

REPORT OF EXAMINATION
OF THE
BUSINESS ALLIANCE INSURANCE COMPANY
AS OF
DECEMBER 31, 2024

Commissioners Signature

A handwritten signature in blue ink, appearing to be 'D. DeLoe', written over a horizontal line.

Filed on May 18, 2026

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Sacramento, California
May 12, 2026

Honorable Ricardo Lara
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

BUSINESS ALLIANCE INSURANCE COMPANY

(hereinafter also referred to as the Company). The Company's home office is located at 400 Oyster Point Blvd., Suite 327, South San Francisco, California 94080.

SCOPE OF EXAMINATION

We have performed our single-state examination of the Company. The previous examination of the Company was as of December 31, 2020. This examination covered the period of January 1, 2021 through December 31, 2024.

This 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. The examination also included identifying and evaluating significant risks that could cause the Company's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This includes assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If an adjustment was identified during the course of the

examination, the impact of such adjustment would be documented separately following the Company's financial statements.

This examination report includes findings of fact and general information about the Company and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), were not included within the examination report but separately communicated to other regulators and/or the Company.

COMPANY HISTORY

The Company was incorporated on November 12, 1996 under the laws of the State of California and commenced business on September 15, 1997. The Company has a paid-in capital of \$2.6 million which consists of a single class of \$100 par value common stock with 100,000 shares authorized, 26,000 shares issued and outstanding. All issued and outstanding shares of the Company are owned by National Farm Financial Corporation (NFFC), the Company's immediate parent.

Dividends

On January 28, 2022, the Company paid an ordinary cash dividend of \$1,300,000 to its parent, NFFC.

MANAGEMENT AND CONTROL

The Company is a wholly-owned subsidiary of National Farm Financial Corporation (NFFC), which is owned by the Steven J. Barsotti and Kandra U. Barsotti 2001 Living Trust (Barsotti Living Trust). The following chart depicts the Company's relationship within the holding company system at December 31, 2024 (all ownership is 100%):

Steven J. Barsotti and Kandra U. Barsotti 2001 Living Trust
National Farm Financial Corporation (California)
Business Alliance Insurance Company (California)

The operations and affairs of the Company are managed by a three-member board of directors, who are elected annually. The following are members of the board and principal officers serving at December 31, 2024:

Directors

<u>Name and Location</u>	<u>Principal Business Affiliation</u>
Steven J. Barsotti Fresno, California	Chief Financial Officer and Treasurer Business Alliance Insurance Company
Kandra U. Barsotti Fresno, California	Secretary Business Alliance Insurance Company
Robert T. Kingsley Carmel, California	Chief Executive Officer Business Alliance Insurance Company

Principal Officers

<u>Name</u>	<u>Title</u>
Steven J. Barsotti	Chief Financial Officer and Treasurer
Kandra U. Barsotti	Secretary
Robert T. Kingsley	Chief Executive Officer

TERRITORY AND PLAN OF OPERATION

The Company is licensed to transact property and casualty insurance in California only. The Company caters primarily to small minority-owned businesses and provides products that are specifically tailored to the needs of small businesses.

During 2024, direct premiums written totaled \$9.3 million which was comprised of commercial multiple peril (non-liability portion) (48.0%), commercial multiple peril (liability portion) (39.3%), and surety (12.7%). The commercial multiple peril business is produced by 262 independent brokers. The surety business consists of contractor license bonds produced by a single general agent, Greenwood General Insurance Agency.

All operations are primarily conducted from the Company's home office in South San Francisco, California.

REINSURANCE

Assumed

The Company did not assume any reinsurance during the examination period.

Ceded

The following is a summary of principal reinsurance agreements in effect as of December 31, 2024:

Line of Business and Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Limit
<u>Property and Casualty:</u>			
Multi-Line Excess of Loss - Property	<u>Authorized</u> Hannover Ruck SE (50%) Odyssey Reinsurance Company (50%)	\$400,000 each loss, each risk	\$600,000 excess of \$400,000 each loss, each risk subject to a limit of \$2,400,000 each loss occurrence
Multi-Line Excess of Loss - Casualty	<u>Authorized</u> Hannover Ruck SE (50%) Odyssey Reinsurance Company (50%)	\$400,000 each loss occurrence	\$600,000 excess of \$400,000 each loss occurrence

