REPORT OF EXAMINATION

OF THE

SEQUOIA INSURANCE COMPANY

AS OF

DECEMBER 31, 2009

Participating State
and Zone:

California

Filed June 2, 2011

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San Francisco, California
May 13, 2011

Honorable Joseph Torti, III
Chairman of the NAIC Financial
Condition Subcommittee
Superintendent of Business Regulation
Division of Insurance
Cranston, Rhode Island

Honorable Linda S. Hall
Secretary, Zone IV-Western
Director of Insurance
Alaska Division of Insurance
Anchorage, Alaska

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

Dear Chairman, Secretary and Commissioner:

Pursuant to your instructions, an examination was made of the

SEQUOIA INSURANCE COMPANY

(hereinafter also referred to as the Company) at its home office located at 31 Upper Ragsdale Drive, Monterey, California 93940.

SCOPE OF EXAMINATION

The previous examination of the Company was made as of December 31, 2006. This examination covers the period from January 1, 2007 through December 31, 2009. 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 conducted concurrently with the examinations of the Company's subsidiaries, Personal Express Insurance Company and Sequoia Indemnity Company. An examiner from the Nevada Division of Insurance conducted the examination of Sequoia Indemnity Company.

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: fidelity bonds and other insurance; employees' and agents' welfare and pension plans; growth of company; business in force by states; loss experience; and sales and advertising.

