

REPORT OF EXAMINATION  
OF THE  
WESTWARD INSURANCE COMPANY  
AS OF  
DECEMBER 31, 2007

Filed September 5, 2008

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Los Angeles, California  
June 20, 2008

Honorable Steve Poizner  
Insurance Commissioner  
California Department of Insurance  
Sacramento, California

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

**WESTWARD INSURANCE COMPANY**

(hereinafter also referred to as the Company) at the statutory home office and primary location of its books and records, 680 Newport Center Drive, Suite 270, Newport Beach, California 92660.

**SCOPE OF EXAMINATION**

The previous examination of the Company was made as of December 31, 2003. This examination covers the period from January 1, 2004 through December 31, 2007. The current examination included a review of the Company's practices and procedures, an examination of management records, tests and analyses of detailed transactions within the examination period, and an evaluation of the assets and a determination of liabilities as of December 31, 2007, as deemed necessary under the circumstances.

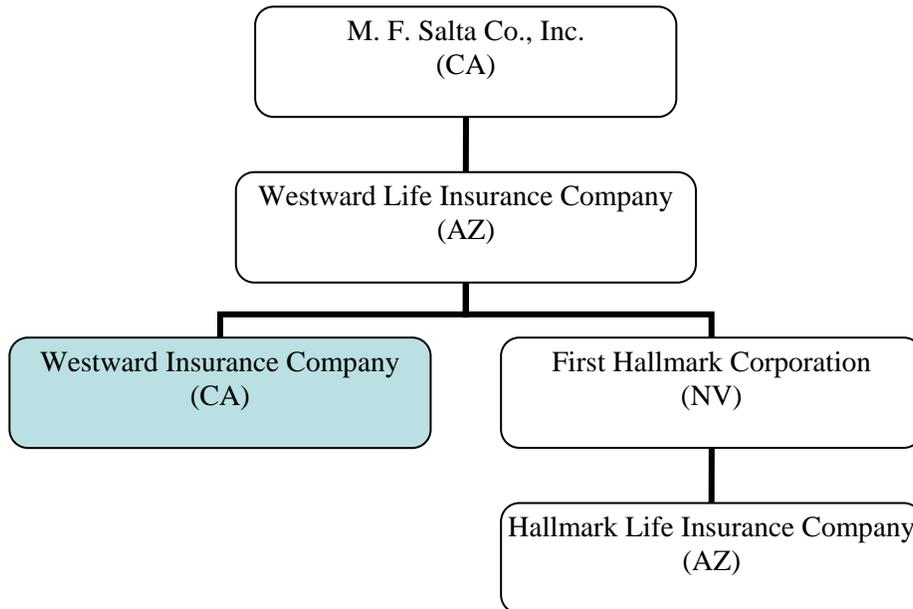
In addition to those items specifically commented upon in this report, other phases of the Company's operations were reviewed including the following areas that require no further comment: fidelity bonds and other insurance; officers', employees' and agents' welfare and pension plans; growth of company; business in force by states; loss experience; accounts and records; and sales and advertising.

COMPANY HISTORY

In 2006, the Company paid a cash dividend of \$420,000 to its parent, Westward Life Insurance Company.

MANAGEMENT AND CONTROL

The Company is a wholly-owned subsidiary of Westward Life Insurance Company (WLIC), an insurance company domiciled in Arizona. The Company and WLIC are part of a holding company system in which Michelle F. Salta is the ultimate controlling person. The following abridged organizational chart, which is limited to the Company’s parent along with its subsidiary companies, depicts the Company’s relationship within the holding company system:



Michelle F. Salta directly owns 31% of the common stock of WLIC and 51% of the common stock of M. F. Salta Co., Inc., a financial management company, which in turn owns 58% of the common stock of WLIC.

Management of the Company is vested in a five-member board of directors elected annually. A listing of the members of the board and principal officers serving on December 31, 2007 follows:

#### Directors

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Dennis Fujioka Mission Viejo, California	Treasurer Westward Life Insurance Company
Robert C. Johnson Irvine, California	Vice President and Chief Financial Officer M.F. Salta Co., Inc.
Michelle F. Salta Indian Wells, California	President M. F. Salta Co., Inc.
James H. Smith Seal Beach, California	Vice President Westward Life Insurance Company
Jan Vickers Anaheim, California	Risk Manager M. F. Salta Co., Inc.

#### Principal Officers

<u>Name</u>	<u>Title</u>
Michelle F. Salta	President
James H. Smith	Vice President
Dennis Fujioka	Treasurer

## CORPORATE RECORDS

California Insurance Code (CIC) Section 735 requires that the Company inform the board members of 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 disclosed that both the officially filed report and the first formally prepared draft by the examiners were not presented to the board. It is recommended that the Company implement procedures in its board meetings to ensure compliance with CIC Section 735.

## TERRITORY AND PLAN OF OPERATION

The Company is licensed only in California to write automobile insurance. The Company wrote commercial automobile physical damage insurance exclusively for affiliated automobile dealerships which insures the ability of the dealerships to meet their financial obligations for automobile service contracts. In addition, the Company provided automobile warranty coverage for an affiliated service contract administrator.

Beginning in 2001, the affiliated automobile dealerships, which were the Company's primary source of premium revenues, were progressively sold. The last three remaining dealerships were sold in February 2004. In November 2004, the ultimate parent company decided to discontinue insurance operations and placed the Company, together with other insurance companies under the same parent ownership, for sale.

