REPORT OF EXAMINATION
OF THE
GOLDEN BEAR INSURANCE COMPANY
AS OF
DECEMBER 31, 2014

Filed on June 10, 2016

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San Francisco, California
April 22, 2016

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

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

GOLDEN BEAR INSURANCE COMPANY

(hereinafter referred to as the Company) at its home office located at 709 North Center Street, Stockton, California 95202.

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, 2010. This examination covers the period from January 1, 2011 through December 31, 2014.

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. An examination also includes identifying and evaluating significant risks that could cause an insurer'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, during the course of the examination, an adjustment is identified, the impact of such adjustment will 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 may 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.

COMPANY HISTORY

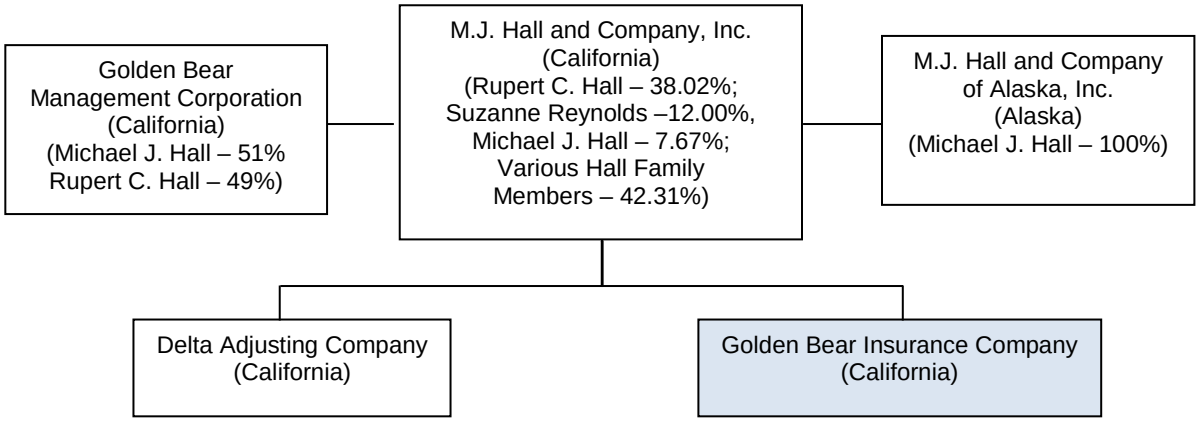
The Company is authorized to issue 1,000,000 shares of common stock with a par value of $50 per share. As of December 31, 2014, there were 36,000 shares issued and outstanding.

During and subsequent to the examination period, the Company paid the following ordinary cash dividends to its parent, M.J. Hall and Company, Inc.:

Year	Amount
2011	$1,500,000
2012	$2,000,000
2013	$1,000,000
2014	$1,000,000
2015	$1,000,000

MANAGEMENT AND CONTROL

The Company is a member of an insurance holding company system of which Rupert C. Hall is the ultimate controlling person. The following organizational chart depicts the Company's relationship within the holding company system as of December 31, 2014 (all ownership is 100% unless otherwise noted):



A seven-member board of directors, elected annually, manages the business and affairs of the Company. Following are members of the board and principal officers of the Company serving at December 31, 2014:

Board of Directors

Name and Location	Principal Business Affiliation
Peter G. Bernadicou Stockton, California	Businessman
Ashok V. Daftary Stockton, California	Physician Sutter Gould Medical Foundation
Ronald M. Guntert, Jr. Stockton, California	President Guntert Steel

Board of Directors (continued)

Name and Location	Principal Business Affiliation
Michael J. Hall Stockton, California	Chairman of the Board Golden Bear Insurance Company
Rupert C. Hall Stockton, California	President Golden Bear Insurance Company
Michael W. Haley Stockton, California	Vice President Bank of Stockton
Simone L. Toccoli* Stockton, California	Principal A.F. Toccoli & Son

(*) Simone L. Toccoli was deceased in November 2015. A new board member will be elected at the next board meeting scheduled for May 2016.