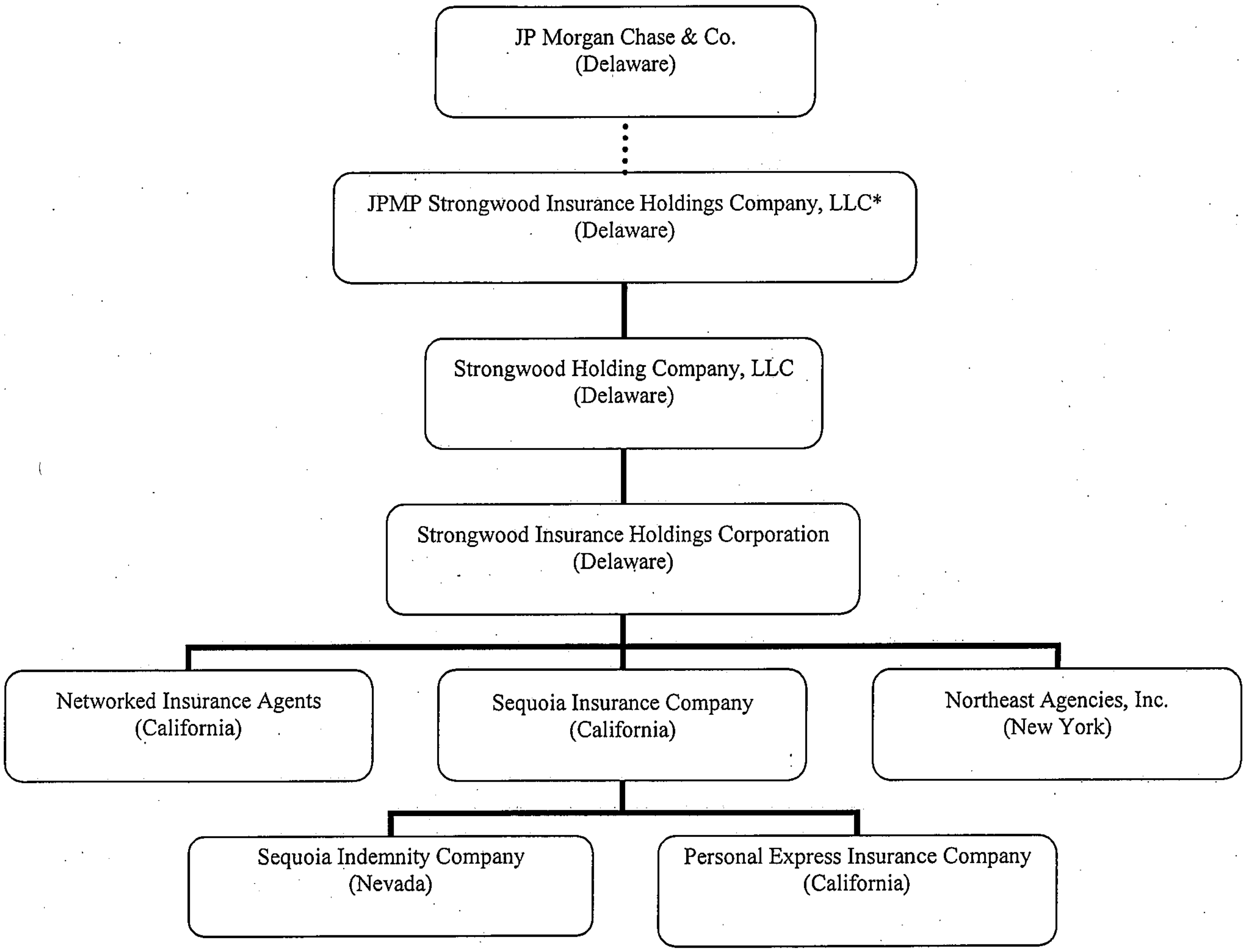
COMPANY HISTORY

On December 15, 2008, the Company's Board of Directors declared an ordinary dividend of $6,750,000 to its sole shareholder, Strongwood. This dividend was paid on December 31, 2008.

During 2009, the Company contributed 100% of Personal Express Insurance Services, Inc., a California licensed personal lines insurance agency, to its subsidiary, Personal Express Insurance Company, with a statutory equity value of $203,401. This contribution was made pursuant to CIC Section 1215.1 and required no prior approval.

MANAGEMENT AND CONTROL

The Company is a member of an insurance holding company system in which J.P. Morgan Chase & Co., (JPMC) a Delaware corporation, is the ultimate controlling entity. The Company is a wholly-owned subsidiary of Strongwood Insurance Holdings Corporation. The following chart depicts the interrelationship of the companies within the holding company system as of December 31, 2009:



*Ownership is 88.3%. All others are 100%

Management of the Company is under the control of a three-member board of directors, elected annually. The directors and principal officers as of December 31, 2009 were as follow:

Directors

Name and Residence	Principal Business Affiliation
Michael Hegarty Briarcliff Manor, New York	Retired
Stephen P. Murray Stamford, Connecticut	President CCMP Capital Advisors, LLC
Richard J. Quagliaroli West Hartford, Connecticut	Chief Executive Officer and Secretary Strongwood Insurance Holdings Corporation

Principal Officers

Name	Position
Thomas G. Moylan	President and Chief Operating Officer
Richard J. Quagliaroli	Secretary and Chief Executive Officer
Jeffrey H. Marshall	Vice President and Chief Financial Officer
Joel L. Bethke	Vice President, Underwriting
Carola A. Hogan	Vice President, Claims
David E. Brandeis	Vice President, Chief Information Officer
Richard D. Pagnozzi	Vice President, Chief Actuary
Charles M. O'Halloran	Vice President, Chief Counsel

Management Agreements

The Company, its parent, Strongwood Insurance Holdings Corporation, (Strongwood), and affiliates file a consolidated federal income tax return under the provisions of the Tax Sharing Agreement, which was effective March 31, 2003. Each subsidiary is required to compute its tax liability as if it filed a separate federal return. Payment of the consolidated tax liability is the responsibility of the parent. The California Department of Insurance (CDI) abstained from objection to this agreement on March 17, 2003.

The Company entered into an agency agreement with an affiliate, Networked Insurance Agents

(Networked), effective March 31, 2003, to produce business for the Company. Under the terms of the agreement for the years 2007, 2008, and 2009, Networked produced premiums totaling $11,013,584, $14,441,401, and $18,351,232, respectively. Commissions were $1,963,292, $2,599,452, and $3,183,468 for the same years, respectively. The CDI abstained from objection to this agreement on March 17, 2003.

