REPORT OF EXAMINATION
OF THE
CALIFORNIA CAPITAL INSURANCE COMPANY
AS OF
DECEMBER 31, 2011

Filed April 12, 2013

TABLE OF CONTENTS

PAGE

SCOPE OF EXAMINATION 1

SUBSEQUENT EVENTS 2

COMPANY HISTORY 2

MANAGEMENT AND CONTROL: 3
Intercompany Agreements 5

TERRITORY AND PLAN OF OPERATION 6

REINSURANCE: 8
Intercompany Reinsurance Pooling Agreement 8
Affiliated Quota Share Reinsurance Agreement 8
Assumed 9
Ceded 10

FINANCIAL STATEMENTS: 13
Statement of Financial Condition as of December 31, 2011 14
Underwriting and Investment Exhibit for the Year Ended December 31, 2011 15
Reconciliation of Surplus as Regards Policyholders from December 31, 2007 through December 31, 2011 16

COMMENTS ON FINANCIAL STATEMENT ITEMS: 17
Other Invested Assets 17
Losses and Loss Adjustment Expenses 17

SUMMARY OF COMMENTS AND RECOMMENDATIONS: 18
Current Report of Examination 18
Previous Report of Examination 18

ACKNOWLEDGMENT 19

San Francisco, California
March 8, 2013

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

Dear Commissioner:

Pursuant to your instructions, an examination was made of

CALIFORNIA CAPITAL INSURANCE COMPANY

(hereinafter referred to as the Company) at its home office located at 2300 Garden Road, Monterey, California 93940.

SCOPE OF EXAMINATION

We have performed our multi-state examination of the Company. The previous examination of the Company was made as of December 31, 2007. This examination covers the period from January 1, 2008 through December 31, 2011. 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 with participation from the Nevada Division of Insurance and was conducted concurrently with the examination of other insurance entities in the holding company group, including Eagle West Insurance Company, Monterey Insurance Company, and Nevada Capital Insurance Company. Collectively, the insurers in the group are known as the Capital Insurance Group.

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; pensions, stock ownership and insurance plans; growth of company; loss experience; accounts and records; and statutory deposits.

SUBSEQUENT EVENTS

On November 16, 2012, the Company entered into a Purchase and Sale Agreement to purchase its home office located in Monterey, California, from Kelly-Moore Paint Company, Inc. for the amount of $7.4 million. The transaction was completed on November 30, 2012. This transaction is below the threshold required for prior approval per California Insurance Code Section 1215.5(b)(1)(A).

