

REPORT OF EXAMINATION
OF THE
CALIFORNIA INSURANCE COMPANY
AS OF
DECEMBER 31, 2024

Commissioners Signature

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

Filed on September 25, 2026

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Oakland, California
September 3, 2026

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

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

CALIFORNIA INSURANCE COMPANY

(hereinafter also referred to as the Company), which has its home office located at 10805 Old Mill Road, Omaha, Nebraska 68154. The Company's statutory home office is located at 950 Tower Lane 14th Floor, Foster City, California 94404.

SCOPE OF EXAMINATION

We have performed our multi-state examination of California Insurance Company. The previous examination of the Company was made as of December 31, 2021. This examination covers the period from January 1, 2022 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. As permitted by the *Handbook*, some of the work performed in support of the conclusions in this examination report was performed within the reporting period on an

interim basis. 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 significant findings of fact and general information about the Company and its financial condition. There might 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 the Company.

This was a coordinated examination with California as the lead state of the AU Holding Company Group (hereinafter also referred to as the Group). It was conducted concurrently with other insurance entities in the holding company group, including Continental Indemnity Company, Applied Underwriters Captive Risk Assurance Company, Inc., Pennsylvania Insurance Company, Illinois Insurance Company, Oklahoma Property & Casualty Insurance Company, Constitution Insurance Company, Catlin Specialty Insurance Company, and Texas Insurance Company. The New Mexico Office of Superintendent of Insurance, New York State Department of Financial Services, Oklahoma Insurance Department, and Texas Department of Insurance participated in the examination.

SUMMARY OF SIGNIFICANT FINDINGS

As a result of this examination, several examination adjustments were made to the Company's financial statements. The impact of all the adjustments is a decrease to the Company's surplus as regards policyholders as of December 31, 2024 in the amount of \$84,768,877. These examination adjustments are discussed in the "Comments on Financial Statement Items" section of the report.

In addition, several intercompany and investment transactions were noted to have been entered into without the prior notice and consent of the Conservator as required by the

Conservation Order, paragraph 15 (refer to “Company History” section). These transactions are discussed in the “Management and Control – Management Agreements”, “Comments on Financial Statement Items”, and “Subsequent Events” sections of the report.

During the course of the examination, it was determined that the AU Holding Company Group and its affiliates, United Holding Company, Ltd and its affiliates, and Townsend Family Trust and its affiliates are affiliates under California Insurance Code (CIC) Section 1215(a). Consequently, all transactions between the aforementioned entities are transactions between affiliates and require the Commissioner’s prior approval pursuant to CIC Section 1215.5 (refer to “Management and Control” section). The Company failed to adhere to the requirements of CIC Section 1215.5 for multiple material affiliated transactions. These transactions are discussed in the “Management and Control – Management Agreements”, “Reinsurance – Intercompany”, and “Comments to Financial Statements Items” sections of the report.

In addition, the Company utilizes its affiliated Managing General Agents (MGAs) and Applied Risk Services, Inc. (ARS) to underwrite, quote, bind and issue quotes, binders, insurance policies, endorsements, and certificates on behalf of the Company for various lines of business. The Company failed to adhere to the requirements of CIC Section 769.83 and Statements of Statutory Accounting Principles (SSAP) No. 25, paragraph 11, because it did not have in-force written agreements with the MGAs and ARS. Additionally, the MGAs and ARS did not establish and hold the premiums and funds held on behalf of the Company in a trust account for the benefit of the Company per CIC Sections 769.83(c), 1734(b), and 1735(b). These transactions are discussed in the “Management and Control – Management Agreements” section of the report.

In addition, the Company's expense allocation methodology for its Management Services Agreement with Applied Underwriters, Inc. was changed in 2024. The Company was unable to provide documentation of its analysis pertaining to the development of allocation percentages and ratios. The examiners were unable to determine if the basis adopted to apportion expenses yields the most accurate results and were unable to obtain any evidence of special studies of employee activities, salary ratios, premium ratios, or similar analyses as required by SSAP No. 70. It is recommended that the Company conduct and document special studies of employee activities, salary ratios, premium ratios or similar analyses that yield the most accurate results and support the basis adopted to apportioned expenses as required under SSAP No. 70 (refer to "Management and Control – Management Agreements" section).