The Company and its parent, Strongwood, entered into a Services and Investment Management Agreement, effective March 31, 2003. Under the terms of the agreement, Strongwood provides investment management, administrative and facilities services to the Company. The administrative services include financial reporting, tax compliance, treasury, actuarial, policy and claims administration, and other various services. The Company pays Strongwood for these services and facilities based on time allocations, expense sharing and actual cost. Under the terms of the agreement, the Company incurred net expenses for the years 2007, 2008, and 2009 totaling $956,297, $696,369, and $2,472,146, respectively. The CDI abstained from objection to this agreement on March 17, 2003.

The Company and its wholly-owned subsidiary, Sequoia Indemnity Company (Indemnity) entered into a Services Agreement, effective November 1, 2005. Under the terms of the agreement, the Company provides Indemnity with services similar to those provided by Strongwood to the Company listed in the preceding paragraph. Under the terms of the agreement, Indemnity incurred net expenses for the years 2007, 2008, and 2009 totaling $1,220,548, $1,802,643, and $2,316,763, respectively. The CDI abstained from objection to this agreement on October 11, 2005.

The Company and its wholly-owned subsidiary, Personal Express Insurance Company (Personal) entered into a Services Agreement, effective January 9, 2007. Under the terms of the agreement, the Company provides Personal with services similar to those provided by Strongwood to the Company. Under the terms of the agreement, Personal incurred net expenses for the years 2007, 2008, and 2009 totaling $1,098,766, $3,342,236, and $4,710,841, respectively. The CDI approved this agreement on January 9, 2007.

Holding Company Registration Statement

During 2009, the Company received an operational loan from its parent, Strongwood Insurance Holdings Corporation, (Strongwood), in the amount of $4,600,000. The purpose of the loan was to facilitate the payment of a large claim, "Pacifica", without liquidating any investments. The balance of the loan at December 31, 2009 was $4,117,000. Strongwood used their line of credit to provide the funds to the Company and passed along the corresponding interest charges. The Company is not in compliance with the disclosure requirements of California Insurance Code Section (CICS) 1215.4(b) as it did not disclose in its 2009 Holding Company Registration Statement the transaction amount and outstanding balance at December 31, 2009. Additionally, the loan transaction was not approved by the Board of Directors. There were also no loan documents that transferred the loan from Strongwood to the Company. It is recommended that the Company make proper disclosure in its Holding Company Registration Statement in compliance with CICS 1215.4(b). It is also recommended that any future advances and loans be approved by the Board of Directors and proper loan documentation be executed for such transactions.

Conflict of Interest

The Company had on file "Officer/Employee Declaration" for its directors, officers, and key employees dated 2007. The Company also had on file "Certification" for its officers and key employees dated 2009, acknowledging receipt of the Company's Code of Business Conduct and Ethics. An annual reporting is not required by the Company for the declaration or the certification. It is recommended that the Company require a written annual conflict of interest reporting for its directors, officers, and key employees.

CORPORATE RECORDS

The Company adopted new Bylaws, effective November 10, 2009, and amended its Articles of Incorporation on December 16, 2009 to change the Company's address to its current location and to increase the par value of each share of the Company from $7.50 to $10.50. The Company did not disclose in its 2009 Annual Information Statement that these changes had occurred. It is recommended that the Company disclose changes to its Bylaws and Articles of Incorporation as instructed in the Annual Information Statement instructions.

California Insurance Code Section (CICS) 735 states that the Company must inform the board members of the receipt of the examination report. The board should be informed of the report both in the form first formally prepared by the examiners and in the form as finally settled and officially filed by the commissioner. The board must also enter that fact in the board minutes. A review of the board minutes failed to provide any statements pertaining to the receipt of the examination report. It is recommended that the Company implement procedures to ensure future compliance with CICS 735.

TERRITORY AND PLAN OF OPERATION

The Company is a California domiciled insurance company which transacts property and casualty insurance business. The primary lines of business are commercial multiple peril, farmowners multiple peril, workers' compensation, other liability, auto liability, and auto physical damage, which account for 81%, 6%, 4%, 3%, 3%, and 1% respectively, of the $84,849,823 total direct premiums written in 2009.

