REPORT OF EXAMINATION
OF THE
INDEMNITY COMPANY OF CALIFORNIA
AS OF
DECEMBER 31, 2014

Filed on June 13, 2016

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Los Angeles, California
March 25, 2016

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

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

INDEMNITY COMPANY OF CALIFORNIA

(hereinafter also referred to as the Company) at its home office located at 17771 Cowan, Suite 100, Irvine, California 92614.

SCOPE OF EXAMINATION

We have performed our multi-state examination of the Company. The previous examination of the Company was as of December 31, 2009. This examination covered the period from January 1, 2010 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 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, 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 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 conducted concurrently with the examination of the Company's immediate parent, Developers Surety and Indemnity Company, an Iowa corporation, with the state of Iowa serving as the lead state.

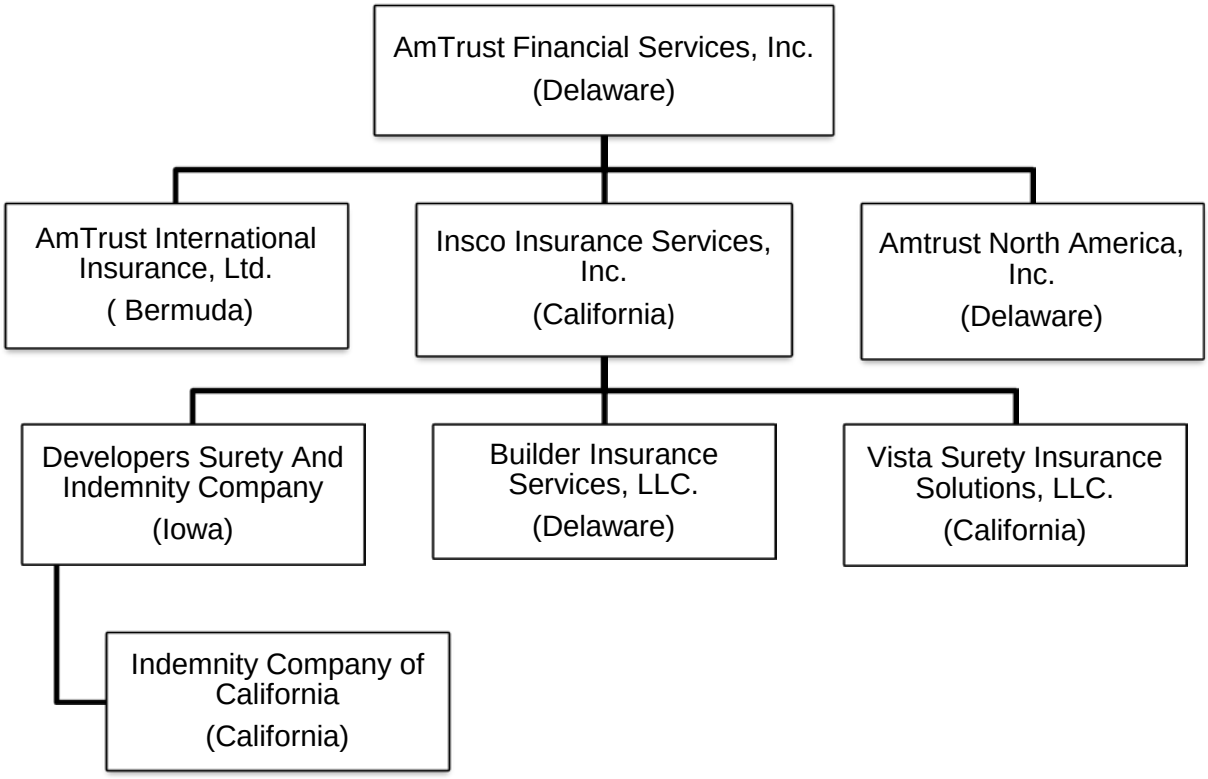
COMPANY HISTORY

The Company is a property and casualty insurer incorporated on October 5, 1967 under the laws of California and licensed to conduct business in 18 states. The Company is a wholly owned subsidiary of Developers Surety and Indemnity Company, which is ultimately owned by Insco Insurance Services, Inc. (INSCO).