Principal Officers

Name	Position
Rupert C. Hall	President
Stacey A. Jackson	Secretary
Patrick T. Lo	Treasurer

Management Agreements

Inter-Company Operating Expense Allocation Agreement: On October 1, 2010, the Company, M.J. Hall and Company, Inc. (MJH), and Delta Adjusting Company (Delta) entered into an Inter-Company Operating Expense Agreement (Agreement). Under the terms of the Agreement, MJH agrees to make available its resources to Delta and the Company in conducting its operations, including but not limited to: personnel, data processing, and communication equipment. Performance of services and use of facilities may include accounting, tax and auditing; investments; and functional support services, such as actuarial, telecommunication and electronic data processing, legal, purchasing, payroll, and employee relations. Compensation for providing services is

based on actual cost without a profit margin. The Agreement was approved by the California Department of Insurance (CDI) on June 2, 2012 pursuant to California Insurance Code (CIC) Section 1215.5(b)(4).

Inter-Company Claim Service Agreement: An Inter-Company Claim Service Agreement (Agreement) was entered into between the Company and Delta on October, 1, 2010. Under the terms of the Agreement, Delta provides the Company with claim adjustment services, including reviewing claim or loss reports made by insureds, conducting investigations on each reported claim or loss, arranging independent investigations or legal services, notifying all reinsurers of potential claims or losses, participating in negotiation and settlement of all claims subject to approval by the Company, performing administrative and clerical work in connection with claims or losses, and preparing administrative reports for management. Delta agrees to provide all services at cost without a profit markup. The CDI approved the Agreement on February 14, 2012 pursuant to CIC Section 1215.5(b)(4) .

Tax Sharing Agreement: A Tax Sharing Agreement (Agreement) was entered into between the Company, MJH, and Delta on May 1, 2010. Under the terms of the Agreement, MJH agrees to file a consolidated federal income tax return on behalf of the companies. Federal income taxes are paid or recovered on the basis of each company's federal taxable income or loss. Pursuant to CIC Section 1215.5(b)(4), the CDI approved the Agreement on April 12, 2011.

Broker Agreement: A Broker Agreement (Agreement) was entered into between the Company and MJH on October, 28, 2010 and was approved by the CDI on December 12, 2012 pursuant to CIC Section 1215.5(b)(4). Under the terms of this Agreement, the Company appoints MJH to transmit to the Company applications for insurance coverage. MJH does not have the authority to issue binders, policies, endorsements, or insurance certificates, or to otherwise bind coverage on behalf of the Company.

Reinsurance Intermediary Agreement: Effective April 1, 2015, MJH was appointed as a reinsurance intermediary for the Company. During the examination, it was observed that the Reinsurance Intermediary Agreement (Agreement) between the Company and MJH was not filed with the CDI pursuant to CIC Section 1215.5(b)(4). Upon recommendation from the CDI, the Company filed the Agreement pursuant to CIC Section 1215.5(b)(4) on April 14, 2016 and is pending review.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2014, the Company is licensed to transact property and casualty insurance business in Arizona and California, and is eligible as a surplus lines insurer in the following states:

Alabama	Kansas	Nevada	Utah
Alaska	Kentucky	New Mexico	Washington
Colorado	Mississipppi	North Carolina	Wynoming
Hawaii	Missouri	North Dakota	
Idaho	Montana	Oregon	
Illinois	Nebraska	South Dakota	

During 2015, the Company obtained eligibility as a surplus lines insurer in the following six states: Delaware, Georgia, Oklahoma, Tennessee, Vermont, and Wisconsin.

Direct premiums written during 2014 totaled $52.3 million. The majority of the Company's business was written on an admitted basis in California (83.3%), followed by Washington (9.2%) and Oregon (2.9%). The remaining 4.6% was written in states where the Company operates as surplus line writer. The Company's lines of business written during 2014 consisted of earthquake (77.0%); other liability - occurrence (15.5%); homeowners multiple peril (5.0%); and fire (2.5%).

The Company offers earthquake coverage for both commercial and residential properties. The earthquake coverage for commercial properties is written on a monoline

basis using a difference in conditions form with policies issued yearly. In addition to residential earthquake insurance, the Company also provides deductible buyback insurance for California residents only. The commercial property accounted for the majority of the earthquake premiums.

The Company's business is marketed through approximately 50 wholesale brokerage firms and its parent, M.J. Hall and Company, Inc.