As of December 31, 2009, the Company is licensed in the following states: Alabama, Arizona, Arkansas, California, Colorado, Connecticut, Delaware, Georgia, Idaho, Illinois, Indiana, Iowa, Kansas, Kentucky, Maine, Maryland, Massachusetts, Michigan, Minnesota, Mississippi, Montana, Nebraska, Nevada, New Hampshire, New Mexico, North Carolina, North Dakota, Ohio, Oklahoma, Oregon, Pennsylvania, Rhode Island, South Carolina, South Dakota, Tennessee, Texas, Utah, Vermont, Virginia, Washington, West Virginia, Wisconsin, and Wyoming. The Company is also licensed in the District of Columbia.

The Company wrote 88% of its direct premiums for 2009 in California, with another 4% in Nevada.

Arizona, Colorado, Idaho, Illinois, Kentucky, New Mexico, Oregon, Pennsylvania, Utah, and Washington make up the remainder of direct premiums written in 2009. During 2010, the Company began to write workers' compensation in California.

The Company writes coverage primarily for small to medium size commercial establishments and farms in California. A modest amount of earthquake coverage is also written as an endorsement. Commercial auto is written in conjunction with other commercial lines.

Business is produced through an affiliated agency, Networked Insurance Agents (Networked), and about 159 independent agents and brokers. Commission rates range between 10% and 20% for the independent agents and brokers and 18% for Networked.

REINSURANCE

Assumed

During 2007, the Company entered into quota share reinsurance agreement with its subsidiary, Sequoia Indemnity Company (Indemnity). Under the agreement, the Company agreed to assume 90% of the Indemnity business for policies effective January 1, 2007 and after.

The Company assumes minimal reinsurance from two pools; the California Commercial Auto Insurance Procedure, and the National Workers Compensation Reinsurance Pool.

Ceded

The following is a summary of the principal reinsurance agreements in effect as of December 31, 2009:

	Reinsurer(s)	Company's Retention	Reinsurer's Limits

	Reinsurer(s)	Company's Retention	Reinsurer's Limits
First Excess Multiple Line (Property and Casualty)	Authorized: Aspen Insurance UK Limited 25% Axis Reinsurance Company 17% Lloyd's Syndicate # 2003 – Catlin 5% Hannover Ruckeversicherungs-Aktiengesellschaft 5% SCOR Reinsurance Company 5% Munich Reinsurance America , Inc. 20% Transatlantic Reinsurance Company 7.5% Motors Insurance Corporation 7.5% Unauthorized: Paris Re 8%	$500,000	$1.5 million in excess of $500,000 subject to a maximum of $4.5 million per occurrence.
Second Excess Property	Authorized: Aspen Insurance UK Limited - 20% Axis Reinsurance Company - 7% Lloyd's Syndicate # 2003 – Catlin - 9% Endurance Reinsurance Corporation of America - 9% Hannover Ruckeversicherungs-Aktiengesellschaft - 20% SCOR Reinsurance Company - 5% Munich Reinsurance America , Inc. - 15% Motors Insurance Corporation - 7% Unauthorized: Paris Re - 8%	$2 million	$3 million in excess of $2 million subject to a maximum of $9 million per occurrence.
Third Excess Property	Axis Reinsurance Company 15% Lloyd's Syndicate #2001 - 20% Lloyd's Syndicate #2010 - 17.5% Hannover Ruckeversicherungs-Aktiengesellschaft -15% SCOR Reinsurance Company - 7% Motors Insurance Corporation - 12.5% Unauthorized: Amlin Bermuda Limited - 5% Paris Re - 8%	$5 million	$5 million in excess of $5 million subject to a maximum of $10 million per occurrence.

