REPORT OF EXAMINATION
OF THE

MAJESTIC INSURANCE COMPANY

AS OF
DECEMBER 31, 2004

Participating State
and Zone:

California

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San Francisco, California
January 30, 2006

Honorable Alfred W. Gross
Chairman of the NAIC Financial
Condition Subcommittee
Commissioner of Insurance
Virginia Bureau of Insurance
Richmond, Virginia

Honorable Gary L. Smith
Secretary, Zone IV-Western
Director of Insurance
Department of Insurance, State of Idaho
Boise, Idaho

Honorable John Garamendi
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Chairman, Director and Commissioners:

Pursuant to your instructions, an examination was made of the

MAJESTIC INSURANCE COMPANY

(hereinafter also referred to as the Company) at its home office located at 400 Second Street, Suite 200, San Francisco, California 94107.

SCOPE OF EXAMINATION

The examination was made pursuant to the National Association of Insurance Commissioners' plan of examination. The previous examination of the Company was made as of December 31, 2000. This examination covers the period from January 1, 2001 through December 31, 2004. The present examination included a review of the Company's practices and procedures, an examination of management records, tests and analyses of detailed transactions, and an evaluation of assets and a determination of liabilities as of December 31, 2004, as deemed necessary under the circumstances.

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; officers', employees' and agents' welfare and pension plans; growth of the Company; business in force by states; loss experience; and sales and advertising.

COMPANY HISTORY

The Company was incorporated on March 17, 1980 under the laws of California. It began business in April 1982 as the Great Western Insurance Company. It was acquired by the current owner and its present name adopted on July 1, 1986. The Company writes State Act workers' compensation insurance and United States Longshore and Harbor workers' compensation insurance.

Paid-in capital of $10,450,000 consists of $3,000,000 of common stock plus $7,450,000 in contributed capital. The Company, through its parent company, Embarcadero Insurance Holding, Inc., participated in a senior debt obligation, which resulted in a capital infusion of $7.4 million to the Company during the second quarter of 2003.

During the period under examination, the Company paid dividends of $1.5 million to its parent in 2004. Another $1 million dividend was paid to its parent in the first quarter of 2005. The Company has reported the above dividends to the California Department of Insurance (CDI) pursuant to California Insurance Code Section (CICS) 1215.4 (f). Pursuant to CICS 1215.5 (g), the above dividends are not extraordinary dividend and do not require CDI's approval.