REINSURANCE

Assumed

The Company assumes a book of business under a fronting arrangement that is produced by its affiliate, Golden Bear Management Corporation (GBMC), using the Company's underwriting guidelines. The business is written in the western states where the Company is not licensed. Policies on the assumed business are issued using North America Capacity Insurance Company's paper that are reinsured by Swiss Reinsurance America Corporation, and the net retained limits are retroceded to the Company. The following table is a summary of the assumed reinsurance agreements as of December 31, 2014:

Type of Contract	Ceding Company	Ceding Company's Retention	Company's Limits
Residential Buy Back Property Quota Share	Swiss Reinsurance American Corporation	80% of $1.25 million each risk	20% of $1.25 million each risk
Property First Surplus	Swiss Reinsurance American Corporation	$2.5 million excess of $250,000 any one risk, $5 million excess of $250,000 for business written in the States of Washington, Oregon and Idaho	$250,000 any one risk
Casualty Excess of Loss	Swiss Reinsurance American Corporation	First Excess of Loss: $700,000 excess of $300,000 any one loss occurrence	$300,000 any one loss occurrence
		Second Excess of Loss Clash: $2 million excess of $1 million any one loss occurrence	$1 million any one loss occurrence

Type of Contract	Ceding Company	Ceding Company's Retention	Company's Limits
Umbrella Liability Quota Share	Swiss Reinsurance American Corporation	85% of first $1 million each occurrence, 100% of $4 million in excess of $1 million each occurrence	15% of first $1 million each occurrence

Ceded

The following is a summary of principal reinsurance agreements in-force as of December 31, 2014:

Type of Contract	Line(s) of Business	Reinsurer(s) and Participation	Company's Retention	Reinsurer's Limits
Property Per Risk and Homeowners Liability Excess of Loss	Fire, Allied Lines, Inland Marine and the property portions of Farmowners and Commercial Multiple Peril, and Homeowners (Section I and II), including Residential Workers Compensation	Authorized General Reinsurance Corporation (65%) Berkley Insurance Company (12.50%) Partner Reinsurance Company of the U.S. (12.50%) Scor Reinsurance Company (10%)	Property: $200,000 each risk	Property: (i) Homeowners Multiple Peril (Section I), $1.3 million excess of $200,000 each risk (ii) All other Property Business, $800,000 excess of $200,000 each risk All property risks in one loss occurrence not to exceed $5.6 million
			Liability: $200,000 each occurrence	Liability: (i) Homeowners Multiple Peril (Section II), $300,000 excess of $200,000 each occurrence (ii) Residential Workers Compensation, $800,000 excess of $200,000 each occurrence
First Property Surplus (Six Lines)	Fire, Allied Lines, Inland Marine, Difference in Conditions and the property portions of Farmowners and Commercial Multiple Peril	Authorized Munich Reinsurance America, Inc. (15%) Swiss Reinsurance America Corporation (47.5%) Berkley Insurance Company (10%) Partner Reinsurance Company of the U.S. (12.50%) QBE Reinsurance Corporation (8%) Scor Reinsurance Company (5%) Unauthorized Peak Reinsurance Company Limited (2%)	$1 million any one risk	$6 million excess of $1 million any one risk, $100 million any one loss occurrence

Type of Contract	Line(s) of Business	Reinsurer(s) and Participation	Company's Retention	Reinsurer's Limits
Second Property Surplus (Three Lines)	Fire, Allied Lines, Inland Marine, Difference in Conditions and property portions of Farmowners and Commercial Peril	Authorized General Reinsurance Corporation (15%) Munich Reinsurance America, Inc. (35%) Swiss Reinsurance America Corporation (40%) Berkley Insurance Company (5%) Scor Reinsurance Company (5%)	$1 million any one risk	$3 million excess of $1 million any one risk, $50 million any one loss occurrence
Property Catastrophe Excess of Loss	Fire, Allied Lines, Inland Marine and the property portions of Homeowners, Farmowners and Commercial Multiple Peril	Authorized General Reinsurance Corporation (100%)	$4 million each loss occurrence	Layer 1: 83.333% of $3 million excess of $4 million each loss occurrence Layer 2: $8 million excess of $7 million each loss occurrence Layer 3: $5 million excess of $15 million
Property Catastrophe Excess of Loss	Fire, Allied Lines, Homeowners (Section I only), Commercial Multiple Peril (Section I only) and Earthquake	Authorized Swiss Reinsurance America Corporation (100%)	$20 million any one loss occurrence	$10 million excess of $20 million any one loss occurrence, $20 million limit during the term of the contract
Property Catastrophe Excess of Loss	Fire, Allied Lines, Commercial Multiple Peril (Section I only), and Earthquake	Authorized Everest Reinsurance Company (5%) QBE Reinsurance Corporation (10%) Lloyd's Underwriters (58%) Unauthorized American Agricultural Insurance Company (6%) Hannover Re (Bermuda) Ltd (5%) R+V Versicherung AG (16%)	$30 million any one loss occurrence	Layer A: $10 million excess of $30 million any one loss occurrence, $20 million limit during the term of contract
		Authorized Everest Reinsurance Company (5%) QBE Reinsurance Corporation (10%) Lloyd's Underwriters (60%) Unauthorized American Agricultural Insurance Company (4%) Hannover Re (Bermuda) Ltd (5%) R+V Versicherung AG (16%)	$40 million any one loss occurrence	Layer B: $20 million excess of $40 million any one loss occurrence, $40 million limit during the term of contract