	Reinsurer(s)	Company's Retention	Reinsurer's Limits
Fourth Excess Property	Authorized: Axis Reinsurance Company 16% Lloyd's Syndicate #2001 - 20% Endurance Reinsurance Corporation of America - 5% Hannover Ruckeversicherungs-Aktiengesellschaft 15% SCOR Reinsurance Company - 9% Motors Insurance Corporation - 25% Unauthorized: Amlin Bermuda Limited - 5% Paris Re - 5%	$10 million	$5.5 million in excess of $10 million subject to a per occurrence maximum of $10 million for Coverage A and $1 million for Coverage B.
Second Excess Casualty	Authorized: Aspen Insurance UK Limited -10% Axis Reinsurance Company - 15% Hannover Ruckeversicherungs-Aktiengesellschaft -10% Liberty Mutual 10% SCOR Reinsurance Company - 30% Motors Insurance Corporation - 10% Unauthorized: Paris Re - 15%	$2 million	$3 million in excess of $2 million subject to a maximum of $3 million per occurrence.
Third Excess Casualty	Authorized: Arch Reinsurance Company - 27.5% Aspen Insurance UK Limited - 10% Axis Reinsurance Company - 10% Hannover Ruckeversicherungs-Aktiengesellschaft - 7.5% Liberty Mutual Insurance Company - 10% SCOR Reinsurance Company - 5% Motors Insurance Corporation - 5% Unauthorized: Catlin Insurance Company, Ltd. - 10% Paris Re - 15%	$5 million	$10 million in excess of $5 million subject to a maximum of $10 million per occurrence.
Umbrella Quota Share	Authorized: Transatlantic Reinsurance Company (05/01/09 to 05/01/10)	5% of the first $2 million on personal; and 5% of	95% of the first $2 million on personal; 95% of first $5 million on other lines, and 100%

	Reinsurer(s)	Company's Retention	Reinsurer's Limits
		first $5 million for other lines.	excess of $5 million, subject to a loss limit of $5 million.
Employment Practices Liability Insurance Quota Share	Authorized: Lloyd's Syndicate #0623 Lloyd's Syndicate #2623	None	100% of the Company's Net Liability not to exceed $1m in the aggregate
First Excess Property Catastrophe	Authorized: Mapfre Re Compania de Reaseguros, S.A. - 13.5% SCOR Reinsurance Company - 6% Lloyd's Syndicate #557 - 3% Lloyd's Syndicate #780 – 8.5% Lloyd's Syndicate #1301 - 6% Lloyd's Syndicate #1910 - 9% Lloyd's Syndicate #2001 - 19% Lloyd's Syndicate #4020 - 4% Unauthorized: Amlin Bermuda Limited - 14% Flagstone Reassurance Suisse SA - Bermuda Branch - 10% Glacier Reinsurance AG - 7%	$2.5 million	$7.5 million in excess of $2.5 million subject to a maximum of $15 million per occurrence.
Second Excess Property Catastrophe	Authorized: Mapfre Re Compania de Reaseguros, S.A. - 13.5% SCOR Reinsurance Company - 2% Lloyd's Syndicate #807 - 2% Lloyd's Syndicate #780 - 7.5% Lloyd's Syndicate #1301 - 4% Lloyd's Syndicate #1910 - 7% Lloyd's Syndicate #2001 - 15% Lloyd's Syndicate #4020 - 1% Unauthorized: Amlin Bermuda Limited - 13% Flagstone Reassurance Suisse SA - Bermuda Branch - 3% Glacier Reinsurance AG - 9% Hannover Re (Bermuda), Ltd. - 4% Tokio Millenium Re Ltd. - 19%	$10 million	$10 million in excess of $10 million subject to a maximum per occurrence of $20 million.