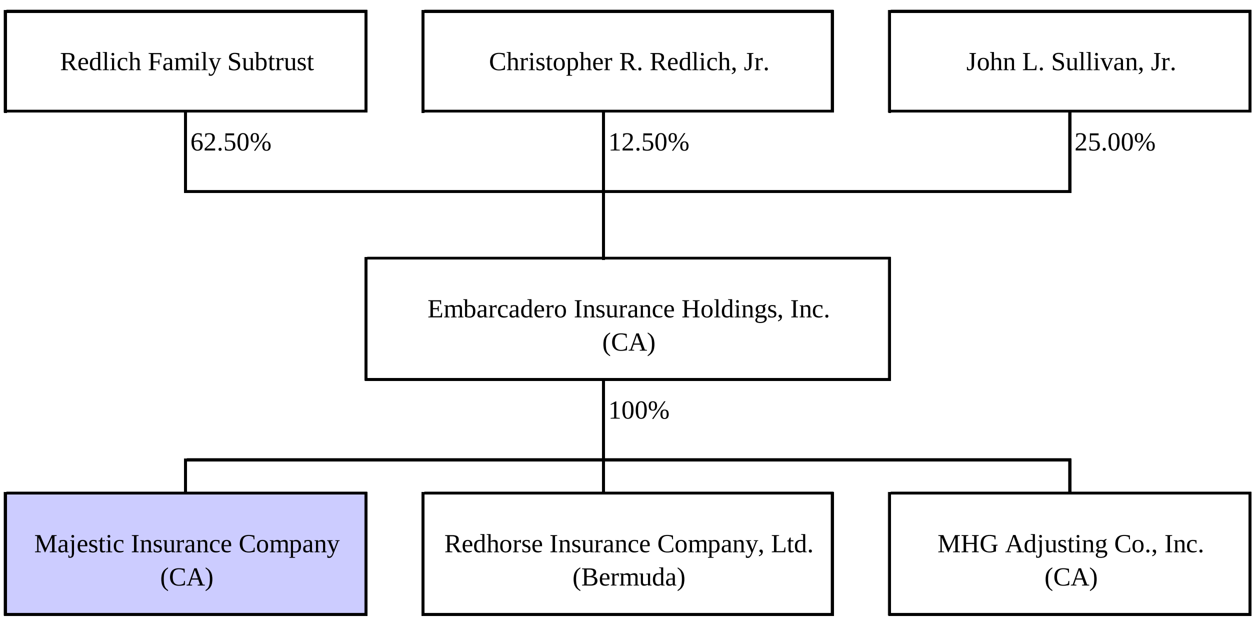
MANAGEMENT AND CONTROL

The Company is a member of an insurance holding company system. It is a wholly-owned subsidiary of Embarcadero Insurance Holdings, Inc. (EIHI), a California corporation. Christopher

R. Redlich Sr. was the ultimate controlling person until his death in December, 2000. He was succeeded as the ultimate controlling person by his wife, Jeanne F. Redlich, who owns 62.5% of the voting stock of EIHI as the sole trustee of the Redlich Family Trust dated March 17, 1987.

Jeanne F. Redlich died in February, 2002. She has been succeeded as the ultimate controlling person by the Redlich Family Trust with her son and two daughters as the trustee. The rest of voting stocks are owned by Christopher R. Redlich, Jr. (12.5%) and the Company's president, John L. Sullivan, Jr. (25%). EIHI also wholly owns Redhorse Insurance Company, Ltd. (Redhorse) and MHG Adjusting Company, Inc. In 1993, EIHI acquired Redhorse, a Bermuda based reinsurer that formerly reinsured some of the Company's business. Redhorse is currently in run-off.

The following chart depicts the interrelationship of the companies within the holding company system at December 31, 2004:



Christopher R. Redlich, Jr. is also the sole owner of the following companies: Embarcadero Corporation, Marine Terminals Corporation, Embarcadero Systems Corporation and Starboard Captive Insurance Company.

Management of the Company is under the control of a four-member board of directors. The directors and principal officers serving as of December 31, 2004 are as follows:

Directors

Name and Residence	Principal Business Affiliations
Phillipa R. Caldwell Woodside California	Psychotherapist
Melvin H. Gianola Burlingame, California	Insurance Consultant
Beverly J. Steffen Martinez, California	Insurance Software Consultant
John L. Sullivan, Jr. San Anselmo, California	President and Chief Executive Officer Majestic Insurance Company

Officers

Name	Title
John L. Sullivan, Jr.	President and Chief Executive Officer
Jay H. Stewart	Vice President and Chief Financial Officer
Chung H. Pan	Vice President and Controller
Janice S. Aber	Vice President of Underwriting
Donald R. Bellinger	Vice President of Claims
John V. Hernandez	Vice President of Marketing
Paul F. Ormonde	Vice President of Risk Management
Stanley D. Stemkoski	Chief Internal Auditor
James L. Woolwine	Chief Information Officer

The Company's bylaws indicate that the number of directors should be five. It is recommended that the Company adhere to its bylaws by filling the board vacancy that has remained vacant for over five years.

Management Arrangements

Management Service Agreement: The Company entered into a management service agreement with Marine Terminals Corporation (MTC). This agreement became effective on July 1, 1986 and was last amended in 1998. Under this agreement MTC agrees to provide or arrange the following services for the Company: use of branch office facilities; employee health insurance benefits; and purchasing of other insurance coverages. Fees paid to MTC are based on actual expenses incurred. It is recommended that the Company submit a copy of this agreement to the California Department of Insurance (CDI) for review and approval pursuant to the requirements of California Insurance Code (CIC) Section 1215.5(b)(4).