On January 2, 2014, AmTrust Financial Services, Inc. (AmTrust) acquired all of the issued and outstanding common shares of INSCO. As a result, the Company became an indirect, wholly-owned subsidiary of AmTrust. This acquisition was approved by the California Department of Insurance on December 10, 2013.

MANAGEMENT AND CONTROL

The Company is a member of a holding company system of which AmTrust Financial Services, Inc. (AmTrust) is the ultimate controlling entity. Following is an abridged organizational chart that depicts the interrelationship of the companies within the holding company system as of December 31, 2014: (All ownership is 100%)



Management of the Company is vested in a five-member Board of Directors elected annually. Following are the members of the Board and principal officers of the Company serving on December 31, 2014:

Directors

Name and Location	Principal Business Affiliation
Harry C. Crowell Irvine, California	Chairman Developers Surety and Indemnity Company
Stuart D. Hollander Monsey, New York	President, Special Risk North America Division AmTrust Financial Services, Inc.
Adam Z. Karkowsky Great Neck, New York	Executive Vice President AmTrust Financial Services, Inc.
Harry Schlachter Brooklyn, New York	Senior Vice President and Treasurer AmTrust Financial Services, Inc.
Stephen B. Ungar Great Neck, New York	Senior Vice President, General Counsel, and Secretary AmTrust Financial Services, Inc.

Principal Officers

Name	Title
Sam Zaza	President
Harry C. Schlachter	Treasurer
Stephen B. Ungar	Secretary
Barry W. Moses	Vice President and Assistant Secretary
Jeffrey Johnson	Assistant Treasurer

Management Agreements

Underwriting Management Agreement: Effective August 1, 2010, the Company entered into an Underwriting Management Agreement with Insco Insurance Services, Inc. (INSCO). Under the terms of the Agreement, INSCO is authorized to manage the insurance operations, including administration, production, distribution, and claims and adjusting functions. The compensation for providing the services is based on actual cost without a profit factor being built into the cost. The Company will reimburse INSCO

monthly for all costs and expenses incurred in the performance of the duties under this Agreement. The Agreement was approved by the California Department of Insurance (CDI) on December 10, 2010.

On April 3, 2012, the Company filed an amended Agreement with the CDI. The amended Agreement was approved by the CDI on July 18, 2012. The Company paid service fees of $2,120,698, $2,323,409, $2,932,682, and $3,039,835, for 2011, 2012, 2013, and 2014, respectively, to INSCO under the terms of the Agreement.

Insurance Services, Management, and Agency Agreement: On January 02, 2014, the Company entered into an Insurance Services, Management, and Agency Agreement with AmTrust North America, Inc. (ANA). Under the terms of this Agreement, ANA will be the appointed agent to solicit and accept applications for policies, to perform certain management service processing functions; and to administer and adjust claims related to the policies, all in full conformation with all laws and regulations pertaining to the appointment of general agents and administration of insurance business. For compensation, the Company will pay ANA: 1) an annual claims management fee in the amount of $100,000; 2) a claims services fee equal to the Company's proportionate share of claims payroll expense incurred by ANA; 3) a flat 10% commission on all business written; and 4) an amount equal to the commission amounts payable to the producing agents for all business written. The CDI approved the Agreement on February 4, 2014.

Intercompany Management Agreement: Effective January 2, 2014, the Company entered into Intercompany Management Agreement with AmTrust Financial Service, Inc. (AmTrust). Under the terms of the Agreement, AmTrust will render certain financial, accounting, and corporate and operational management services. The Company will reimburse AmTrust for the above services an amount based on time allocations, activity counts, expense, sharing and other methods of measurement based on actual cost. The CDI approved the Agreement on February 4, 2014.

On January 11, 2016, the Company submitted a letter to the CDI stating that the two aforementioned Agreements were never implemented and have since been terminated. All functions that were anticipated to be performed pursuant to these Agreements have been and will continue to be performed under the existing Underwriting Management Agreement between the Company and INSCO. There have been no changes to the Underwriting Management Agreement since approval by the CDI in 2012.