Line of Business and Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Limit
Property Catastrophe Excess of Loss	<u>Authorized</u> Hannover Ruck SE (50%) Odyssey Reinsurance Company (50%)	\$1,000,000 each loss occurrence	A. \$1,500,000 excess of \$1,000,000 each loss occurrence, \$3,000,000 liability limit for all loss occurrences B. Losses arising from a pandemic, limit to \$1,500,000 ultimate net loss for all loss occurrences
Casualty Semi-Automatic Program Excess of Loss Reinsurance	<u>Authorized</u> Berkley Insurance Company (23.5%) Endurance Assurance Corporation (5.0%) Hannover Ruck SE (13.0%) Partner Reinsurance Company of the U.S. (7.0%) Swiss Reinsurance America Corporation (40.0%) <u>Unauthorized</u> American Agricultural Insurance Company (11.5%)	\$1,000,000 each occurrence for personal, farm and commercial exposures	\$1,000,000 excess of \$1,000,000 each occurrence/nil aggregate

Line of Business and Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Limit
Multiple Line Quota Share Reinsurance Contract	<u>Authorized</u> The Hartford Steam Boiler Inspection and Insurance Company (100%)	None	<p>Equipment Breakdown: 100% of the Company's liability</p> <p>Employment Practices Liability: Limit to \$1,000,000 each wrongful employment act, subject to an aggregate limit to \$1,000,000</p> <p>Cyber Suite: Cyber Coverage - Limit to \$1,000,000 annual aggregate per policy Identity Recovery - Limit to \$25,000 annual aggregate</p>
Property Facultative Agreement of Reinsurance	<u>Authorized</u> General Reinsurance Corporation	\$1,000,000 each risk	Limit to \$2,000,000 excess of \$1,000,000 each risk

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the California Department of Insurance for the period ending December 31, 2024. The accompanying comments to the amounts in the financial statements should be considered an integral part of the financial statements. No adjustments were made to the financial statements as a result of the examination.

Statement of Financial Condition as of December 31, 2024

Underwriting and Investment Exhibit for the Year Ended
December 31, 2024

Reconciliation of Capital and Surplus from December 31, 2020 through
December 31, 2024

Statement of Financial Condition
as of December 31, 2024

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 7,332,889	\$	\$ 7,332,889	
Common stocks	9,899,331		9,899,331	
Cash and cash equivalents	1,596,875		1,596,875	
Investment income due and accrued	88,847		88,847	
Uncollected premiums and agents' balances in course of collection	(64,395)		(64,395)	
Deferred premiums, agents' balances and installments booked but deferred and not yet due	1,616,308		1,616,308	
Amount recoverable from reinsurers	197,133		197,133	
Net deferred tax asset	195,000	195,000		
Electronic data processing equipment and software	110,100		110,100	
Receivables from parent, subsidiaries and affiliates	850,000		850,000	(1)
Aggregate write-ins for other than invested assets	105,414		105,414	
	<hr/>		<hr/>	
Total assets	\$ 21,927,502	\$ 195,000	\$ 21,732,502	

<u>Liabilities, Surplus, and Other Funds</u>			<u>Notes</u>
Losses		\$ 4,117,594	(2)
Loss adjustment expenses		1,340,843	(2)
Other expenses		196,632	
Taxes, licenses and fees (excluding federal and foreign income taxes)		22,134	
Current federal and foreign income taxes		32,000	
Unearned premiums		3,156,866	
Advance premium		38,822	
Ceded reinsurance premiums payable		<hr/> 308,315	
Total liabilities		9,213,206	
Common capital stock	\$ 2,600,000		
Gross paid-in and contributed surplus	5,490,240		
Unassigned funds (surplus)	<hr/> 4,429,056		
Surplus as regards policyholders		<hr/> 12,519,296	
Total liabilities, surplus, and other funds		<hr/> \$ 21,732,502	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2024

Statement of Income

Underwriting Income

Premiums earned	\$	7,723,152
Deductions:		
Losses incurred	\$	3,433,999
Loss expenses incurred		1,567,065
Other underwriting expenses incurred		<u>3,577,318</u>
Total underwriting deductions		<u>8,578,382</u>
Net underwriting loss		(855,230)
<u>Investment Income</u>		
Net investment income earned	\$	626,870
Net realized capital losses		<u>(9,596)</u>
Net investment gain		617,274
<u>Other income</u>		
Finance and service charges not included in premiums		89,423
Aggregate write-ins for miscellaneous income		<u>712,484</u>
Total other income		<u>801,907</u>
Net income after dividends to policyholders, after capital gains tax and before federal and foreign income taxes		563,951
Federal and foreign income taxes incurred		<u>72,000</u>
Net income	\$	<u><u>491,951</u></u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2023	\$	11,959,460
Net income	\$	491,951
Change in unrealized capital gains		67,885
Change in net deferred income tax		3,000
Change in nonadmitted assets		<u>(3,000)</u>
Change in surplus as regards policyholders for the year		<u>559,836</u>
Surplus as regards policyholders, December 31, 2024	\$	<u><u>12,519,296</u></u>

