (FNPAC).

On January 3, 2003, FNF, acquired First Community Insurance Company (FCIC) from Bankers Insurance Group. On May 1, 2003, FNF contributed FCIC to the Company and FCIC changed its name to FNPAC.

Capitalization

The Company is authorized to issue one million shares of voting common stock with a par value of $50 per share. As of December 31, 2012, there were 65,000 shares outstanding.

On April 30, 2012, the Company recorded a surplus contribution from its parent, Duval Holdings, Inc. in the cash amount of $2,000,000.

Dividends Paid to Parent

On April 30, 2012, the Company paid an ordinary cash dividend of $6,000,000 to its sole shareholder, Duval Holdings, Inc.

Dividends Received From Subsidiaries

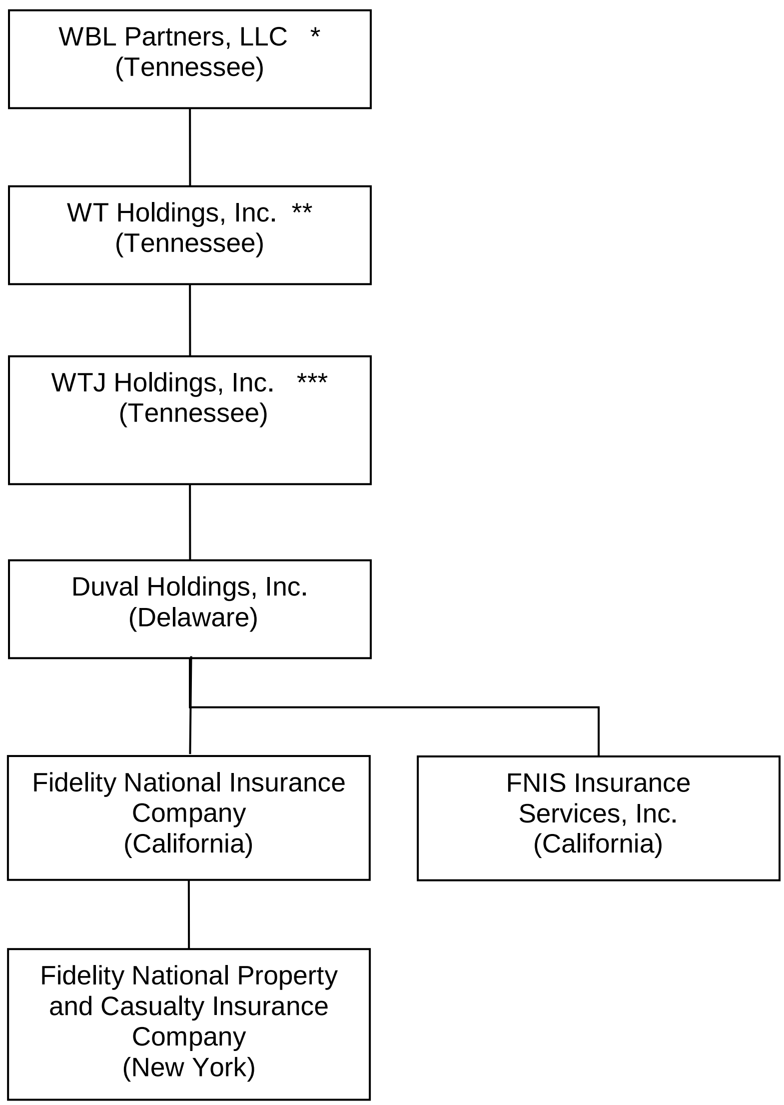
The Company received the following dividends from its subsidiaries as follows:

1) A $2,500,000 stock dividend (consisting of $25,000 shares at $100 per share) from its subsidiary Fidelity National Indemnity Insurance Company (FNIIC) on March 31, 2010.
2) A $10,380,000 cash dividend from its wholly-owned subsidiary Fidelity National Property Casualty and Insurance Company on September 26, 2011.
3) Effective November 1, 2011, the Company sold its 100% interest FNIIC, domiciled in Texas, to WRM American Holding LLC. Prior to the closing FNIIC

paid the Company a $21,669,168 cash dividend. There was no gain or loss on the sale of FNIIC, since the sales price was equal to the Company's basis.