The Company is currently not seeking any new business nor is it developing a marketing plan for the future. The remaining business on the books will continue to be in run-off.

## REINSURANCE

The Company had no reinsurance during the period under examination.

## FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2007

Underwriting and Investment Exhibit for the Year Ended December 31, 2007

Reconciliation of Surplus as Regards Policyholders  
from December 31, 2003 through December 31, 2007

Statement of Financial Condition  
as of December 31, 2007

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 1,937,704	\$	\$ 1,937,704	(1)
Stocks:				
Preferred	208,750		208,750	(1)
Cash and short-term investments	1,951,592		1,951,592	(1)
Investment income due and accrued	23,981		23,981	
Federal income tax recoverable	3,565		3,565	
Net deferred tax asset	<u>5,875</u>	<u>5,758</u>	<u>117</u>	
 Total assets	 <u>\$ 4,131,467</u>	 <u>\$ 5,758</u>	 <u>\$ 4,125,709</u>	
 <u>Liabilities, Surplus and Other Funds</u>				
Losses			\$ 2,276	(2)
Loss adjustment expenses			228	(2)
Other expenses			18,600	
Taxes, licenses and fees			29,430	
Unearned premiums			<u>4,552</u>	
 Total liabilities			 55,086	
 Common capital stock		 \$ 1,000,000		
Gross paid-in and contributed surplus		1,200,000		
Unassigned funds (surplus)		<u>1,870,623</u>		
 Surplus as regards policyholders			 <u>4,070,623</u>	
 Total liabilities, surplus and other funds			 <u>\$ 4,125,709</u>	

Underwriting and Investment Exhibit  
for the Year Ended December 31, 2007

Statement of Income

Underwriting Income

Premiums earned		\$ 6,961
Deductions:		
Losses incurred	\$ (2,746)	
Loss expenses incurred	(274)	
Other underwriting expenses incurred	<u>37,987</u>	
Total underwriting deductions		<u>34,967</u>
Net underwriting loss		(28,006)

Investment Income

Net investment income earned	\$ 187,114	
Net realized capital loss	<u>(1,441)</u>	
Net investment gain		<u>185,673</u>
Net income before federal income taxes		157,667
Federal income taxes incurred		<u>44,645</u>
Net income		<u>\$ 113,022</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2006		\$ 3,976,621
Net income	\$ 113,022	
Change in net unrealized capital losses	(19,292)	
Change in net deferred income tax	6,030	
Change in non-admitted assets	<u>(5,758)</u>	
Change in surplus as regards policyholders for the year		<u>94,002</u>
Surplus as regards policyholders, December 31, 2007		<u>\$ 4,070,623</u>

Reconciliation of Surplus as Regards Policyholders  
from December 31, 2003 through December 31, 2007

Surplus as regards policyholders, December 31, 2003, per Examination			\$ 4,129,685
	Gain in Surplus	Loss in Surplus	
Net income	\$ 478,519	\$	
Change in net unrealized capital losses		161,664	
Change in net deferred income tax	49,841		
Change in nonadmitted assets		5,758	
Dividends to Stockholders	_____	420,000	
Totals	\$ 528,360	\$ 587,422	
Net decrease in surplus as regards policyholders for the examination period			(59,062)
Surplus as regards policyholders, December 31, 2007, per Examination			\$ 4,070,623

## COMMENTS ON FINANCIAL STATEMENT ITEMS

### (1) Bonds, Stocks and Short-Term Investments

The Company has a custodial agreement with Farmers and Merchants Trust Company, effective July 3, 2003. The custodian is not considered a qualified custodian as defined in California Insurance Code Section 1104.9. It is recommended that the Company execute a custodial agreement with a qualified custodian and file the agreement with the California Department of Insurance for approval.

### (2) Losses and Loss Adjustment Expenses

Based on a review of the Company's losses and loss adjustment expense reserves as of December 31, 2007, by the Company's independent actuary from J. Huel Briscoe and Associates, the reserves reported by the Company were deemed reasonable and have been accepted for the purpose of this examination.

## SUMMARY OF COMMENTS AND RECOMMENDATIONS

### Current Report of Examination

Corporate Records (Page 4): It is recommended that the Company implement procedures in its board meetings to ensure compliance with California Insurance Code Section 735.

Comments on Financial Statement Items - Bonds, Stocks and Short-Term Investments (Page 9): It is recommended that the Company execute a custodial agreement with a qualified custodian and file the agreement with the California Department of Insurance for approval.

### Previous Report of Examination

Management and Controls – Management Agreements (Page 3): It was recommended that the Company submit both the management service agreement and expense allocation agreement to the California Department of Insurance (CDI) for approval pursuant to California Insurance Code (CIC) Section 1215.5(b)(4). The Company terminated both agreements in July 2005.

Corporate Records (Page 4): It was recommended that the Company comply with CIC Section 1201. The Company has complied.

Comments on Financial Statement Items – Bonds, Stocks and Short-Term Investments (Page 9): It was recommended that the Company submit its custodial agreement to the CDI for approval. The Company has not submitted its agreement for approval.

ACKNOWLEDGEMENT

The courtesy and cooperation extended by the Company's officers and parent's employees during the course of this examination are hereby acknowledged.

Respectfully submitted,

/S/

Tony Tran, CFE  
Examiner-In-Charge  
Associate Insurance Examiner  
Department of Insurance  
State of California