Tax Allocation Agreement: Effective on January 2, 2014, the Company and other affiliates entered into a Tax Allocation Agreement with their ultimate parent, AmTrust. AmTrust will file the consolidated income tax return on behalf of the Company. The Company's liability for federal income tax payments or entitlement to federal income tax refunds are based on the amount of its respective tax liability or entitlement to a refund calculated on a separate return basis. For 2011, 2012, 2013, and 2014, Federal income taxes paid by the Company totaled $809,587, $44,809, $624,993, and $717,665, respectively. This Agreement was approved by the CDI on February 4, 2014.

TERRITORY AND PLAN OF OPERATION

At December 31, 2014, the Company was licensed to transact marine, surety, liability and automobile insurance in California. For all other states the Company was only authorized to write surety line of business. The following is a listing of the states in which the Company is licensed:

Alaska	Montana*
Arizona	Nevada
California	New Mexico*
Colorado*	Oregon
Georgia*	South Carolina
Hawaii	Utah
Idaho	Virginia
Indiana	Washington
Maryland*	Wyoming*

* licensed during the examination period.

During the period under review, the Company obtained licenses for an additional six states, however, no premium was written in any of these newly licensed states. During 2014, the Company wrote $7.5 million of direct premiums, and all but $2.2 million (29.3%) were written in California.

The Company's business is produced through its indirect parent company, Insco Insurance Services Inc. (INSCO), pursuant to the aforementioned Underwriting Management Agreement. The underwriting and distribution network is administered by INSCO, which maintains 14 branch offices. INSCO provides all underwriting and support services for the Company and utilizes a distribution network of approximately 4,700 active independent agents.

REINSURANCE

Intercompany Reinsurance Agreement

Effective January 02, 2014, the Company entered into the AmTrust Intercompany Reinsurance Agreement with its affiliate, AmTrust International Insurance Ltd. (AIIL). Under the terms of the Agreement, the Company will cede 90% of the direct net written premium and 100% of net premium assumed by the Company to AIIL. As of 12/31/2014, the reinsurance recoverables from the AmTrust Intercompany Reinsurance Agreement was $4,821,167. The Agreement was approved on February 4, 2014 by the California Department of Insurance (CDI).

On December 15, 2014, the Company filed Amendment No. 1 to the AmTrust Intercompany Reinsurance Agreement with the CDI, with an effective date of January 1, 2015. Under the terms of Amendment No. 1, the ceding percentage decreases from 90% to 60% with all other terms unchanged. Amendment No. 1 was approved by the CDI on January 5, 2015.

On November 24, 2015, the Company filed Amendment No. 2 to the AmTrust Intercompany Reinsurance Agreement with the CDI, with an effective date of January 1, 2016. Under the terms of Amendment No. 2, the ceding percentage decreases from 60% to 50% with all other terms remaining unchanged. Amendment No. 2 is currently under review by the CDI.

Assumed

The Company did not assume any business during the examination period

Ceded

The following is a summary of the Company's reinsurance agreements in-force as of December 31, 2014:

Line of Business and Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Limit
Excess of Loss			
Interests and Liabilities Contract to the Surety Excess of Loss Reinsurance: First layer	Munich Reinsurance America, Inc.	$500,000 each principal and 30% of $4.5 million in excess of $500,000 each principal	70% of $4.5 million in excess of $500,000 each principal, with aggregate total of $13.5 million per any one agreement year
Second layer	Munich Reinsurance America, Inc.	30% of $5 million in excess of $5 million each principal	70% of $5 million in excess of $5 million each principal, with aggregate total of $10 million per any one agreement year
Third layer	Munich Reinsurance America, Inc.	30% of $10 million in excess of $10 million	70% of $10 million in excess of $10 million each principal, with aggregate total of $10 million per any one agreement year
Quota Share			
Subdivision Bond Quota Share Agreement	Munich Reinsurance America, Inc.	30% up to $75 million per principal	70% of $6 million each bond, up to $75 million per principal

As of the examination date, the Company reported total reinsurance recoverables of $422,653 from Munich Reinsurance America, Inc.