MANAGEMENT AND CONTROL

The Company is a member of an insurance holding company system. The following abridged organization chart is limited to the entities the Company had interrelationships with during the exam period within the holding company system as of December 31, 2012:



*WBL Partners, LLC, owns 10% of WT Holdings, Inc. The remaining 90% of WT Holdings, Inc. is owned by various individual investors.
**WT Holdings, Inc. owns 75% of WTJ Holdings, Inc. while Thaynes Capital Insurance, LLC, owns the remaining 25%.
***WTJ Holdings, Inc. owns 84.3% of Duval Holdings, Inc. National Alliance Marketing Group, Inc. (owned 100% by Fidelity National Financial, Inc.) owns 15%, and the remaining .7% owned by Company management.
All ownerships are at 100% unless otherwise noted.

The following individuals each indirectly own or control 10% or more of the Company's voting securities and are deemed the ultimate controlling parties of the Company:
(1) Charles K. Slatery
(2) James D. Lackie

The ten members of the board of directors, who are elected annually, manage the business and affairs of the Company. Following are members of the board and principal officers of the Company serving at December 31, 2012:

Directors

Name and Location	Principal Business Affiliation
Mark O. Davey Ponte Vedra Beach, Florida	President and Chief Executive Officer Fidelity National Insurance Company
David L. Eigen Westport, Connecticut	Managing Member Post Road Capital Management
Emmel B. Golden III Memphis, Tennessee	Executive Vice President NFC Investments, LLC
Richard B. Jennings New York, New York	President Realty Capital International, LLC
Thomas W. Korona Charlotte, North Carolina	Vice President SGP Land, LLC
James D. Lackie Memphis, Tennessee	President Lackie Trading, Inc.
Damon D. Navarro Niantic, Connecticut	Manager Grove Property Fund, LLC
Charles K. Slatery Memphis, Tennessee	President, NFC Investments, LLC

Name and Location	Principal Business Affiliation
William V. Thompson III Memphis, Tennessee	Executive Vice President NFC Investments, LLC
Henri L. Wedell Memphis, Tennessee	Retired

Principal Officers

Name	Title
Mark O. Davey	President and Chief Executive Officer
John M. Giorgianni	Executive Vice President and Chief Financial Officer
Deborah S. Price	Vice President and Secretary
Marc L. Crawford	Vice President, Sales and Marketing
Daniel M. Duffy	Vice President and Chief Information Officer
Larry E. Haynes (a)	Vice President, Commercial Lines
Peter A. Occi (b)	Vice President, Auto Product Development
Larry W. Mortensen	Vice President, Property Product Development
Mike K. Whatley	Vice President, Chief Actuary - Ratings

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

(a) Larry E. Haynes passed away on January 9, 2014 and was replaced by Eric Neely as Vice President, Commercial Lines, effective on March 17, 2014.

(b) Peter A. Occi retired effective December 2, 2013, and was replaced by Kevin Karl as Vice President, Auto Product Development on that same date.

Corporate Governance Meetings

During examination years 2009 thru April 2012 the Company’s board of directors did not conduct any formal board meetings. All of the board minutes provided to the examiners were written consents in lieu of meetings. In addition, no committee minutes were provided for that period as well. After change in control of the Company, effective May 2012, the board of directors began having periodic formal board meetings evidenced by minutes. Formal committee minutes of the audit committee were evident for the subsequent period beginning mid-2013. No minutes were provided for the investment committee which apparently met concurrent with the board meetings and maintained no separate minutes. It is recommended that the Company maintain formal minutes for all of its board and committee meetings.