	Reinsurer(s)	Company's Retention	Reinsurer's Limits
Third Excess Property Catastrophe	Authorized: Mapfre Re Compania de Reaseguros, S.A. - 11% SCOR Reinsurance Company - 8% Lloyd's Syndicate #1910 - 9% Lloyd's Syndicate #2001 - 20% Lloyd's Syndicate #4020 - 6% Unauthorized: Amlin Bermuda Limited - 14% Glacier Reinsurance AG - 9% Hannover Re (Bermuda), Ltd. - 4% Tokio Millenium Re Ltd. - 19%	$20 million	$25 million in excess of $20 million subject to a maximum of $50 million per occurrence.
Fourth Excess Property Catastrophe	Authorized: Mapfre Re Compania de Reaseguros, S.A. - 4% Lloyd's Syndicate #0780 - 7% Lloyd's Syndicate #0807 – 7.5% Lloyd's Syndicate #1414 - 20% Lloyd's Syndicate #2001 - 17% Lloyd's Syndicate #4444 - 10% Munich Reinsurance America – 15% SCOR Switzerland UK Branch – 8% Unauthorized: Amlin Bermuda Limited - 8% Lancashire Insurance Bermuda – 3.5%	$45 million	$37.5 million in excess of $45 million subject to a maximum of $82.5 million per term.
Fifth Excess Property Catastrophe	Authorized: Mapfre Re Compania de Reaseguros, S.A. - 8% Unauthorized: Lancashire Insurance Bermuda – 12% Tokio Millenium – 80%	$82.5 million	$12.5 million in excess of $82.5 million subject to a maximum of $95 million per term.
First Excess – Workers' Compensation and Employment Practices Liability (EPL)	Authorized: Hannover Ruckeversicherungs Aktiengesellschaft - 30% Safety National Casualty Corporation - 50% Motors Insurance Corporation - 20%	$250,000	$750,000 in excess of $250,000.

	Reinsurer(s)	Company's Retention	Reinsurer's Limits
Second Excess – Workers' Compensation and Employment Practices Liability (EPL)	Authorized: Hannover Ruckeversicherungs Aktiengesellschaft - 10% Midwest Employers Casualty Company - 50% Lloyd's Syndicate #2987 – 3.75% Lloyd's Syndicate #4472 - 5% Lloyd's Syndicate #2003 – 12.5% Aspen Insurance UK Limited -13.75% Motors Insurance Corporation - 5%	$1 million	$4 million in excess of $1 million. Maximum $2 million for EPL.
Third Excess Per Occurrence– Workers' Compensation and Employment Practices Liability (EPL)	Authorized: Aspen Insurance UK Ltd. 25% Lloyd's Syndicate #2003 – 20% Safety National Casualty Corporation – 7.5% Lloyd's Syndicate #1084 – 2.5% Lloyd's Syndicate #1400 – 10% Lloyd's Syndicate #2001 - 5% Lloyd's Syndicate #2987 - 15% Lloyd's Syndicate #4472 - 10% Motors Insurance Corporation - 5%	$5 million	$5 million in excess of $5 million subject to a maximum of $5 million per occurrence Maximum $2 million for EPL.
Third Excess Per Person – Workers' Compensation and Employment Practices Liability (EPL)	Authorized: Aspen Insurance UK, Ltd. 25% Lloyd's Syndicate #1084 – 5% Lloyd's Syndicate #2001 - 10% Lloyd's Syndicate #2003 – 22.5% Lloyd's Syndicate #4472 - 15% Safety National Casualty Corporation – 22.5%	$5 million	$5 million in excess of $5 million each person per occurrence and $5 million any one life. Maximum $2 million for EPL.
Fourth Excess – Workers' Compensation and Employment Practices Liability (EPL)	Authorized: Arch Reinsurance Company - 15% Liberty Mutual Insurance Company - 10% Lloyd's Syndicate #4472 – 20% Lloyd's Syndicate #2003 – 22.5% Unauthorized: Flagstone Reassurance Suisse SA - Bermuda Branch – 17.5% Tokio Millenium – 15%	$10 million	$10 million in excess of $10 million per occurrence and $10 million any one life. Maximum $2 million for EPL.

During 2007, the Company entered into a quota share reinsurance agreement with its subsidiary, Personal Express Insurance Company (Personal). Under the agreement, the Company agreed to cede 90% of its personal lines business to Personal, effective January 1, 2007 and after. In 2009, the Company ceded just $66,679 in premiums written.

The Company has a 100% Quota Share treaty with Hartford Steam Boiler Inspection and Insurance Company which covers boiler and machinery breakdown. In 2009, the Company ceded $1.7 million in premiums under the treaty.