California Code of Regulation (CCR) Title 10, Chapter 5, subchapter 3, Article 3, Section 2303.14(b)(1)(A) prohibits a reinsurer's early termination if the cedent has been placed into rehabilitation, conservation, or liquidation. In addition, Section 2303.14(b)(1)(B) requires sixty days written notice prior to the effective date of termination. A review of the Company's reinsurance agreements in force disclosed that the Commencement and Termination article from the Subdivision Bond Quota Share Agreement with Munich Reinsurance America, Inc. allows early termination if either company is insolvent, which directly contravened the requirement. The article also allows termination with forty-five day written notice prior to the effective date of termination. It is recommended that the Company amend the Commencement and Termination article of the Subdivision Bond Quota Share Agreement to comply with CCR Title 10, Chapter 5, Subchapter 3, Article 3, Sections 2303.14(b)(1)(A) and, 2303.14(b)(1)((B).

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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. Based on the recommendations made during the course of the examination, the Company stated that it has made appropriate changes to strengthen its information system controls.

FINANCIAL STATEMENTS

The following financial 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, 2014. The accompanying comments on financial statements reflect any examination adjustments or other comments to the amounts reported in the annual statements and 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, 2009 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	$ 16,729,243	$	$ 16,729,243	(1)
Preferred stocks	314,570		314,570	
Common stocks	2,393,154		2,393,154	
Cash and short-term investments	3,161,194		3,161,194	
Premiums and agents' balances in course of collection	1,111,332	457,414	653,918	
Reinsurance recoverables on loss and loss adjustment expense payments	116,861		116,861	
Current federal and foreign income tax recoverable and interest thereon	249,960		249,960	
Interest, dividends, and real estate income due and accrued	158,132		158,132	
Receivable from parent, subsidiaries and affiliates	70,837		70,837	
Aggregate write-ins for other than invested assets	689		689	
Total assets	$ 24,305,972	$ 457,414	$ 23,848,558	

Liabilities, Surplus and Other Funds			
Losses		$ 125,259	(2)
Loss adjustment expenses		60,084	(2)
Taxes, licenses and fees		19,051	
Net deferred tax liability		22,080	
Unearned Premiums		345,943	
Ceded reinsurance premiums payable		685,715	
Amounts withheld or retained by company for account of others		1,495,124	
Payable to parent, subsidiaries, and affiliates		395,828	
Total liabilities		3,149,084	
Common capital stock	$ 1,200,000		
Gross paid-in and contributed surplus	2,451,009		
Unassigned funds (surplus)	17,048,465		
Surplus as regards policyholders		20,699,474	
Total liabilities, surplus, and other funds		$ 23,848,558	

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

Statement of Income

Underwriting Income		
Premiums earned		$ (782,912)
Losses incurred	$ (926,117)	
Losses expenses incurred	(400,722)	
Other underwriting expenses incurred	(309,214)	
Total underwriting deductions		(1,636,052)
Net underwriting gain		853,140
Investment Income		
Net investment income earned	$ 638,725	
Net realized capital gain	297,403	
Net investment gain		936,128
Net income before federal and foreign income taxes		1,789,268
Federal and foreign income taxes incurred		224,419
Net income		$ 1,564,849

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2013		$ 19,386,373
Net income	$ 1,564,849	
Change in net unrealized capital loss	(99,512)	
Change in net deferred income tax	(193,049)	
Change in nonadmitted assets	40,814	
Change in surplus as regards policyholders for the year		1,313,101
Surplus as regards policyholders, December 31, 2014		$ 20,699,474

Reconciliation of Surplus as Regards Policyholders from December 31, 2009 through December 31, 2014

	Gain in Surplus	Loss in Surplus	
Surplus as regards policyholders, December 31, 2009			$ 15,136,039
Net income	$ 6,065,497	$	
Net unrealized capital gains	70,838		
Change in net deferred income tax		238,609	
Change in nonadmitted assets		334,291	
Total gains and losses	$ 6,136,335	$ 572,900	
Net increase in surplus as regards policyholders			5,563,435
Surplus as regards policyholders, December 31, 2014			$ 20,699,474