Computer Services and Software Development Agreement: The Company entered into a computer services and software development agreement with Embarcadero Systems Corporation (ESC) which became effective on April 1, 1996. ESC is also an affiliate of the Company and is controlled by Christopher R. Redlich, Jr. In this agreement, ESC agrees to provide electronic data processing services to the Company, including operation of computer systems, computer network services, hardware and software maintenance, and software development services. These services are further outlined in a Service Level Agreement between the above two entities which became effective on June 17, 2004. It is recommended that the Company submit of these agreements to the CDI for review and approval pursuant to the requirements of California Insurance Code (CIC) Section 1215.5(b)(4).

Management Consulting Services Agreement: The Company entered into a management consulting services agreement with Embarcadero Corporation (EC) which became effective on April 1, 1996. EC is an affiliate of the Company and is controlled by Christopher R. Redlich, Jr., a shareholder of EIHI, the Company's parent. In the agreement, which was revised 1997; EC agrees to render consulting services to the Company and is reimbursed at a negotiated hourly rate. It is recommended that the Company submit a copy of this agreement to the CDI for review and approval pursuant to the requirements of California Insurance Code (CIC) Section 1215.5(b)(4).

Services Agreement with Marine Terminals Corporation: The Company entered into a claims administration services agreement with MTC effective January 1, 1995. In this agreement, the Company agrees to provide claims administration services (general liability) to MTC. This arrangement has been discontinued and no amount was paid by MTC to the Company for such services in 2004.

Reinsurance Commutation Agreement: Effective November 30, 1998, the Company entered into a commutation reinsurance agreement with Redhorse Insurance Company Limited (an affiliate). Under this agreement, all reinsurance agreements between the Company and Redhorse were commuted. The Company submitted this agreement to the CDI which approved the agreement for use on November 5, 1998 pursuant to the requirements of CIC Section 1215.5(b)(3).

Services Agreement with Starboard Captive Insurance Company: Effective January 1, 2004, the Company entered into a services agreement with Starboard Captive Insurance Company (Starboard), an affiliate. Under this agreement, the Company provides Starboard with rental of office space and equipment, communications facilities and software services. The Company submitted this agreement to the CDI which approved the agreement for use on February 28, 2005 pursuant to the requirements of CIC Section 1215.5 (b)(4).

Federal Income Tax Agreement: On January 1, 1991, the Company entered into a federal tax agreement with Embarcadero Insurance Holdings, Inc. (EIHI), the Company's parent. Under this agreement, the Company computes its tax liability on the basis of a separate income tax return. Payment of its liability to EIHI is to be made at such times and in such amounts as the Company would have made to the Internal Revenue Service had it filed a separate income tax return. This agreement was revised in March, 2003. The Company submitted this agreement to the CDI which approved the agreement for use on March 7, 2003 pursuant to the requirements of CIC Section 1215.5 (b)(4).

TERRITORY AND PLAN OF OPERATION

At December 31, 2004 the Company was licensed to write business in the following states: Alaska, Arizona, California, Florida, Hawaii, Idaho, Illinois, Montana, Nevada, New Jersey, New Mexico, Oregon, Utah, Virginia, and Washington. The Company currently only writes business in Alaska, California, Nevada, Oregon, and Washington.

The Company writes workers' compensation insurance under the U.S. Longshore and Harbor Workers Compensation Act (USL&H) and various state acts. Approximately 95.1% of the Company's 2004 premiums was written in California. Direct premiums written in 2004 and 2003, were $97.5 million and $101.5 million, respectively. The Company's business is produced through approximately 85 brokers.

In October 2003, through a mutually beneficial agreement, the Company non-renewed its affiliated policies due to their adverse losses experienced in recent years. This affiliated business accounted for approximately 25% of direct premium written in 2003. It consisted primarily of harbor work governed under U.S. Longshore and Harbor Workers Compensation Act. The termination of affiliated business allowed the Company to expand its non-affiliated State Act workers' compensation insurance business.