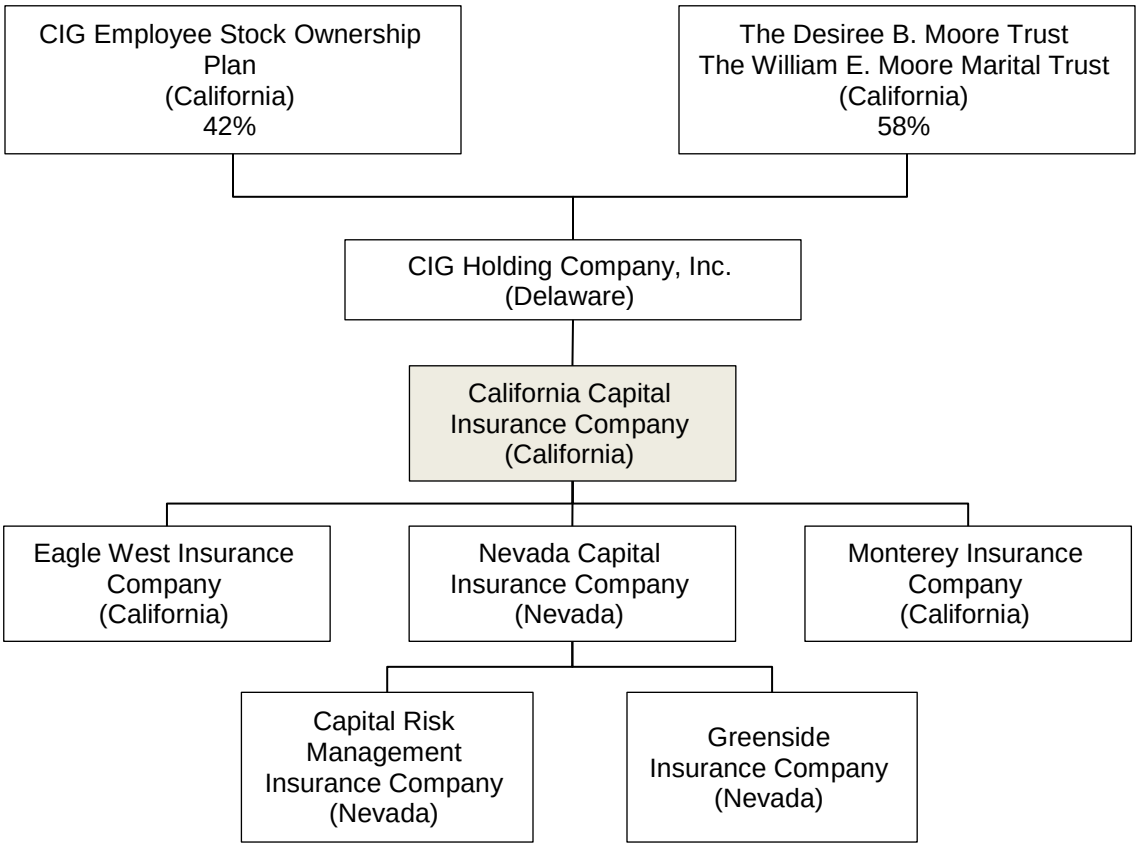
COMPANY HISTORY

Effective December 31, 2011, the Company and its wholly-owned insurance subsidiaries (hereinafter collectively referred to as CIG) separated from K-M Industries Holding Company, Inc. (KMIHC). This separation occurred through the creation of a new holding company for CIG, while KMIHC remained as the holding company for the Kelly-Moore Paint Company. The newly created holding company for CIG is CIG Holding Company, Inc. (CIGHCI), a Delaware corporation. An Employee Stock

Ownership Plan (ESOP) named CIG Employee Stock Ownership Plan (CIG-ESOP) was also created to move the CIG employees from the K-M Industries Holding Co., Inc., ESOP to an ESOP that supports only the employees of the CIG insurance operations. Subsequent to the reorganization, 42% of the voting securities of CIGHCI are owned by CIG-ESOP. The remaining 58% of CIGHCI is owned by The Desiree B. Moore Revocable Trust and The William E. Moore Marital Trust. There was no change in the ultimate control or ownership of the CIG companies as a result of the reorganization. On November 14, 2011, the California Department of Insurance granted a Request for Exemption from Filing a Form A pursuant to California Insurance Code Section 1215.2(f) for the above transaction.

MANAGEMENT AND CONTROL

The Company is a member of an insurance holding company system of which ultimate control is held by The Desiree B. Moore Revocable Trust and The William E. Moore Marital Trust. The Company is a wholly-owned subsidiary of CIG Holding Company, Inc. The following chart depicts the interrelationship of the companies within the holding company system (all ownership is 100% unless otherwise indicated):



Management and control of the Company is vested in a four-member Board of Directors elected annually. As of December 31, 2011, the members serving on the Board of Directors were as follows:

Directors

Name and Residence	Principal Business Affiliation
Peter Michael Cazzolla Reno, Nevada	President and Chief Executive Officer California Capital Insurance Company
Steven William DeVoe San Carlos, California	President Kelly-Moore Paints, Inc.
Christine Moore McCall Missoula, Montana	Director K-M Industries Holding Company, Inc.
William Edwards Moore II Escondido, California	Director K-M Industries Holding Company, Inc.