Management Agreements

General Agency Agreement: The Company was a party to a General Agency Agreement with a former affiliate, Fidelity National Insurance Services, Inc. (Fidelity National Services), effective March 15, 2001, and amended on December 26, 2007. This agreement was replaced by a new General Agency Agreement effective November 2, 2011, with a current affiliate, FNIS Insurance Services, Inc. (FNIS), formerly named Ticor Insurance Services, Inc. FNIS is authorized to solicit and bind the Company to issue policies of insurance. The Company pays FNIS a commission of 25% of net written premiums less any cancellations. FNIS underwrote and issued 100% of the Company's insurance business. The General Agency Agreement with FNIS was approved by the California Department of Insurance (CDI) on August 29, 2011. For 2009, 2010, and 2011, the Company paid $21,216,807, $23,798,749, and $17,647,558, respectively to Fidelity National Services. For 2011 and 2012, the Company paid $3,529,511, and $25,215,357, respectively to FNIS.

Tax Sharing Agreement: During the examination period, the Company and its then subsidiaries and ultimate parent, Fidelity National Financial, Inc. (FNF), were included in a Tax Sharing Agreement, effective November 3, 2006, and approved by the CDI on October 17, 2006. On January 18, 2012, the Company entered into a new tax sharing agreement with FNF to include affiliate, National Alliance Marketing Group, Inc. (NAMG). This agreement was approved by the CDI on January 18, 2012. Pursuant to the change in control of the Company, effective May 1, 2012, the Company entered into a new tax sharing agreement with WTJ Holdings, Inc. (lead company in consolidated filing), Duval Holdings, Inc., FNIS, and Fidelity National Property and Casualty Insurance Company. The allocation of federal income tax liability is based on the percentage that the separate federal income tax liability of each member bears to the sum of the separate federal income tax liabilities for all members. Any excess of the amount previously paid by a member over the allocated liability shall be paid by WTJ Holdings, Inc. to such member. The allocation, reporting, and remittances shall be completed within thirty (30) days after the receipt of funds or credits by the consolidated group. Documentation was not evident that the new tax sharing agreement was approved by the CDI. It is recommended that the Company submit this agreement to the CDI for approval in accordance with California Insurance Code (CIC) Section 1215.5(b)(4). For 2009, 2010, 2011, and 2012, the Company paid $1,072,836, $1,759,772, $14,276,263, and $0, respectively to FNF. For 2012, the Company paid the amount of $0 to WTJ Holdings.

Investment Advisory Services Agreement: Effective May 1, 2012, the Company entered into an Investment Advisory Services Agreement with an affiliate NFC Investments, LLC (NFC). NFC provides investment advisory and/or consulting services for the Company's Investment Security Portfolio pursuant to written investment guidelines provided by the Company's board of directors. Fees are calculated as 1% of equities and .25% of fixed income securities held within the Investment Security Portfolio. Documentation was not evident that the investment advisory services agreement was approved by the CDI. It is recommended that the Company submit this agreement to the CDI for approval in accordance with CIC Section 1215.5(b)(4). For 2012 the Company paid $296,276 to NFC.

TERRITORY AND PLAN OF OPERATION

The Company's operations are conducted jointly with its subsidiary, Fidelity National Property and Casualty Insurance Company (FNPC), at its home office in Jacksonville, Florida. As of December 31, 2012, the underwriting operations of the Companies were conducted through two business units: Commercial and Personal.

The Company assumes 100% of the business (other than the flood program) of its subsidiary, FNPC. The Companies operate throughout the United States through a related-party general agency agreement with FNIS Insurance Services, Inc. (FNIS). As discussed in the management agreement section of this report, FNIS performs the companies underwriting, policy issuance, credit and collection functions pursuant to a general agency agreement with FNIS utilizing in excess of 9,600 sub-agents. The Company, and its subsidiary, FNPC, are each licensed in all 50 states and the District of Columbia.