As part of the stock purchase agreement between Sydney Reinsurance Corporation (SRC) and Physicians Insurance Company of Ohio (PICO), the Company and SRC entered into a reinsurance agreement effective July 31, 1995, whereby all policy and claim liabilities of the Company prior to the date of purchase by PICO will be the responsibility of SRC. Payment of these reinsurance liabilities has been unconditionally and irrevocably guaranteed by QBE Insurance Group Limited, an Australian corporation, which owns SRC indirectly. The Company is reimbursed for unallocated loss adjustment expenses according to a management agreement with SRC.

ACCOUNTS AND RECORDS

Information Systems Controls

A review was made of the Company's general controls over its information systems. As a result of the review, some low risk control deficiencies were noted in areas such as business continuity planning. The control deficiencies noted were presented to the Company along with recommendations to strengthen its controls in these areas. It is recommended that the Company evaluate the recommendations and make appropriate changes to strengthen its information system controls.

Claims Practices

The Company utilizes a depreciation schedule for its property and contents losses which is not in compliance with California Code of Regulation (CCR), Title 10, Chapter 5, Subchapter 7.5, Article 1, Section 2695.9 (f) because it does not take into consideration both the age and condition of the item being depreciated. The depreciation schedule currently used by the Company is based solely on the age of the item. It is recommended the Company comply with CCR Title 10, Section 2695.9 (f). This is a repeat finding from the prior examination.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2009

Underwriting and Investment Exhibit for the Year Ended December 31, 2009

Reconciliation of Surplus as Regards Policyholders from December 31, 2006 through December 31, 2009

Statement of Financial Condition
as of December 31, 2009

Assets	Ledger and Nonledger Assets	Assets Not Admitted	Net Admitted Assets	Notes
Bonds	$ 132,045,769	$	$ 132,045,769	
Common stocks	19,026,523		19,026,523	
Cash and short-term investments	756,530		756,530	
Receivable for securities	100,000		100,000	
Investment income due and accrued	1,383,021		1,383,021	
Premiums and agents' balances in course of collection	1,491,830	107,235	1,384,595	
Premiums, agents' balances and installments booked but deferred and not yet due	20,876,481		20,876,481	
Amount recoverable from reinsurers	4,885,993		4,885,993	
Other amounts receivable under reinsurance contracts	819,838		819,838	
Net deferred tax asset	5,846,529	700,253	5,146,276	
Guaranty funds receivable or on deposit	294,301		294,301	
Electronic data processing equipment and software	3,709,084	3,515,176	193,908	
Furniture and equipment, including health care delivery assets	131,002	131,002	0	
Receivables from parent, subsidiaries and affiliates	836,187		836,187	
Aggregate write-ins for other than invested assets	1,590,451	860,973	729,478	
Total assets	$ 193,793,539	$ 5,314,639	$ 188,478,900	

Liabilities, Surplus and Other Funds			Notes
Losses		$ 30,535,175	(1)
Reinsurance payable on paid loss and loss adjustment expenses		521,457	
Loss adjustment expenses		15,466,305	(1)
Commissions payable, contingent commissions and other similar charges		4,915,062	
Other expenses		3,797,857	
Current federal and foreign income taxes		2,410,853	
Unearned premiums		44,648,513	
Advance premiums		457,402	
Ceded reinsurance premiums payable		1,962,430	
Funds held by company under reinsurance treaties		618,450	
Amounts withheld or retained by company for account of others		7,543	
Payable to parent, subsidiaries and affiliates		3,960,662	
Aggregate write-ins for liabilities		(1,953,154)	
Total liabilities		107,348,555	
Aggregate write-ins for special surplus funds	$ 1,953,154		
Common capital stock	4,200,000		
Gross paid-in and contributed surplus	53,600,129		
Unassigned funds (surplus)	21,377,062		
Surplus as regards policyholders		81,130,345	
Total liabilities, surplus and other funds		$ 188,478,900	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2009