The principal officers serving as of December 31, 2011 were as follows:

Officers

Name	Title
Peter Michael Cazzolla	President
Robert Michael Erickson	Secretary, Treasurer, and Vice President of Finance
Walter Montgomery Bennett	Vice President of Underwriting
Thomas Henry Scherff	Vice President of Claims

Intercompany Agreements

Management Agreement: Effective January 1, 2002, the Company entered into separate management agreements with its subsidiaries Eagle West Insurance Company (EWIC), Monterey Insurance Company (MIC) and Nevada Capital Insurance Company (NCIC). Under the terms of the management agreements, the Company provides sales, reinsurance, underwriting, premium billing and collection, data processing, claims and policy payments, investment, personnel, and other general administrative services to its subsidiaries based on actual cost. In November 2009, the agreements were amended to include a settlement provision at the request of the California Department of Insurance's (CDI) Financial Analysis Division. The amended management agreements were approved by the CDI on December 3, 2009 pursuant to California Insurance Code (CIC) Section 1215.5(b)(4).

Tax Allocation Agreement: Effective October 1, 2012, a revised tax allocation agreement was entered into between the Company and each of its subsidiaries. Under the terms of the revised tax allocation agreement, the Company files a consolidated federal income tax return on behalf of the group. The tax liability of each participant is calculated on a separate income tax return basis. On November 14, 2012, the revised tax allocation agreement was approved by the CDI pursuant to CIC Section 1215.5(b)(4). The revised tax allocation agreement replaced the previously approved

tax allocation agreement between the Company, its subsidiaries and K-M Industries Holding Co., Inc., which was terminated after the reorganization.

Lease Agreement: The Company leases its home office from Kelly-Moore Paint Company. The agreement is for a five-year term commencing April 1, 2008 and ending March 31, 2013. Under the terms of this agreement, the Company pays a monthly rent subject to fixed rental adjustments and is responsible for maintenance, repairs, insurance, and taxes related to leased property. The monthly rent for 2011 was $69,426. The lease agreement was approved by the CDI pursuant to CIC Section 1215.5(b)(4) on March 13, 2012. On November 16, 2012, the Company entered into a purchase and sale agreement to purchase the home office property. The lease agreement was terminated upon the execution of the purchase and sale agreement.

Limited Administrative Services Agreement: The Company and NCIC entered into a limited administrative service agreement effective August 1, 2011 covering the non-admitted business produced by NCIC in California. Under the terms of this agreement, the Company would provide the following services to NCIC: 1) provide forms, notices, checks and other similar instruments as permitted by NCIC; 2) collect all premiums on NCIC non-admitted policies written in California; 3) perform calculations and make payment of producer's commission; 4) provide claims services; 5) provide actuarial, financial reporting, data processing, statistical, and accounting services; 6) provide for executive, legal, clerical, and other services; and 7) provide internal record keeping and general office administration. The agreement was approved by the CDI pursuant to CIC Section 1215.5(b)(4) on September 27, 2011.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2011, the Company was licensed to transact business in Arizona, California, Idaho, Montana, Nevada, and Texas. The Company is also an accredited reinsurer in Oregon.

Direct premiums written during 2011 totaled $247.9 million and were all written in California. The Company's primary lines of business written during 2011 were commercial multiple peril (39.5%), homeowners multiple peril (20.1%), private passenger auto liability (9.7%), and auto physical damage (9.1%). The Company also wrote fire, allied lines, farmowners multiple peril, inland marine, earthquake, other liability-occurrence, commercial auto liability, burglary and theft, and boiler and machinery insurance, which altogether comprised 21.6% of the direct premiums written in 2011. Business for the Company is produced entirely by independent agents and brokers. There were approximately 680 agents and brokers appointed by the Company as of the examination date.

The Company operates on a joint basis with its subsidiaries Eagle West Insurance Company (EWIC), Monterey Insurance Company (MIC), and Nevada Capital Insurance Company (NCIC), pursuant to an intercompany reinsurance pooling agreement. Each company uses a different marketing approach. The Company and EWIC write all standard lines of business on a preferred basis. MIC writes direct commercial multiple peril business at deviated rates. NCIC writes policies on an admitted basis in Nevada and on a surplus lines basis in Arizona, California, Oregon, and Washington.