COMPANY HISTORY

Form A Filing

The Company is a wholly-owned subsidiary of North American Casualty Co. (NAC). Until May 1, 2019, NAC was a subsidiary of Applied Underwriters, Inc. (AUI), which was a subsidiary of AU Holding Company, Inc. (AUH), a subsidiary of Berkshire Hathaway, Inc. (Berkshire). Effective May 1, 2019, AUI was removed as the intermediate holding company for NAC, resulting in AUH having two intermediate holding companies: AUI, whose subsidiaries are comprised of various service companies, and NAC, whose subsidiaries are comprised of the insurance entities. Through a series of transactions with Berkshire (81% owner of AUH), Sydney Ferenc (7.5% owner of AUH), Steven M. Menzies (11.5% owner of AUH) and entities owned by the Quasha Group, Steven M. Menzies became the 100% owner of AUH, effective October 10, 2019. While Steven M. Menzies acquired the NAC insurance entities, the Quasha Group acquired the AUI service companies.

On April 8, 2019, a Form A application was initially filed with the California Department of Insurance (CDI) for the proposed sale by Berkshire. On October 18, 2019, as a result of

the Form A filing being materially deficient and because the Company failed to disclose or describe its plan to merge the Company with and into California Insurance Company, New Mexico (CIC NM), a newly formed New Mexico insurer and the Company's attempts to effectuate the merger without requesting and obtaining the prior approval of the California Insurance Commissioner, the Form A filing was denied by the CDI pursuant to California Insurance Code (CIC) Sections 1215.2(d)(1), 1215.2(d)(2), 1215.2(d)(4), and 1215.2(d)(5).

Conservation Order

On November 4, 2019, in response to the Company's violation of CIC Section 1215.2(a) when it attempted to merge its business with and into CIC NM without obtaining prior approval from the CDI, the Superior Court of San Mateo County (the Court), California issued an order (Conservation Order) appointing the California Insurance Commissioner as Conservator of the Company. Pursuant to the Conservation Order, paragraph 15, the Conservator is authorized to exercise all the powers of the directors, officers and managers of the Company for the orderly conservation of the Company. The Company's officers, directors, agents, and employees are prohibited, except upon the express written authorization of the Conservator, from entering into any transactions outside the ordinary course of business.

On October 19, 2020, the Conservator filed an Application for Order Approving Rehabilitation Plan (the Rehab Plan) to address and resolve the pending conservation proceeding and other regulatory matters. The Rehab Plan specifies the steps for the efficient and orderly rehabilitation of the Company. On April 3, 2024, the Rehab Plan was approved by the Court. The Company's former management unsuccessfully appealed the conservation court ruling up to the California Supreme Court who denied the Company's management's petition for review on November 12, 2025, thereby confirming the Rehab Plan.

As identified and required by the Rehab Plan, the Conservator has solicited and retained the Independent Consultant role as well as the supporting third-party claims consultant necessary to develop and implement the plan settlement options (templates are defined under Section 2.6 of the Rehab Plan) to be available to policyholders who were required to purchase Reinsurance Participation Agreements. On April 15, 2026, the initial development work on the option template was completed and made available for public comment. Additionally, the work to identify the claims information to be provided by the Company for the claimants selected option has commenced. The open comment period will run for 15 days and feedback will be considered with final templates to be delivered 15 days thereafter. The Conservator has filed a status report with the San Mateo Superior Court identifying the independent consultant and claims consultant, and has provided a projected timeline of completion for the Section 2.6 liabilities as of October 31, 2026.

Affiliation between AU Holding Company Group and Applied Underwriters, Inc.

The ultimate owner of AUH is Steven M. Menzies and the owner of Applied Underwriters, Inc. (AUI) was Bernard Acquisition Company, LLC of which the ultimate owners were the Everest Trust and the Townsend Family Trust. Pursuant to California Corporations Code Section 300 and Nebraska Revised Statute Section 21-284, all corporate powers are exercised by or under the authority of the board of directors of the corporation. During the prior examination, it was observed that Steven M. Menzies and Jeffrey A. Silver, as officers and directors of AUI, exercise the oversight and manage the operations of AUI.