For the period ending December 31, 2012, the Company and FNPC wrote $27.1 million (29%) and $38.5 million (28%), respectively, of their direct business in the State of California. Nationwide, the Company wrote $63.1 million (63%) in homeowners insurance, and FNPC wrote $64.7 million (47%) in the same line of business. The second largest line of direct business for the Company was private passenger automobile with $7.1 million (7.8%), while allied lines (primarily Federal flood program business) at $64.9 million was 47.5% of FNPC's direct business in 2012.

The Company ceased participating in the Federal Flood Insurance Program effective February 1, 2010. The Federal Flood Insurance Program previously written by both companies was sold by Fidelity National Financial, Inc. (FNF), the previous ultimate parent company, prior to the May 1, 2012, change in ownership of these companies.

REINSURANCE

Assumed

The Company was party to a 100% quota share reinsurance agreement with its subsidiary, Fidelity National Property and Casualty Insurance Company (FNPC), effective January 22, 2004. All lines of insurance that FNPC was authorized to write are covered under this agreement, except for surety and the flood insurance business that FNPC writes through its participation in the National Flood Insurance Program, "Write Your Own Program" which is 100% ceded by FNPC to the Federal Emergency

Management Agency (FEMA). This 2004 agreement was replaced by a similar 100% Quota Share reinsurance agreement with FNPC effective August 25, 2010, with the same lines of business covered. The term of this later agreement was one year with an automatic renewal feature. This 100% Quota Share reinsurance treaty was not submitted to the California Department of Insurance (CDI) for approval pursuant to California Insurance Code (CIC) Section 1215.5(b)(3). It is recommended that the Company submit this agreement to the CDI for approval in accordance with CIC Section 1215.5(b)(3).

The Company was party to a 100% Quota Share reinsurance agreement with a former subsidiary, Fidelity National Indemnity Insurance Company (FNIIC), effective February 10, 2003. All lines of insurance that FNIIC was authorized to write were covered under this agreement, other than the flood insurance business that FNIIC writes through its participation in the National Flood Insurance Program with FEMA. The 2003 agreement was filed with the CDI on December 26, 2007. This 2003 agreement was replaced by a similar 100% Quota Share reinsurance agreement with FNIIC, effective August 1, 2010, with the same lines of business covered. The term of this later agreement was one year with an automatic renewal feature. No documentation has been provided to the examiner that the 2010 agreement has been submitted to the CDI or approved, however effective November 1, 2011, FNIIC was no longer an affiliated party.

Ceded

The Company and its subsidiary, FNPC, are parties to a 100% Quota Share reinsurance agreement with a former subsidiary, Fidelity National Indemnity Insurance Company (FNIIC), effective November 1, 2011. The subject line of business is excess flood insurance policies only, defined as “providing insurance coverage excess over, and under terms following the form of, any policy of flood insurance written through the National Flood Insurance Program”. The term of this agreement is indefinite.

The Company, as required by Florida statute, participates in the Florida Hurricane Catastrophe Fund, at the elected 90% participation level, which provides reimbursement to the Company under certain circumstances in the event of covered losses incurred due to a hurricane.

Other than intercompany agreements, the Company's ceded reinsurance program principally consisted of multi-layer property and catastrophe excess of loss coverage with various reinsurers. The following is a summary of the principal ceded reinsurance treaties in-force as of December 31, 2012:

Line of Business and Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Limit
Personal Umbrella Quota Share	Odyssey Reinsurance Company - 33% - authorized The TOA Reinsurance Company of America - 17% authorized	50% net of amounts above $5 million in any one risk	50% of maximum of $5 million combined single limit in any one risk
Facultative Quota Share (Besso Ltd – Intermediary)	Lloyds Syndicate 1206 – 75% authorized Others - 25% - authorized	20%	80% QS of a maximum of: $3.0 million on Dwelling; $300 thousand on Other Structures; $2.25 million on Personal Property; $1.2 million on Loss of Use; $1.0 million on Personal Liability; $5 thousand on Medical Payments to Others
Quota Share – Identity Fraud Expense Coverage	Virginia Surety Company, Inc. - authorized	0%	Limited to a maximum of 300,000 (contract) coverage's during the term of the treaty. Limited to 100% of $25 thousand loss per individual risk
<u>Casualty Per Risk XOL</u>			
<u>Commercial Liability</u>			
First layer	General Reinsurance Company - authorized	$500 thousand each and every loss/risk	$500 thousand excess $500 thousand, each and every loss/risk
Second layer	General Reinsurance Company - authorized	$1 million each and every loss/risk	$1 million excess $1 million, each and every loss/risk, not to exceed $2 million all occurrences during agreement year
<u>Commercial Property</u>			
First layer	General Reinsurance Company - authorized	$500 thousand each and every loss/risk	$500 thousand excess $500 thousand, each and every loss/risk,

Line of Business and Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Limit
Second Layer	General Reinsurance Company - authorized	$1 million each and every loss/risk	$1 million excess $1 million, each and every loss/risk, not to exceed $2 million with respect to all net loss on all risks involved in any one occurrence
Property Catastrophe Excess of Loss			
First layer	Multiple authorized and unauthorized reinsurers	$10 million	100% of $10 million excess $10 million, loss/losses/one event, Reinsurers maximum liability for all occurrences $20 million per contract year
Second Layer	Multiple authorized and unauthorized reinsurers	$20 million	100% of $30 million excess $20 million, loss/losses/one event, Reinsurers maximum liability for all occurrences $60 million per contract year
Third Layer	Multiple authorized and unauthorized reinsurers	$50 million	100% of $50 million excess $50 million, loss/losses/one event, Reinsurers maximum liability for all occurrences $100 million per contract year

ACCOUNTS AND RECORDS

Premium Accounting System Reporting

The Company presents its premium and agent's balances in course of collection and deferred premiums, and installments booked but deferred and not yet due on one annual statement line and as a rolling-balance. The Company records on a monthly basis its net premiums and fees receivable from its affiliated General Agent (FNIS Insurance Services, Inc. (FNIS)). Pursuant to the General Agency Agreement with FNIS, on a weekly basis, transfers available premium dollars net of commissions to the Company. Since the amount reported in the annual statement does not represent an uncollected agents' balance receivable on a policy-by-policy basis an "aging" cannot be performed to verify compliance with Statement of Statutory Accounting Principles (SSAP) No 6, Paragraph 9. It is recommended that the Company maintain its uncollected premiums and agents' balances records in a manner that will allow compliance with SSAP No 6, Paragraph 9.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2012

Underwriting and Investment Exhibit for the Year Ended December 31, 2012

Reconciliation of Surplus as Regards Policyholders from December 31, 2008 through December 31, 2012

Statement of Financial Condition
as of December 31, 2012

Assets	Ledger and Nonledger Assets	Assets Not Admitted	Net Admitted Assets	Notes
Bonds	$ 93,397,770	$	$ 93,397,770	
Preferred stocks	13,921,687		13,921,687	
Common stocks	126,869,142		126,869,142	
Cash and short-term investments	21,669,936		21,669,936	
Derivatives	478,860		478,860	
Other invested assets	4,266,425		4,266,425	
Investment income due and accrued	1,061,076		1,061,076	
Premiums and agents' balances in course of collection	7,508,056		7,508,056	
Amount recoverable from reinsurers	671,666		671,666	
Net deferred tax asset	9,233,817	118,513	9,115,304	
Receivable from parent, subsidiaries and affiliates	3,121		3,121	
Aggregate write-ins for other than invested assets	173,416	163,324	10,092	
Total assets	$ 279,254,972	$ 281,837	$ 278,973,135	
Liabilities, Surplus and Other Funds				
Losses and loss adjustment expenses			$ 59,191,281	(1)
Reinsurance payable on paid loss and loss adjustment expenses			4,708,497	
Other expenses			1,513,096	
Taxes, licenses and fees			990,227	
Unearned premiums			75,962,001	
Ceded reinsurance premiums payable			(2,300,001)	
Payable to parent, subsidiaries and affiliates			7,625	
Aggregate write-ins for liabilities			1,324,891	
Total liabilities			141,397,617	
Common capital stock		$ 3,250,000		
Gross paid-in and contributed surplus		61,993,824		
Unassigned funds (surplus)		72,331,694		
Surplus as regards policyholders			137,575,518	
Total liabilities, surplus and other funds			$ 278,973,135	