The Company has regional and branch offices in the following cities in California: Bakersfield, Camarillo, Ferndale, Gold River, Orange, Visalia, and San Diego. There are also offices in Reno, Nevada and Salem, Oregon. Most branch offices perform both underwriting and claims adjusting functions. The Visalia and Bakersfield branch offices perform only claims adjusting. The San Diego and Salem branch offices perform only underwriting.

Underwriting for personal lines is performed at the Company's home office in Monterey and the branch office in Reno. Underwriting for the farm business is performed at the Modesto and Salem branches. Commercial lines underwriting is performed at all underwriting branch offices for amounts within the authority of the branch. Larger policies are underwritten at the home office.

REINSURANCE

Intercompany Reinsurance Pooling Agreement

On September 17, 2007, a revised pooling agreement was approved by the California Department of Insurance with an effective date of January 1, 2006. The agreement authorizes the Company to collect and receive all premiums, to adjust and pay all losses and to reinsure or cancel all contracts and policies for the pool. Under the terms of this agreement, Eagle West Insurance Company, Monterey Insurance Company, and Nevada Capital Insurance Company cede 100% of all premiums, losses, loss adjustment expenses and most underwriting expenses to the Company, which then retrocedes a prorated amount to each company based on the following pooling percentages:

Pool Participant	Participation Percentage
California Capital Insurance Company	61%
Eagle West Insurance Company	16%
Monterey Insurance Company	11%
Nevada Capital Insurance Company	12%
	100%

Affiliated Quota Share Reinsurance Agreement

The insurers in the Capital Insurance Group (CIG) write a small book of business classified as captive business that is 100% reinsured with either one of the following affiliated captive insurance companies: Capital Risk Management Insurance Company (CRMIC) or Greenside Insurance Company (Greenside).

Greenside is a sponsored captive company that was approved by the Nevada Division of Insurance in 2009. The design was for Greenside to be a “Cell Captive” to supplement the

Company's Golf Program. Greenside was closed and returned all remaining capital to Nevada Capital Insurance Company during December 2011 due to the lack of sales.

CRMIC is a sponsored captive company that is designed similar to Greenside except it is open to all CIG policyholders. A policyholder may participate in its own risk by buying into CRMIC through the purchase of a Preferred Share which provides it with a "cell." The policy is written on CIG paper and is ceded 100% net of inuring reinsurance to CRMIC. The cell takes its portion of the premium and the associated losses and CRMIC's core assumes the rest. CRMIC operations and administration are handled by Lionheart Insurance Group out of Scottsdale, Arizona. The Company stated that at year-end 2011, CRMIC only had five cells consisting of policyholders who are large commercial clients with a desire to take on some risk in their insurance. The total premiums assumed by CRMIC during 2011 were $1.2 million.

Both of the above affiliated reinsurance agreements are below the threshold required for prior approval under California Insurance Code Section 1215.5(b)(3).

Assumed

Effective July 1, 2004, the Company entered into a quota share reinsurance agreement with State National Insurance Company, Inc. (SNIC). Under the terms of the agreement, the Company assumes 100% of SNIC's gross liability under all policies classified as commercial multiple peril and miscellaneous coverages written in California and produced by SureProducts Insurance Agency, a California general agent. Maximum policy limits for the assumed policies are as follows:

Line of Business	Policy Limits
Property	$15 million per risk (new business)
General Liability	$2 million per occurrence, $4 million aggregate and $2 million aggregate for products/completed operations
Employee Benefits Liability	$2 million per occurrence with no aggregate
Equipment Breakdown	$50,000 per occurrence with no aggregate
Umbrella	$5 million

The Company assumed premiums of $10.3 million under this reinsurance agreement during 2011.

The Company assumed a 4% share of the Mutual Reinsurance Bureau's Regional Catastrophe pool. The Company is liable for its pro-rata share of each and every loss not to exceed a maximum of $25,000,000 any one original agreement. The Company assumed premiums of $544,000 under this agreement during 2011.