Based on the authority that Steven M. Menzies and Jeffrey A. Silver exercise as directors of AUI and the Company, and Steven M. Menzies as owner of AUH, both AUI and the Company are deemed to be under common control. As such, AUI and the Company are deemed affiliates under California Insurance Code (CIC) Section 1215(a). Consequently, all transactions between AUI and the Company that were entered into subsequent to October 9, 2019 are transactions between affiliates subject to the Insurance Commissioner's prior approval pursuant to CIC Section 1215.5.

Corporate Reorganization of Applied Underwriters, Inc., Applied Risk Services, Inc. and Managing General Agents

On October 31, 2024, an Integrated Spin-Off Agreement (Agreement) was entered into by AU Holding Company, Inc. and the Townsend Family Trust (Townsend) for a corporate reorganization of affiliated entities within the Group. Prior to this Agreement, AUI and its subsidiaries, including Applied Risk Services (ARS) and various Managing General Agents (MGAs) while owned by the Townsend were deemed to be under common control and recognized as affiliates of the Group. Jamie Sahara heads the various entities under the Townsend corporate umbrella and his children are the beneficiaries of the Townsend Family Trust. Under the terms of the Agreement, AUI became a wholly-owned subsidiary of AUH, while ARS and the MGAs that were previously wholly or significantly owned subsidiaries of AUI remain subsidiaries of the Townsend under the Applied Risk Holdings and United Risk Holdings corporate umbrella.

Affiliation between AU Holding Company Group, Townsend Family Trust, and United Holding Company, Ltd.

Based on the authority that Jeffrey A. Silver and James E. Davenport exercise as directors of the Company and Specialty Surplus Insurance Company (SSIC), and Jamie Sahara and his family as beneficiaries of Townend, and Jamie Sahara as the ultimate controlling person of United Holding and its indirect subsidiaries United Insurance Company and SSIC, the aforementioned entities are deemed to be under common control. As such, the AU Holding Company Group and its subsidiaries; United Holding and its subsidiaries; and Townsend and its subsidiaries are deemed affiliates under California Insurance Code (CIC) Section 1215(a). Consequently, all transactions between the aforementioned are transactions between affiliates subject to the Insurance Commissioner's prior approval pursuant to CIC Section 1215.5.

MANAGEMENT AND CONTROL

The Company is a wholly-owned subsidiary of North American Casualty Co., which in turn is owned by AU Holding Company, Inc. (AUH), an insurance holding company incorporated in Delaware. The Company has no employees and its day-to-day operations are carried out by employees of Applied Underwriters, Inc. (AUI). The ultimate controlling person of AUH is Steven M. Menzies. The following organizational chart depicts the interrelationship of the entities within the holding company system as of December 31, 2024. All ownership is 100% unless otherwise noted:

Steven M. Menzies

AU Holding Company, Inc. (Delaware)

North American Casualty Co. (Nebraska)

California Insurance Company (California)

CIC NEB RE ONE, LLC (Nebraska) (49.9%)

CIC Land 1, LLC (Nebraska)

CIC NEB RE TWO, LLC (Nebraska) (49.9%)

CIC Land 2, LLC (Nebraska)

CIC NEB RE THREE, LLC (Nebraska) (49.9%)

CIC Land 3, LLC (Nebraska)

CIC NEB RE FOUR, LLC (Nebraska)

CIC Land 4, LLC (Nebraska)

Continental Indemnity Company (New Mexico)

CNI NEB RE ONE, LLC (Nebraska) (49.9%)

American Atlantic Holding Co., Ltd. (MALTA)

American Atlantic Assurance Company, Ltd. (MALTA)

Illinois Insurance Company (New Mexico)

IIC NEB RE ONE, LLC (Nebraska) (49.9%)

Pennsylvania Insurance Company (New Mexico)

Applied Underwriters Captive Risk Assurance Company, Inc. (New Mexico)

AUCRA NEB RE ONE, LLC (Nebraska) (49.9%)

Catlin Specialty Insurance Company (Oklahoma) (90.1%)