REINSURANCE

Assumed

Other than the Company's share in workers' compensation residual market participation, the Company has had no assumed premium written during the period covered by this examination, and maintains no liability for assumed losses or loss adjustment expenses as of December 31, 2004.

Ceded

The Company's excess of loss reinsurance program provides for reinsurance in excess of the Company's basic retention of $600,000 per occurrence, per claimant as of December 31, 2004.

In addition, effective July 1, 2000, the Company entered into a variable 0%-40% quota share reinsurance agreement which applies after the specific excess coverage. Under this treaty the Company cedes, regardless of the specific excess retention, a percentage of the first $350,000 of loss and loss adjustment expenses on claims occurring after July 1, 2000. The ceding percentages and the period covered are shown in the following table:

Quota Share Cession Percentages	
Period	**Percent Ceded**
07/01/00 - 07/31/01	20.0%
08/01/01 - 12/31/01	40.0%
01/01/02 - 03/31/03	20.0%
04/01/03 - 09/30/03	40.0%
10/01/03 - 12/31/03	20.0%
01/01/04 - 12/31/04	15.0%
01/01/05 - present	7.5%

Following is a schedule of the principal ceded reinsurance agreements in force as of the examination date:

Lines of Business and Type of Agreement	Reinsurer(s)		Limits
Workers' Compensation:			
First Workers' Compensation Excess of Loss	Hannover Ruckversicherungs-Aktiengesellschaft	45.00%	$1.4 million excess of $600,000 each and every loss occurrence, each and every claimant
(includes Longshore and Harbor Workers' coverage and Maritime Coverage)	Dorinco Reinsurance Company	21.25%	
	Aspen Insurance UK Ltd	10.00%	
	Lloyd's Syndicate # 435	10.00%	
	Lloyd's Syndicate # 2000	7.50%	
	Lloyd's Syndicate # 570	6.25%	

Lines of Business and Type of Agreement	Reinsurer(s)	Limits
Second Workers' Compensation Excess of Loss (includes Longshore and Harbor Workers' coverage and Maritime Coverage)	Hannover Ruckversicherungs-Aktiengesellschaft 45.00% Lloyd's Syndicate #2020 30.00% Dorinco Reinsurance Company 10.00% Lloyd's Syndicate # 435 6.00% Various authorized reinsurers 9.00%	$3 million excess of $2 million, each and every loss occurrence, each and every claimant
Workers' Compensation: First Catastrophe Excess of Loss (includes Longshore and Harbor Workers' coverage and Maritime Coverage)	Endurance Specialty Insurance Ltd 30.00% Hannover Ruckversicherungs-Aktiengesellschaft 20.00% Lloyd's Syndicate #2020 20.00% Aspen Insurance UK Ltd 15.39% Various authorized reinsure rs 14.61%	$5 million excess of $5 million, each occurrence, each and every claimant
Second Catastrophe Excess of Loss (includes Longshore and Harbor Workers' coverage and Maritime Coverage)	National Union Fire Insurance Company 20.00% Endurance Specialty Insurance Ltd 30.00% Hannover Ruckversicherungs-Aktiengesellschaft 25.00% Aspen Insurance UK Ltd 13.17% Various authorized reinsurers 11.83%	$10 million excess of $10 million, each occurrence, each and every claimant
Third Catastrophe Excess of Loss (includes Longshore and Harbor Workers' coverage and Maritime Coverage)	National Union Fire Insurance Company 20.00% Endurance Specialty Insurance Ltd 20.00% Hannover Ruckversicherungs-Aktiengesellschaft 10.00% Catlin Insurance Company Ltd 25.00% Aspen Insurance UK Ltd 15.63% Various authorized reinsurers 9.37%	$30 million excess of $20 million, each and every loss occurrence, each and every claimant
Workers' Compensation Quota Share (includes Longshore and Harbor Workers' coverage and Maritime Coverage)	Insurance Corporation of Hanover 100.00%	15% quota share of Company's net retained liability of $350,000

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, recommendations for improving the Company's information systems controls were developed and presented to the Company. The Company should evaluate these recommendations and make appropriate changes to strengthen its controls over its information systems.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2004