Ceded

The following is a summary of the Company's reinsurance agreements in-force as of December 31, 2011:

Type of Contract	**Line(s) of Business**	**Reinsurer(s) and Participation**	**Company's Retention**	**Reinsurer's Limits**
Multi-line Excess of Loss	Property and Casualty	Maiden Reinsurance Company (100%)	1st Property $1 million each risk, each occurrence 1st Casualty $1 million each risk, each occurrence	1st Property $5 million excess $1 million, maximum occurrence limit of $10 million 1st Casualty $5 million excess of $1 million, maximum occurrence limit of $5 million

Type of Contract	Line(s) of Business	Reinsurer(s) and Participation	Company's Retention	Reinsurer's Limits
Property per Risk Excess of Loss	Property	Munich Reinsurance America, Inc. (100%)	$6 million each risk, each occurrence	$4 million excess of $6 million each risk, maximum loss limit of $8 million each occurrence
100% Quota Share	Equipment Breakdown	Factory Mutual Insurance Company (100%)	None	100% quota share, maximum of $50,000 per occurrence
Umbrella Quota Share	Commercial, Personal and Farm Umbrella Liability	Maiden Reinsurance Company (95%)	1st Layer 5% quota share of $1 million 2nd Layer 5% quota share of $9 million excess of $1 million	1st Layer 95% of $1 million 2nd Layer 95% of $9 million excess of $1 million
CAT Excess of Loss	Property	Allied World Assurance Co Ltd. Alterra Bermuda Ltd American Agricultural Ins Co Amlin AG Arch Reinsurance Limited AXIS Specialty Limited Hannover Re (Bermuda), Ltd. Hardy Bermuda Ltd/Lloyds 382 Liberty Synd Paris/Synd 4472 Lloyds Syndicate 0780 (ADV) Lloyds Syndicate 0807 (SDM) Lloyds Syndicate 1301 (BGT) Lloyds Syndicate 2001 (AML) Lloyds Syndicate 2010 (MMX) Mapfre Re, Compania de Reas Montpelier Reinsurance Ltd. MS Frontier Reins Ltd Odyssey America Reinsurance Co Paladin Cat Mgmt/Protective Partner Reinsurance Co Ltd QBE Reinsurance Corporation R+V Versicherung AG SCOR Global P&C Zurich Branch Shelter Mutual Insurance Co *Note: Participation for each reinsurer above varies under each layer.*	1st Layer $10 million per occurrence 2nd Layer $20 million per occurrence 3rd Layer $40 million per occurrence 4th Layer $85 million per occurrence	1st Layer [1] $10 million excess of $10 million per occurrence 2nd Layer [2] $20 million excess of $20 million per occurrence 3rd Layer [3] $45 million excess of $40 million per occurrence 4th Layer [4] $55 million excess of $85 million per occurrence

Type of Contract	Line(s) of Business	Reinsurer(s) and Participation	Company's Retention	Reinsurer's Limits
CAT Excess of Loss Top Layer	Property	Country Mutual Insurance Company (20%) Employers Mutual Casualty Company (20%) Farm Bureau Mutual Insurance Company of Michigan (20%) Kentucky Farm Bureau Mutual Insurance Company (20%) Motorists Mutual Insurance Company (20%)	$140 million per occurrence	$40 million excess of $140 million per occurrence
Property Facultative	Property	Munich Reinsurance America, Inc. (100%)	$6 million per risk	For Apartments & Condominiums: $24 million excess of $6 million per risk For Offices: $10 million excess of $6 million per risk For All Other: $10 million excess of $6 million per risk Assumed from State National Insurance Company: $9 million excess of $6 million per risk
Casualty Facultative	Casualty	Maiden Reinsurance Company (100%)	$1,000,000 each occurrence, each policy	$1,000,000 excess of $1,000,000 each occurrence, each policy

Notes:
[1] Only 90% of Layer 1 of the CAT Excess of Loss was placed with reinsurers.
[2] Only 85% of Layer 2 of the CAT Excess of Loss was placed with reinsurers.
[3] Only 85% of Layer 3 of the CAT Excess of Loss was placed with reinsurers.
[4] Only 85% of Layer 4 of the CAT Excess of Loss was placed with reinsurers.