Oklahoma Property and Casualty Insurance Company (Oklahoma)

Catlin Specialty Insurance Company (Oklahoma) (9.9%)

Texas Insurance Company (Texas)

Florida Casualty Insurance Company (Florida)

Dayforward Life Insurance Company, Inc. (Texas)

Commercial General Indemnity, Inc. (Hawaii)

Applied Warranty and Insurance Services, LLC (Delaware)

Applied Warranty and Insurance Services of Florida, LLC

- Applied Warranty and Insurance Services of Hawaii, LLC
- Applied Warranty and Insurance Services of Oklahoma, LLC
- Applied Warranty and Insurance Services of Washington, LLC
- Constitution Group, LLC (New York)
- Constitution Insurance Company (New York)
- Applied Underwriters, Inc. (Nebraska)
- CIC NEB RE ONE, LLC (Nebraska) (50.1%)
- CIC NEB RE TWO, LLC (Nebraska) (50.1%)
- CIC NEB RE THREE, LLC (Nebraska) (50.1%)
- CNI NEB RE ONE, LLC (Nebraska) (50.1%)
- AUCRA NEB RE ONE, LLC (Nebraska) (50.1%)
- IIC NEB RE ONE, LLC (Nebraska) (50.1%)

Townsend Family Trust – Affiliated through common control
Townsend Hold Co.

- Applied Risk Holdings, Inc. (Delaware)
- Applied Risk Services, Inc. (Nebraska)
- United Risk Holdings LLC (Delaware)
- United Risk Mezzanine LLC (Delaware)
- Diamond Mezzanine 24 LLC (Delaware)
- United Risk Global, LLC (Delaware)
- Applied Underwriters Aerospace, LLC
- Applied Entertainment & Sports, LLC
- Applied Fine Art and Collectibles LLC
- Applied Financial Lines International, SAS
- Applied Financial Lines, LLC
- Applied Specialty Underwriters, LLC
- Applied Surety Underwriters LLC
- Applied Underwriters Aviation, LLC
- AU Warranty and Insurance Services, LLC
- Blue Ridge Specialty LLC
- Concept Special Risk Ltd.
- Rivington Shared and Layered Property Partners, LLC
- Rivington Transportation Partners, LLC
- Outfitters and Manufacturers LLC

Jamie Sahara

- United Holding Company Ltd (Cayman Islands) – Affiliated through common control
- United Insurance Company (Cayman Islands)
- Nexus Reinsurance Company (Cayman Islands)
- SSIC Holding Company, LLC (Delaware)
- Specialty Surplus Insurance Company (Illinois)

The ten members of the board of directors oversee the business and affairs of the Company. The following are members of the board and principal officers of the Company serving at December 31, 2024:

Directors

<u>Name and Location</u>	<u>Principal Business Affiliation</u>
Hector Balderas Santa Fe, New Mexico	Director Former New Mexico Attorney General
Morris Chavez Santa Fe, New Mexico	Director Attorney and Businessman
James E. Davenport Omaha, Nebraska	Director, Chief Financial Officer AU Holding Company, Inc.
Carl J. DeBarbrie Ocean City, New Jersey	President Remco Insurance Agency
John Franchini Santa Fe, New Mexico	Director Former Superintendent of New Mexico Office of Superintendent of Insurance
Gary King Santa Fe, New Mexico	Director Former New Mexico Attorney General
Mike Maher Chicago, Illinois	Director Former Deputy Illinois Department of Insurance
Steven M. Menzies Omaha, Nebraska	Chairman, President, and Chief Executive Officer AU Holding Company, Inc.
Jeffrey A. Silver Omaha, Nebraska	Director, Secretary, and General Counsel AU Holding Company, Inc.
David K. Spencer New York, New York	Director Attorney

Principal Officers

<u>Name</u>	<u>Position</u>
Steven M. Menzies	Chairman and Chief Executive Officer
Jeffrey A. Silver	Secretary and General Counsel
James E. Davenport	Treasurer and Chief Financial Officer

Management Agreements

The Company has no employees of its own and relies on employees of AUI to perform all operational and administrative functions. The following management and service agreements describe the services performed by AUI and affiliates on behalf of the Company.