Underwriting and Investment Exhibit for the Year Ended December 31, 2004

Reconciliation of Surplus as Regards Policyholders from December 31, 2000 through December 31, 2004

Reconciliation of Examination Changes as of December 31, 2004

Statement of Financial Condition
as of December 31, 2004

Assets	Ledger and Nonledger Assets	Assets Not Admitted	Net Admitted Assets	Notes
Bonds	$103,118,171	$	$103,118,171	
Preferred stocks	7,232,866		7,232,866	
Common stocks	16,527,396		16,527,396	
Cash and short-term investments	11,943,254		11,943,254	
Receivable for securities	14,881		14,881	
Investment income due and accrued	1,424,908		1,424,908	
Uncollected premiums and agents' balances in course of collection	2,842,220	209,439	2,632,781	
Earned but unbilled premiums	(703,860)		(703,860)	
Accrued retrospective premiums	8,454,542	456,290	7,998,252	(1)
Amounts recoverable from reinsurers	2,885,855		2,885,855	
Current federal and foreign income taxes recoverable and interest thereon	1,283,007		1,283,007	(2)
Net deferred tax asset	8,312,324	2,632,803	5,679,521	(3)
Guaranty funds receivable or on deposit	175,665		175,665	
Receivables from parent, subsidiaries and affiliates	(152,196)		(152,196)	
Other assets nonadmitted	125,391	125,391		
Aggregate write-ins for other than invested assets	258,906	229,003	29,903	
Total assets	$163,743,330	$3,652,926	$160,090,404	

Liabilities, Surplus and Other Funds

Losses		$ 87,432,423	(4)
Loss adjustment expenses		17,925,395	(4)
Commissions payable		326,446	
Other expenses		3,243,647	
Taxes, licenses and fees		5,638,357	
Current federal and foreign income taxes		0	(2)
Unearned premiums		5,491,084	
Ceded reinsurance premiums payable		1,303,832	
Amounts withheld or retained by company for account of others		1,440,873	
Provision for reinsurance		90,845	(5)
Payable for securities		1,039,963	
Aggregate write-ins for liabilities		3,577,702	(1)
Total liabilities		127,510,567	
Common capital stock	$ 3,000,000		
Aggregate write-ins for other than special surplus funds	(7,589,315)		
Gross paid-in and contributed surplus	7,450,000		
Unassigned funds (surplus)	29,719,152		
Surplus as regards policyholders		32,579,837	
Total liabilities, surplus and other funds		$160,090,404	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2004

Statement of Income

Underwriting Income		
Premiums earned		$71,511,365
Deductions:		
Losses incurred	$46,986,368	
Loss expenses incurred	10,186,683	
Other underwriting expenses incurred	18,998,646	
Total underwriting deductions		76,171,697
Net underwriting loss		(4,660,332)
Investment Income		
Net investment income earned	$ 3,063,755	
Net realized capital gains	2,090,318	
Net investment gain		5,154,073
Other Income		
Net loss from agents' or premium balances charged off	$ (131,772)	
Aggregate write-ins for miscellaneous income	38,224	
Total other income		(93,548)
Net income before federal income taxes		400,193
Federal income tax incurred		353,608
Net income		$ 46,585

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2003		$38,420,457
Net income	$ 46,585	
Change in net unrealized capital gains	675,990	
Change in net deferred income tax	2,478,097	
Change in nonadmitted assets	78,868	
Change in provision for reinsurance	(30,845)	
Dividends to stockholders	(1,500,000)	
Aggregate write-ins for gains and losses in surplus	(7,589,315)	
Change in surplus as regards policyholders for the year		(5,840,620)
Surplus as regards policyholders, December 31, 2004		$32,579,837

Reconciliation of Surplus as Regards Policyholders
from December 31, 2000 through December 31, 2004