The Multi-line Excess of Loss, Umbrella Quota Share, and CAT Excess of Loss Top Layer reinsurance agreements were determined to be deficient as to form pursuant to California Code of Regulations, Title 10, Chapter 5, Subchapter 3, Article 3, (CCR Title 10) Section 2303.14 because the agreements contain an early termination provision

that is not in compliance with the aforementioned regulations. These reinsurance agreements permit the reinsurer to terminate the agreements upon the entry of an order of rehabilitation, conservation or liquidation against the Company, which is a violation of CCR Title 10 Section 2303.14(b)(1)(A). In addition, the Multi-line Excess of Loss and Umbrella Quota Share agreements only requires the reinsurer to give 30-day notice to exercise termination under the early termination provision whereas CCR Title 10 Section 2303.14(b)(1)(B) requires at least 60-day notice. Furthermore, the CAT Excess of Loss Top Layer does not specify that a signature upon delivery of the early termination notice is required as is mandated in CCR Title 10 Section 2303.14(b)(1)(C). It is recommended that the Company ensure that the early termination provision in its reinsurance agreements complies with CCR Title 10 Section 2303.14(b)(1), paragraphs (A) and (B).

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2011

Underwriting and Investment Exhibit for the Year Ended December 31, 2011

Reconciliation of Surplus as Regards Policyholders from December 31, 2007 through December 31, 2011

Statement of Financial Condition
as of December 31, 2011

Assets	Ledger and Nonledger Assets	Assets Not Admitted	Net Admitted Assets	Notes
Bonds	$ 314,419,135	$	$ 314,419,135	
Preferred stocks	16,323,275		16,323,275	
Common stocks	118,425,069		18,425,069	
Cash and short-term investments	8,308,150		8,308,150	
Other invested assets	13,342,297	13,342,297		(1)
Investment income due & accrued	3,320,111		3,320,111	
Uncollected premiums and agents' balances in course of collection	11,594,161	1,116,675	10,477,486	
Deferred premiums, agents' balances and installments booked but deferred and not yet due	20,987,503		20,987,503	
Amount recoverable from reinsurers	1,115,568		1,115,568	
Current federal and foreign income tax recoverable and interest thereon	1,118,772		1,118,772	
Net deferred tax asset	13,871,404	4,482,890	9,388,514	
Electronic data processing equipment and software	5,022,616	3,679,613	1,343,003	
Furniture and equipment	1,057,814	1,057,814	-	
Receivable from parent, subsidiaries and affiliates	1,948,937		1,948,937	
Aggregate write-ins for other than invested assets	5,433,315	4,510,257	923,058	
Total assets	$ 536,288,127	$ 28,189,546	$ 508,098,581	

Liabilities, Surplus and Other Funds				
Losses			$ 86,679,322	(2)
Loss adjustment expenses			31,675,775	(2)
Commissions payable, contingent commissions and other similar charges			6,664,962	
Other expenses			2,900,153	
Taxes, licenses and fees			1,480,439	
Unearned premiums			92,640,430	
Advance premiums			875,692	
Ceded reinsurance premiums payable			1,776,372	
Funds held by company under reinsurance treaties			300,000	
Amounts withheld or retained by company for account of others			404,590	
Provision for reinsurance			1,417	
Drafts outstanding			1,437,000	
Total liabilities			226,836,152	
Common capital stock		$ 2,660,000		
Gross paid-in and contributed surplus		22,887,034		
Unassigned funds (surplus)		255,715,395		
Surplus as regards policyholders			281,262,429	
Total liabilities, surplus and other funds			$ 508,098,581	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2011