Management Services Agreement: Effective July 1, 2005, the Company entered into a Management Services Agreement (Agreement) with AUI. Under the terms of the Agreement, AUI agrees to provide all underwriting, investment, administrative, actuarial, and claim services to the Company at cost. This Agreement was approved by the California Department of Insurance (CDI) on June 25, 2008. The costs incurred by the Company under this Agreement in 2022, 2023, and 2024 were \$0, \$93,445,810, and \$105,980,328, respectively. In 2022, the Company and AUI entered into an agreement to waive management fees incurred in 2022. In 2023, the Company and AUI entered into a termination of the waiver agreement, and the Company was charged all fees that were waived in 2022 and early 2023 in the amount of \$71,888,033. The waiver and termination of waiver agreements (Agreements) were not filed with the CDI for prior approval. It is recommended that the Company file Form D applications for the Agreements pursuant to CIC Section 1215.5(b). In addition, the Agreements should have been disclosed in the Company's Insurance Holding Company System Annual Registration Statement (Form B and C) pursuant to CIC Sections 1215.4(b)(3) and 1215.4(c). It is recommended that the Company submit the proper filings and disclosures in accordance with CIC Sections 1215.4(b)(3) and 1215.4(c). Additionally, the transactions were made without the prior notice or consent of the Conservator as required by the Conservation Order, paragraph

15. The Company is directed to comply with the Conservation Order, paragraph 15, and provide prior notice and obtain consent from the Conservator before entering into any transactions outside the ordinary course of business.

In 2024, the Agreement's expense allocation methodology was changed, resulting in a 70.6% increase in expenses allocated to the Company. Pursuant to Statements of Statutory Accounting Principles (SSAP) No. 70, paragraph 9, the basis adopted to apportion expenses shall be one which yields the most accurate results and may result from special studies of employee activities, salary ratios, premium ratios, or similar analyses. The Company was unable to provide documentation of its analysis pertaining to the development of allocation percentages and ratios. The examiners were unable to determine if the basis adopted to apportion expenses yields the most accurate results and were unable to obtain any evidence of special studies of employee activities, salary ratios, premium ratios, or similar analyses as required by SSAP No. 70. This is a repeat finding from the prior examination. It is again recommended that the Company conduct and document special studies of employee activities, salary ratios, premium ratios or similar analyses that yield the most accurate results and support the basis adopted to apportioned expenses as required under SSAP No. 70.

Claim Service Agreement: Effective June 1, 2005, the Company entered into a Claim Service Agreement (Agreement) with Applied Risk Services, Inc. (ARS). Under the terms of the Agreement, ARS agrees to provide all claim-adjusting services to the Company and the Company agrees to reimburse ARS for all reasonable and necessary expenses incurred in connection with adjusting workers' compensation claims. This Agreement was approved by the CDI on June 25, 2008. The Agreement expired on December 31, 2014; however, it was allowed to remain in effect under paragraph 8 of the Conservation Order. The costs incurred by the Company under this Agreement in 2022, 2023, and 2024 were \$0, \$0, and \$0, respectively.

Furthermore, the Company indicated that the claims division of ARS holds all necessary entity licenses to manage claims on behalf of the Company. All of its adjusters hold

licenses necessary to manage claims on behalf of the Group and other unrelated carriers. All of its adjusters hold licenses necessary to manage claims in the jurisdictions upon which they focus. ARS is currently managing claims for policies written by the Company for its non-workers' compensation book of business. It was noted that the Company did not have an in-force written agreement with ARS for claims handling services for its non-workers' compensation book of business. It is recommended that the Company enter into an agreement with ARS for its claim services for its non-workers' compensation book of business pursuant to SSAP No. 25, paragraph 11. In addition, it is recommended that the Company file a Form D application pursuant to CIC Section 1215.5(b). Additionally, the Agreement should have been disclosed in the Company's Insurance Holding Company System Annual Registration Statement (Form B and C) pursuant to CIC Sections 1215.4(b)(3) and 1215.4(c). It is recommended that the Company submit the proper filings and disclosures in accordance with CIC Sections 1215.4(b)(3) and 1215.4(c).