Type of Contract	Line(s) of Business	Reinsurer(s) and Participation	Company's Retention	Reinsurer's Limits
California Only Property Catastrophe Excess of Loss	Fire, Allied Lines, Commercial Multiple Peril (Section I only) and Earthquake	Authorized: Everest Reinsurance Company (5%) Lloyd's Underwriters (70.25%) Unauthorized: American Agricultural Insurance Company (1.5%) Hannover Re (Bermuda) Ltd (10%) R+V Versicherung AG (5%) Peak Reinsurance Company Limited (8.25%)	$60 million any one loss occurrence	$40 million excess of $60 million any one loss occurrence, $80 million limit during the term of contract
Property Quota Share	Earthquake Homeowners Deductible Buyback Program	Authorized Swiss Reinsurance American Corporation	20% of $1.25 million each risk	80% of $1.25 million each risk, 80% of $65 million loss occurrence limit during the term of the contract
Property Superior Choice Residential Earthquake	Earthquake Superior Choice Residential Program	Authorized Swiss Reinsurance American Corporation	2.5% of $5 million each risk	97.5% of $5 million each risk, 97.5% of $65 million each loss occurrence
Casualty Excess of Loss	All Commercial Primary Liability Business	Authorized Swiss Reinsurance American Corporation (100%)	$300,000 any one loss occurrence	First Excess of Loss: $700,000 excess of $300,000 any one loss occurrence
			$1 million any one loss occurrence	Second Excess of Loss Clash: $2 million excess of $1 million any one loss occurrence, $6 million loss occurrence limit during the term of the contract
Umbrella Liability Quota Share	Commercial Excess and Umbrella Business	Authorized Swiss Reinsurance American Corporation	15% of first $1 million each occurrence	85% of first $1 million each occurrence, 100% of $4 million in excess of $1 million each occurrence

ACCOUNTS AND RECORDS

Information Systems 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. The Company should evaluate the recommendations and make appropriate changes to strengthen its information systems controls.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the California Department of Insurance for the period ending December 31, 2014. The accompanying comments to the amounts reported in the annual statements should be considered an integral part of the financial statements. There were no examination adjustments made to surplus as a result of the examination.

Statement of Financial Condition as of December 31, 2014

Underwriting and Investment Exhibit for the Year Ended December 31, 2014

Reconciliation of Surplus as Regards Policyholders from December 31, 2010 through December 31, 2014

Statement of Financial Condition
as of December 31, 2014

Assets	Ledger and Nonledger Assets	Assets Not Admitted	Net Admitted Assets	Notes
Bonds	$ 83,135,193	$	$ 83,135,193	
Common stocks	10,228,296		10,228,296	
Real estate properties occupied by the company	2,103,749		2,103,749	
Cash, cash equivalents and short-term investments	9,603,779		9,603,779	
Other invested assets	865,156	22,811	842,345	
Investment income due & accrued	984,036		984,036	
Uncollected premiums and agents' balances in course of collection	4,631,527	49,151	4,582,376	
Amount recoverable from reinsurers	414,153		414,153	
Current federal and foreign income tax recoverable and interest thereon	778,644		778,644	
Net deferred tax asset	1,413,258		1,413,258	
Electronic data processing equipment and software	83,264	83,264		
Furniture and equipment	90,562	90,562		
Aggregate write-ins for other than invested assets	333,806		333,806	
Total assets	$ 114,665,423	$ 245,788	$ 114,419,635	