Underwriting and Investment Exhibit for the Year Ended December 31, 2012

Statement of Income

Underwriting Income		
Premiums earned		$ 138,055,414
Deductions:		
Losses and loss expenses incurred	$ 99,509,514	
Other underwriting expenses incurred	50,542,644	
Total underwriting deductions		150,052,158
Net underwriting loss		(11,996,744)
Investment Income		
Net investment income earned	$ 4,430,971	
Net realized capital gains	4,385,746	
Net investment gain		8,816,717
Other Income		
Aggregate write-ins for miscellaneous income	168,343	
Total other income		168,343
Net loss after capital gains tax and before federal income taxes		(3,011,684)
Federal income taxes incurred		(1,036,660)
Net loss		$ (1,975,024)

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2011		$ 134,531,138
Net loss	$ (1,975,024)	
Change in net unrealized capital gains	7,433,674	
Change in net deferred income tax	1,716,909	
Change in nonadmitted assets	257,353	
Surplus adjustments:		
Paid-in	2,000,000	
Dividends to stockholders	(6,000,000)	
Aggregate write-ins for losses in surplus	(388,532)	
Change in surplus as regards policyholders for the year		3,044,380
Surplus as regards policyholders, December 31, 2012		$ 137,575,518

Reconciliation of Surplus as Regards Policyholders from December 31, 2008 through December 31, 2012

	Gain in Surplus	Loss in Surplus	
Surplus as regards policyholders, December 31, 2008 per Examination			$ 136,625,137
Net income	$	$ 18,458,013	
Net unrealized capital gains	19,223,861		
Change in net deferred income tax	2,507,538		
Change in non-admitted assets	991,362		
Change in provision for reinsurance	91,000		
Surplus adjustments: Paid-in	2,000,000		
Dividends to stockholders		6,000,000	
Aggregate write-ins for gains in surplus	594,633		
Total gains and losses	$ 25,408,394	$ 24,458,013	
Net increase in surplus as regards policyholders			950,381
Surplus as regards policyholders, December 31, 2012, per Examination			$ 137,575,518

COMMENTS ON FINANCIAL STATEMENT ITEMS

Losses and Loss Adjustment Expenses

The examination utilized an analysis performed by a California Department of Insurance (CDI) Senior Casualty Actuary to evaluate the loss and loss adjustment expense reserves (loss reserves) as of December 31, 2012. Based on the analyses performed by the CDI's Senior Casualty Actuary the CDI has determined the Company's loss reserves to be reasonably stated and have been accepted for purposes of this examination.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Corporate Governance Meetings (Page 7): It is recommended that the Company maintain formal minutes for all of its board and committee meetings.

Management Agreements – Tax Sharing Agreement (Page 8): Effective May 1, 2012, the Company entered into a new tax sharing agreement with its affiliates. Documentation was not evident that the new tax sharing agreement was approved by the California Department of Insurance (CDI). It is recommended that the Company submit this agreement to the CDI for approval in accordance with California Insurance Code (CIC) Section 1215.5(b)(4).

Management Agreements – Investment Advisory Services Agreement (Page 8): Effective April 26, 2012, the Company entered into an investment advisory services agreement with the affiliated NFC Investments, LLC (NFC). Documentation was not evident that the investment advisory services agreement was approved by the CDI. It is recommended that the Company submit this agreement to the CDI for approval in accordance with CIC Section 1215.5(b)(4).