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Bonds

During the fourth quarter of 2014, the Company purchased debt securities from its affiliate AmTrust International Insurance, Ltd. (Bermuda) and Securities National Insurance Company, in the amounts of $3,057,220 and $1,000,183, respectively. The California Insurance Code Section (CICS) 1215.5(b)(1) requires the Company obtain prior approval from the California Department of Insurance (CDI) on any sale, purchase, or exchange of loans, extensions of the credit, or investments with any affiliated insurer or non-insurer, in an amount exceeding the lesser of 3% of the Company's admitted assets or 25% of the Policyholders Surplus. Both of the purchase transactions with the above-mentioned affiliates were over the reporting threshold and did not receive prior approval from the CDI and are in violation of the CICS 1215.5(b)(1). It is recommended that the Company file a notification in advance with the CDI and obtain the approval of transactions of securities between affiliates to comply with CICS 1215.5(b)(1).

(2) Losses and Loss Adjustment Expenses

Based on the analysis by a Casualty Actuary from the California Department of Insurance, the Company's reserves for losses and loss adjustment expenses as of December 31, 2014 were found to be reasonably stated and have been accepted for purposes of this examination.

SUBSEQUENT EVENTS

On August 18, 2015, the Company purchased 26,702 shares of Common Stock from National General Holdings Corp (NGHC), an affiliate, for the amount of $506,741. The California Insurance Code Section (CICS) 1215.5(b)(7) requires that the Company obtain prior approval from the California Department of Insurance (CDI) for investments in affiliated entities for amounts exceeding 2.5% of the Company's Policyholders Surplus. The total purchase amount was above the reporting threshold and the

Company failed to obtain the prior approval from the CDI, which is in violation of CICS 1215.5(b)(7). Upon notification by the CDI of the violation, the Company filed a notification of transaction with the CDI on December 3, 2015. The transaction is currently under review.

On September 9, 2015, the Company's Board of Directors approved a motion to increase the par value of common capital stock from $1,200 per share to $2,500 per share. The Company transferred $1.3 million from its gross paid-in and contributed surplus to its capital stock, thereby increasing the Company's common capital stock from $1.2 million to $2.5 million. The Company's Articles of Incorporation was also amended on the same day.

On September 30, 2015, Company paid an ordinary cash dividend of $1.3 million to its immediate parent, Developers Surety and Indemnity Company (DSIC). On the same day, DSIC made a cash capital contribution in the amount of $1.3 million to the Company.

On November 20, 2015, the Company filed a prior notification of transaction with the CDI pursuant to CICS 1215.5(g) regarding a proposed extraordinary dividend in the amount of $5 million to be paid by the Company to DSIC. The CDI approved this extraordinary dividend on December 17, 2015.

The Company plans to expand its license status to all 50 states and Washington, D.C. Subsequent to the examination date, the Company has been admitted into Washington, D.C. and the following states:

Alabama	New Hampshire
Arkansas	North Carolina
Kansas	North Dakota
Kentucky	Oklahoma
Louisiana	South Dakota
Massachusetts	Texas
Michigan	Vermont
Mississippi	West Virginia
Nebraska	

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Ceded Reinsurance (Page 8): It is recommended that the Company amend the Commencement and Termination article of the Subdivision Bond Quota Share Agreement with Munich Reinsurance America, Inc. to comply with California Code of Regulation Title 10, Chapter 5, Subchapter 3, Article 3, Sections 2303.14(b)(1)(A) and 2303.14(b)(1)(B).

Previous Report of Examination

Corporate Records (Page 11): It was recommended that the Company implement procedures in its board meetings to ensure compliance with CICS Sections 735. The Company complied with this 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/_____

George Xue, CFE
Examiner-In-Charge
Associate Insurance Examiner
Department of Insurance
State of California

___/S/_____

Vivien Fan, CFE
Senior Insurance Examiner (Supervisor)
Department of Insurance
State of California