Liabilities, Surplus and Other Funds			
Losses		$ 36,828,245	(1)
Reinsurance payable on paid losses and loss adjustment expenses		(405,681)	
Loss adjustment expenses		14,133,446	(1)
Other expenses (excluding taxes, licenses and fees)		1,978,683	
Taxes, licenses and fees (excluding federal and foreign income taxes)		51,052	
Unearned premiums		8,695,301	
Advance premium		62,330	
Ceded reinsurance premiums payable		5,233,845	
Payable to parent, subsidiaries and affiliates		1,536,730	
Total liabilities		68,113,951	
Common capital stock	$ 1,800,000		
Gross paid-in and contributed surplus	3,773,978		
Unassigned funds (surplus)	40,731,706		
Surplus as regards policyholders		46,305,684	
Total liabilities, surplus and other funds		$ 114,419,635	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2014

Statement of Income

Underwriting Income		
Premiums earned		$ 11,197,334
Deductions:		
Losses incurred	$ 4,442,808	
Loss expenses incurred	2,725,274	
Other underwriting expenses incurred	3,961,738	
Total underwriting deductions		11,129,820
Net underwriting gain		67,514
Investment Income		
Net investment income earned	$ 3,158,608	
Net realized capital losses	(27,742)	
Net investment gain		3,130,866
Other Income		
Net loss from agents' or premium balances charged off	$ (35,180)	
Total other income		(35,180)
Net income before federal and foreign income taxes incurred		3,163,200
Federal and foreign income taxes incurred		(771,578)
Net income		$ 2,391,622

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2013		$ 44,210,112
Net income	$ 2,391,622	
Change in net unrealized capital gain	255,666	
Change in net deferred income tax	(156,531)	
Change in nonadmitted assets	604,815	
Dividends to stockholders	(1,000,000)	
Change in surplus as regards policyholders for the year		2,095,572
Surplus as regards policyholders, December 31, 2014		$ 46,305,684

Reconciliation of Surplus as Regards Policyholders
from December 31, 2010 through December 31, 2014

	Gain in Surplus	Loss in Surplus	
Surplus as regards policyholders, December 31, 2010, per Examination			$ 36,408,253
Net income	$ 13,575,205	$	
Change in net unrealized capital gains	663,925		
Change in net deferred income tax		311,786	
Change in nonadmitted assets	1,379,112		
Cumulative effect of changes in accounting principles	90,975		
Dividends to stockholders		5,500,000	
Total gains and losses	$ 15,709,217	$ 5,811,786	
Net increase in surplus as regards policyholders			9,897,431
Surplus as regards policyholders, December 31, 2014, per Examination			$ 46,305,684

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

A Casualty Actuary from the California Department of Insurance reviewed the Actuarial Report as of December 31, 2014 prepared by the Company's independent actuary and concurred with the actuary's conclusion that the Company's loss and loss adjustment expense reserves as of December 31, 2014 were reasonable and have been accepted for purposes of this examination.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Management Agreements - Reinsurance Intermediary Agreement (Page 6): Upon recommendation made by the California Department of Insurance (CDI), the Reinsurance Intermediary Agreement between the Company and M.J. Hall and Company, Inc. was filed with the CDI pursuant to California Insurance Code Section 1215.5(b)(4) on April 14, 2016 and is pending review.

Accounts and Records – Information Systems Controls (Page 11): As a result of the review of the Company's information system controls, recommendations for improving these controls were presented to the Company. The Company should evaluate these recommendations and make appropriate changes to strengthen its controls over its information systems.

Previous Report of Examination

Management and Control – Intercompany Agreements (Page 5): It is recommended that the Company file the Broker Agreement for approval with the California Department of Insurance (CDI) pursuant to California Insurance Code (CIC) Section 1215.5(b)(4) on a

timely basis. A similar recommendation was made in the prior report of examination. Per recommendation, the Agreement was filed with the CDI on April 27, 2012 and was approved on December 12, 2012.

Accounts and Records – Information Systems Controls (Page 9): It is recommended that the Company evaluate recommendations from the general information system controls review and make appropriate changes to strengthen its information systems controls. The Company has taken steps to address the recommendations.

Comments on Financial Statement Items – Cash and Short-term Investments (Page 14): It is recommended that the Company implement escheat procedures and file reports with the California State Controller in accordance with the Unclaimed Property Law. A similar recommendation was made in the prior report of examination. The Company has complied with the recommendation.

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/

Li S. Lim, CFE
Examiner-In-Charge
Senior Insurance Examiner
Department of Insurance
State of California

/S/

Ber Vang, CFE, AES, CISA
Senior Insurance Examiner, Supervisor
Department of Insurance
State of California