	Gain in Surplus	Loss in Surplus	
Surplus as regards policyholders, December 31, 2000 per Examination			$14,846,209
Net income	$12,971,842	$	
Change in net unrealized capital gains	349,845		
Change in net deferred income tax	2,309,005		
Change in nonadmitted assets	450,539		
Change in provision for reinsurance	229,155		
Cumulative effect of changes in accounting principles	3,112,557		
Surplus adjustments: Paid-in	7,400,000		
Dividends to stockholders		1,500,000	
Aggregate write-ins for losses in surplus		7,589,315	
Total gains and losses	$26,822,943	$ 9,089,315	
Net increase in surplus as regards policyholders			17,733,628
Surplus as regards policyholders, December 31, 2004, per Examination			$32,579,837

Reconciliation of Examination Changes
as of December 31, 2004

Assets	Per Company	Per Examination	Surplus Increase (Decrease)	Notes
Accrued retrospective premiums	$ 7,219,007	$ 7,998,252	$ 779,245	(1)
Current federal and foreign income taxes recoverable and interest thereon		1,283,007	1,283,007	(2)
Net deferred tax asset	5,523,667	5,679,521	155,854	(3)
Liabilities				
Losses and loss adjustment expenses	82,108,423	87,432,423	(5,324,000)	(4)
Loss adjustment expenses	16,210,395	17,925,395	(1,715,000)	(4)
Federal and foreign income taxes	424,257		424,257	(2)
Provision for reinsurance	300,000	90,845	209,155	(5)
Aggregate write-ins for liabilities:				
Accrued retro premium payable	1,332,311	1,277,702	54,609	(1)
Net decrease to surplus			(4,132,873)	
Surplus as regards policyholders, December 31, 2004, per Company			36,712,710	
Surplus as regards policyholders, December 31, 2004, per Examination			$32,579,837	

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Accrued Retrospective Premiums

The actuarial reserve evaluation performed by an independent consulting actuary retained by the California Department of Insurance (CDI) resulted in an indicated deficiency in the loss and loss adjustment expense reserves as of December 31, 2004. An analysis of the additional premium the Company would be expected to earn from retrospectively-rated policies was not included in this review. Depending on the specific terms of the relevant retrospectively-rated policies, there is some offset to the indicated reserve deficiency in the form of an additional "accrued retrospective premium" asset that would be generated with the higher reserve estimates.

The Company's revised calculations used comparable factors contained in the reserve analysis prepared by the CDI's consulting actuary. As a result, accrued retrospective premiums were estimated to be $7,998,252, which represents an additional premium of $779,245.

In addition, the Company's calculation also resulted in a decrease in the retrospective return premium liability estimated at $54,609.

The examiners reviewed the Company's methodology in calculating the above amounts and found the method used to be reasonable. The amounts were accepted for the purpose of this examination.

(2) Current Federal and Foreign Income Taxes Recoverable and Interest Thereon

This account was increased by $1,283,007 as a result of allowing a federal income tax credit for the examination adjustments to losses and loss adjustment expenses and accrued retrospective premiums. In addition, the "Current Federal and Foreign Income Taxes" liability of $424,257 was eliminated.

(3) Net Deferred Tax Asset

This account was increased by $155,854 as a result of allowing a federal income tax credit for the examination adjustments to losses and loss adjustment expenses and accrued retrospective premiums.

(4) Losses and Loss Adjustment Expenses

The CDI retained an independent consulting actuary to perform an analysis of the Company's loss and loss adjustment expense reserves. A Casualty Actuary with the CDI reviewed the analysis and concurred with the conclusion that the reserves reported by the Company were determined to be deficient. The following schedule compares the examination estimates with the amounts reported by the Company.

Estimated Reserves per Examination vs. the Company's Recorded Reserves
Using Data through December 31, 2004

Reserves	Company's Recorded Reserves	Examination Estimated Reserves Point Estimate	Deficiency
Losses	$82,108,423	$87,432,423	$5,324,000
Loss Adjustment Expenses	$16,210,395	$17,925,395	$1,715,000
Total	$98,318,818	$105,357,818	$7,039,000

(5) Provision for Reinsurance

The calculated amount per examination totaled $90,845, a decrease of $209,155 in the amount reported by the Company. The Company's initial calculation of this liability included a reinsurer that was unauthorized when the Company recorded the liability, but was subsequently authorized. The Company accurately classified the reinsurer as authorized on Schedule F; however, an adjusting entry was not made to the general ledger to record the revised liability. It is recommended the

Company implement controls to ensure that annual statement schedules are reconciled to the general ledger.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Management and Control (Page 4): It is recommended that the Company adhere to its bylaws by filling the board vacancy that has remained vacant for over five years.