Statement of Income

Underwriting Income		
Premiums earned		$ 185,818,798
Deductions:		
Losses incurred	$ 103,427,631	
Loss expenses incurred	27,214,878	
Other underwriting expenses incurred	67,254,795	
Total underwriting deductions		197,897,304
Net underwriting loss		(12,078,506)
Investment Income		
Net investment income earned	$ 12,480,427	
Net realized capital gain	231,430	
Net investment gain		12,711,857
Other Income		
Net loss from agents' or premium balances charged off	$ (196,385)	
Finance and service charges not included in premiums	1,695,539	
Aggregate write-in for miscellaneous income	(321,801)	
Total other income		1,177,356
Net income before federal and foreign income taxes incurred		1,810,707
Federal and foreign income taxes incurred		(3,123)
Net income		$ 1,813,830

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2010		$ 276,210,415
Net income	$ 1,813,830	
Change in net unrealized capital loss	(49,780)	
Change in net deferred income tax	(404,691)	
Change in nonadmitted assets	3,629,287	
Change in provision for reinsurance	63,371	
Change in surplus as regards policyholders for the year		5,052,014
Surplus as regards policyholders, December 31, 2011		$ 281,262,429

Reconciliation of Surplus as Regards Policyholders
from December 31, 2007 through December 31, 2011

	Gain in Surplus	Loss in Surplus	
Surplus as regards policyholders, December 31, 2007, per Examination			$ 217,646,564
Net income	$ 35,072,904	$	
Net unrealized capital gains	19,950,998		
Change in net deferred income tax	3,847,558		
Change in nonadmitted assets	4,720,131		
Change in provision for reinsurance	24,277		
Total gains and losses	$ 63,615,865	$ 0	
Net increase in surplus as regards policyholders			63,615,865
Surplus as regards policyholders, December 31, 2011, per Examination			$ 281,262,429

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Other Invested Assets

Other invested assets of $13.3 million as of December 31, 2011 consisted of two notes receivable due from the CIG Employee Stock Ownership Plan (CIG-ESOP). The first note represents the combination of two promissory notes that were originally issued by the Company's former parent, K-M Industries Holding Co., Inc. (KMIHC). The California Department of Insurance granted approval to the Company to combine these two promissory notes into a single note on July 31, 2009. The principal balance at the time when the two notes were combined was $19.5 million. Effective December 31, 2011, the Company and its subsidiaries (CIG) separated from KMIHC and a new holding company was formed along with a new employee stock ownership plan for CIG employees only. With the reorganization, the promissory note from KMIHC was exchanged for a note of substantially identical terms and outstanding balance from the newly formed CIG-ESOP. The balance of this note at December 31, 2011 was $9,907,297.

The second note receivable was originally a loan of $3.4 million to K-M Industries Holding Co., Inc., ESOP (KMI-ESOP) that was issued on October 1, 2008. With the reorganization, the note from KMI-ESOP was exchanged for a note of substantially identical terms and outstanding balance from CIG-ESOP. The balance of this note at December 31, 2011 was $3,435,000. Although payments are current on both promissory notes, the notes remain non-admitted on the Company's balance sheet.

(2) Losses and Loss Adjustment Expenses

A Casualty Actuary from the California Department of Insurance reviewed the Actuarial Report as of December 31, 2011 prepared by the Company's independent actuary and concurred with the conclusion that the reserves as of December 31, 2011 are reasonable.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Reinsurance – Ceded (Page 10): It is recommended that the Company ensure that the early termination provision in its reinsurance agreements comply with California Code of Regulations, Title 10, Chapter 5, Subchapter 3, Article 3, Section 2303.14(b)(1), paragraphs (A) and (B).

Previous Report of Examination

Accounts and Records – Information Systems Controls (Page 8): It was recommended that the Company evaluate the recommendations from the Information Systems review and make appropriate changes to strengthen its information systems controls. No significant information systems control deficiencies were observed during the current examination.

Comments on Financial Statement Items – Other Invested Assets (Page 13): It was recommended that the Company ensure that the promissory notes comply with California Insurance Code Sections 1215.5(b)(1), 1196(c), and 1197. The Company has 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,

_____

Ber Vang, CFE, AES, CISA
Examiner-In-Charge
Senior Insurance Examiner (Supervisor)
Department of Insurance
State of California