Reconciliation of Surplus as Regards Policyholders
from December 31, 2020 through December 31, 2024

Surplus as regards policyholders, December 31, 2020			\$ 13,592,164
	Gain in Surplus	Loss in Surplus	
Net income	\$ 1,615,246	\$	
Change in unrealized capital losses		1,391,614	
Change in net deferred income tax	53,000		
Change in nonadmitted assets		49,500	
Dividends to stockholders		1,300,000	
Total gains and losses	<u>\$ 1,668,246</u>	<u>\$ 2,741,114</u>	
Net decrease in surplus as regards policyholders			<u>(1,072,868)</u>
Surplus as regards policyholders, December 31, 2024			<u>\$ 12,519,296</u>

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Receivables from parent, subsidiaries and affiliates

On March 15, 2023, the Company entered into a \$300,000 Loan Agreement (Agreement) with its parent, National Farm Financial Corporation (NFFC). The Agreement was modified on November 15, 2023 and January 16, 2025 for additional loans in the amount of \$550,000 and \$200,000 to NFFC, respectively. Collectively, the loans to NFFC totaled \$1,050,000 and have an interest rate of 4.00% compounded annually. Under the terms of the Agreement, the principal and interest payments are due on March 30, 2028. On February 18, 2025, the Company filed the Agreement with the California Department of Insurance (CDI) pursuant to California Insurance Code Section 1215.5(b). The Agreement is currently under review by the CDI.

(2) Losses and Loss Adjustment Expenses

A Casualty Actuary of the California Department of Insurance conducted an independent review of the Company's gross and net loss and loss adjustment expenses reserves as of December 31, 2024 and concurred that the Company's loss and loss adjustment expense reserves are reasonable and have been accepted for purposes of this examination.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

None.

Previous Report of Examination

Comments on Financial Statement Items – Bonds, Common Stocks, Cash and Short-Term Investments (Page 10): It was recommended that the Company submit its custodial agreement with Wells Fargo Advisors to the Commissioner for approval pursuant to

California Insurance Code (CIC) Section 1104.9(c). The Company no longer uses Wells Fargo Advisors as a custodian.

It was recommended that the Company enter into a custodial agreement with U.S. Bank and submit its custodial agreement with U.S. Bank to the Commissioner for approval pursuant to CIC Section 1104.9(c). The Company entered into a Custody Agreement with U.S. Bank, effective January 5, 2023. The Agreement was filed and approved by the California Department of Insurance on January 6, 2023. The Company is now in compliance.

It was recommended that the Company implement procedures to strengthen its financial reporting and accounting controls over its Schedule D, Part 1 and Part 2 reporting to ensure that the information in these schedules are accurate. No issues were noted with the Company's reporting of Schedule D, Part 1 and Part 2 during the current examination.

Comments on Financial Statement Items – Amount Recoverable from Reinsurers (Page 11): It was recommended that the Company implement procedures to strengthen its financial reporting and accounting controls over its Schedule F, Part 3 reporting to ensure that the schedule is accurate and complies with all provisions of Statement of Statutory Accounting Principles (SSAP) No. 62R. The Company is now in compliance.

Comments on Financial Statement Items – Losses and Loss Adjustment Expense (Page 12): It was recommended that the Company implement procedures to strengthen its financial reporting and accounting controls over its Schedule P reporting to ensure that the information in the schedule is correct. No issues were noted with the Company's reporting of Schedule P.

Comments on Financial Statement Items – Unearned Premiums (Page 12): It was recommended that the Company comply with SSAP No. 60, paragraph 5. The Company is now in compliance.

Comments on Financial Statement Items – Advance Premium (page 13): It was recommended that the Company report advance premiums in accordance with SSAP No. 53, paragraph 15. 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,

Mei Gu
Examiner-In-Charge
Senior Insurance Examiner
Department of Insurance
State of California

Li Lim, CFE
Senior Insurance Examiner, Supervisor
Department of Insurance
State of California