Management and Control – Management Arrangements (Page 5): It is recommended that the Company ascertain that all of its inter-company agreements have been submitted to the California Department of Insurance for approval pursuant to California Insurance Code Section 1215.5 (b)(4).

Accounts and Records - Information Systems Controls (Page 10): It is recommended the Company evaluate our recommendations and make appropriate changes to strengthen its controls over its information systems.

Comments on Financial Statement Items - Provision for Reinsurance (Page 16): It is recommended the Company implement procedures to ensure that the provision for reinsurance is accurately calculated.

Previous Report of Examination

Management and Control – Conflict of Interest (Page 4): It was recommended the Company complete conflict of interest statements on an annual basis. The Company has complied with this recommendation.

Management and Control – Management Arrangements (Page 5): It was recommended the Company amend the Federal Income Tax Agreement with it parent to include settlement provisions for the refund of excess tax payments made to its parent. It was also recommended the Company revise this agreement to address the treatment of net operating losses and other similar items such as net capital losses which are applied on a consolidated tax return but not eligible for application on a separate return basis. The Company revised the aforementioned agreement and it has been approved by the legal division of the California Department of Insurance.

Reinsurance - Ceded (Page 7): It was recommended the Company amend its reinsurance agreements to meet the requirements of CIC Section 922.2(a)(2). No such violations were noted during this examination.

Comments on Financial Statement Items – Bonds, Stocks and Short-term Investments (Page 14): It was recommended the Company implement controls to ensure that all Annual Statement schedules are completed. No exceptions were noted during this examination.

Comments on Financial Statement Items – Bonds, Stocks and Short-term Investments (Page 14): It was recommended the Company implement controls to ensure that provisionally exempt securities are adequately documented and monitored. This is no longer required by the Securities Valuation Office.

Comments on Financial Statement Items - Premiums and Agents' Balances in Course of Collection (Page 14): It was recommended the Company non-admit all uncollected premiums that are related to an installment that is over ninety days past due. No exceptions were noted during this examination.

Comments on Financial Statement Items - Premiums and Agents' Balances in Course of Collection (Page 14): It was recommended the Company implement controls to ensure proper classification within the Annual Statement. The Company reported ceded reinsurance balances payable as a write-in on line 10.2 in its 2000 annual statement. This amount should have been reported on line 10.1, as the Company did not have any installments booked but deferred and not yet due. No exceptions were noted during this examination.

Comments on Financial Statement Items - Investment Income Due and Accrued (Page 15): It was recommended the Company implement controls to ensure that investment income is calculated and accrued for all securities subject to accruals. Corrective actions have been taken by the Company.

Comments on Financial Statement Items - Aggregate Write-ins for Other than Invested Assets (Page 16): It was recommended the Company non-admit loans to employees and rental deposits. The Company has complied with this recommendation.

Comments on Financial Statement Items - Losses and Loss Adjustment Expenses (Page 16): It was recommended the Company maintain sufficient letters of credit for all unauthorized reinsurers. The Company has complied with this recommendation.

Comments on Financial Statement Items - Amounts Withheld or Retained by Company for Accounts of Others (Page 19): It was recommended the Company report and submit unclaimed property to the State of California in accordance with California unclaimed property statutes. The Company has complied with this recommendation.

Comments on Financial Statement Items - Provision for Reinsurance (Page 19): It was recommended the Company implement procedures to ensure that the provision for reinsurance is accurately calculated. The Company has not fully 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,

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Kelvin Ko, CFE
Examiner-In-Charge
Senior Insurance Examiner
California Department of Insurance