Reinsurance – Assumed (Page 10): The Company entered into a 100% Quota Share assumed reinsurance treaty with affiliate Fidelity National Property and Casualty Insurance Company effective August 25, 2010. Documentation was not evident that the 100% Quota Share reinsurance treaty was approved by the CDI. It is recommended that the Company submit this agreement to the CDI for approval in accordance with CIC Section 1215.5(b)(3).

Accounts and Records (Page 13): The amount reported in the annual statement does not represent an uncollected agents' balance receivable on a policy-by-policy basis and for that reason an "aging" cannot be performed to verify compliance with Statement of Statutory Accounting Principles No 6, Paragraph 9. It is recommended that the Company maintain its uncollected premiums and agents' balances records in a manner that will allow compliance with SSAP No. 6.

Previous Report of Examination

Management Agreements – Flood Insurance Full Service Vendor Agreement (Page 5): It was recommended that the Company seek prior approval from the California Department of Insurance (CDI) prior to the execution of any agreements in accordance with California Insurance Code (CIC) Section 1215.5(b)(4). It was also recommended that the Company disclose all agreements in their Form B filings pursuant to CIC Section 1215.4(b). The Company had filed this agreement with the CDI on December 26, 2007, however it was not approved and the Company officially withdrew its application for approval of this agreement and ceased underwriting and administering any new flood insurance policies effective February 1, 2010. The Company currently appears to be disclosing all affiliated agreements in their 2012 Form B filing.

Management Agreements – Tax Sharing Agreement (Page 7): It was recommended that the Company develop procedures to maintain the appropriate records to ensure the correct information is disclosed in its Form B filing pursuant to CIC Section 1215.4(b).

The Company currently appears to be disclosing all affiliated agreements in their 2012 Form B filing.

Territory and Plan of Operation (Page 8): It was recommended that the Company outline the terms and conditions of the transfer of the flood business in a written agreement to comply with CIC Section 1215.5 and submit for approval. It was also recommended that the Company maintain the appropriate records to ensure that the required information is disclosed in its Form B filing pursuant to CIC Section 1215.4(b). The Company prepared a memorandum of understanding dated April 29, 2011, which outlined the terms and conditions of the transfer of Company flood business to its subsidiary Fidelity Nation Property and Casualty Insurance Company with the approval of the Federal Emergency Management Agency (FEMA). The Company included this information in its Form B filings.

Reinsurance – Assumed (Page 9): It was recommended that the Company disclose the 100% quota share reinsurance agreement with FNPAC in their subsequent Form B filings pursuant to CIC Section 1215.4(b). The Company is currently disclosing this affiliated reinsurance agreement in its 2012 Form B filing.

Reinsurance – Ceded (Page 10): It was recommended that the facultative quota share reinsurance agreement be amended to include an acceptable insolvency clause as required by California Code of Regulations, Title 10 Section 2303.13. The Company is currently in a similar facultative quota share treaty with the same parties and the current treaty has an acceptable insolvency clause.

Comments on Financial Statement Items – Bonds and Short-Term Investments (Page 16): It was recommended the Company revise its Custodial Agreement with The Bank of New York Trust Company to include the provisions recommended by the NAIC Financial Condition Examiners Handbook. It was also recommended the Company submit the revised Custodial Agreement with The Bank of New York Trust Company (FNYTC) to the CDI for approval pursuant to CIC Section 1104.9(c). The Company is currently party to a Custodial Agreement with Wilmington Trust, N.A. (Delaware) which replaced the FNYTC agreement. This current agreement appears to include the provisions recommended and was approved by the CDI on September 4, 2012.

Comments on Financial Statement Items – Common Stocks (Page 16): It was recommended that the Company clearly disclose its affiliated investments in their subsequent Form B filings pursuant to CIC Section 1215.1(b)(3). The Company currently appears to be disclosing its affiliated investments in their 2012 Form B filing.

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,

Gary W. McMurray

Gary W. McMurray, CFE
Examiner-In-Charge
Contract Insurance Examiner
Department of Insurance
State of California