Statement of Income

Underwriting Income		
Premiums earned		$ 75,156,573
Deductions:		
Losses incurred	$ 29,535,211	
Loss expenses incurred	7,359,210	
Other underwriting expenses incurred	33,914,677	
Total underwriting deductions		70,809,098
Net underwriting gain		4,347,475
Investment Income		
Net investment income earned	$ 5,077,661	
Net realized capital gain	423,572	
Net investment gain		5,501,233
Other Income		
Net loss from agents' or premium balances charged off	$ (437,213)	
Finance and service charges not included in premiums	261,013	
Aggregate write-ins for miscellaneous income	6,624	
Total other loss		(169,576)
Net income before federal and foreign income taxes		9,679,132
Federal and foreign income taxes incurred		2,770,996
Net income		$ 6,908,136

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2008		$ 70,142,622
Net income	$ 6,908,136	
Change in net unrealized capital gains	2,076,701	
Change in net deferred income tax	(725,548)	
Change in nonadmitted assets	2,739,832	
Capital changes: Transferred from surplus	1,200,000	
Surplus adjustments: Paid in	(1,211,398)	
Change in surplus as regards policyholders for the year		10,987,723
Surplus as regards policyholders, December 31, 2009		$ 81,130,345

Reconciliation of Surplus as Regards Policyholders from December 31, 2006 through December 31, 2009

	Gain in Surplus	Loss in Surplus	
Surplus as regards policyholders, December 31, 2006, per Examination			$ 65,910,837
Net income	$ 22,351,618	$	
Net unrealized capital gains	2,553,514		
Change in net deferred income tax	600,355		
Change in nonadmitted assets		720,481	
Capital changes: Transferred from surplus	1,200,000		
Surplus adjustments: Paid in		1,211,398	
Dividends to stockholders		6,750,000	
Aggregate write-ins for gains and losses in surplus		2,804,100	
Total gains and losses	$ 26,705,487	$ 11,485,979	
Net increase in surplus as regards policyholders			15,219,508
Surplus as regards policyholders, December 31, 2009, per Examination			$ 81,130,345

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

Based on an analysis by a Casualty Actuary from the California Department of Insurance, the Company's loss and loss adjustment expense reserves as of December 31, 2009 were found to be reasonably stated and have been accepted for purposes of this examination.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Management and Control – Holding Company Registration Statement (Page 5): It is recommended that the Company make proper disclosure in its Holding Company Registration Statement in compliance with California Insurance Code Section (CICS) 1215.4(b). It is also recommended that any future advances and loans be approved by the Board of Directors and proper loan documentation be executed.

Management and Control – Conflict of Interest (Page 6): It is recommended that the Company establish written procedures to require annual conflict of interest reporting for its directors, officers, and key employees.

Corporate Records – (Page 6): It is recommended that the Company disclose changes to its Bylaws and Articles of Incorporation as instructed in the Annual Information Statement instructions. It is recommended that the Company implement procedures to ensure future compliance with CICS 735.

Accounts and Records – Information System Controls (Page 15): It is recommended that the Company evaluate the recommendations and make appropriate changes to strengthen its information system controls.

Accounts and Records – Claims Practices (Page 15): It is recommended the Company comply with California Code of Regulations (CCR), Title 10, Section 2695.9 (f). This is a repeat finding from the prior examination.

Previous Report of Examination

Accounts and Records – (Page 12): It was recommended that the Company create a formal claims manual. It was recommended the Company comply with CCR, Title 10, Section 2695.9(f). It was recommended the Company implement procedures to ensure compliance with CICS 790 and CCR, Title 10, Sections 2695 et al. The Company is currently not in compliance with CCR Title 10, Section 2695.9(f), but is in compliance with the other two recommendations above.

Deferred Premiums, Agents' Balances and Installments Booked but Deferred and Not Yet Due (Page 16): It was recommended the Company comply with Statements of Statutory Accounting Principles 53, paragraph 12. The Company is now in compliance

Taxes, Licenses and Fees (Page 16): It was recommended the Company submit amended vehicle assessment filings for its commercial vehicles for 2003 through the first quarter 2006. The Company is now in compliance.

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/___________________

Kyo Chu, CFE
Examiner-In-Charge
Department of Insurance
State of California