Agency Agreement: Effective June 1, 2005, the Company entered into an Agency Agreement (Agreement) with ARS. Under the terms of the Agreement, ARS collects policyholder premiums and pays commissions to brokers on behalf of the Company for its workers' compensation insurance book of business. For this service, the Company reimburses ARS for the actual commissions paid to brokers and agents who produce workers' compensation insurance for the Company. Continental Indemnity Company (CNI), Applied Underwriters Captive Risk Assurance Company, Inc. (AUCRA), Pennsylvania Insurance Company (PIC), and Illinois Insurance Company (IIC) each have separate Management Services Agreements in place with ARS for their workers' compensation insurance book of business. The Agreement was approved by the CDI on June 25, 2008. The Agreement expired on December 31, 2014; however, it was allowed to remain in effect under paragraph 8 of the Conservation Order. The costs incurred by the Company under this Agreement in 2022, 2023, and 2024 were \$3,102,021, \$2,647,619, and \$2,441,847, respectively.

Furthermore, the Company indicated that the ARS collects and remits premiums to the Company for its non-workers' compensation insurance book of business. It was noted that the Company did not have an in-force written agreement with ARS for premiums processing services for its non-workers' compensation insurance book of business. It is recommended that the Company enter into an agreement with ARS for its premiums processing services pursuant to SSAP No. 25, paragraph 11. In addition, it is recommended that the Company file a Form D application pursuant to CIC Section 1215.5(b). It was also noted that the agreement should have been disclosed in the Company's Insurance Holding Company System Annual Registration Statement (Form B and C) pursuant to CIC Sections 1215.4(b)(3) and 1215.4(c). It is recommended that the Company submit the proper filings and disclosures in accordance with CIC Sections 1215.4(b)(3) and 1215.4(c). Additionally, it was noted that ARS did not establish a trust account for the benefit of the Company for premium collection purposes as required by CIC Sections 769.83(c), 1734(b), and 1735(b). It is recommended that the Company require immediate establishment of a trust account by ARS pursuant to CIC Sections 769.83(c), 1734(b), and 1735(b).

Program Manager Agreement: Effective July 1, 2023, the Company and its affiliates CNI, IIC, PIC, and Texas Insurance Company (TIC) entered into a Program Manager Agreement (Agreement) with Rivington Transportation Partners, LLC (Rivington Transportation), an affiliated Managing General Agent (MGA). Under the terms of the Agreement, Rivington Transportation is granted the authority to underwrite, quote, bind and issue quotes, binders, insurance policies, endorsements, and certificates for commercial auto liability, physical damage, motor truck cargo, and trucking general liability lines of business on behalf of CNI, IIC, PIC, TIC, and the Company. Rivington Transportation receives a commission rate of 11% under the Agreement. It was noted that the Agreement was not filed with the CDI for prior approval. It is recommended that the Company file a Form D application for the Agreement pursuant to CIC Section 1215.5(b). In addition, the Agreement should have been disclosed in the Company's Insurance Holding Company System Annual Registration Statement (Form B and C)

pursuant to CIC Sections 1215.4(b)(3) and 1215.4(c). It is recommended that the Company submit the proper filings and disclosures in accordance with CIC Sections 1215.4(b)(3) and 1215.4(c). Additionally, it was noted that Rivington Transportation did not establish a trust account for the benefit of the Company for premium collection purposes as required by CIC Sections 769.83(c), 1734(b), and 1735(b). It is recommended that the Company require immediate establishment of a trust account by Rivington Transportation pursuant to CIC Sections 769.83(c), 1734(b), and 1735(b).

Interim Program Manager Agreement: On August 1, 2024, the Company and its affiliates CNI, IIC, PIC, and TIC entered into an Interim Program Manager Agreement (Agreement) with Concept Special Risk Ltd. (Concept Special), an affiliated MGA. Under the terms of the Agreement, Concept Special is granted the authority to issue subscription policies on behalf of CNI, IIC, PIC, TIC, and the Company. Under the Agreement, Concept Special receives a commission rate of 27.5% of the gross written premium on the applicable subscription portion. It was noted that the Agreement was not filed with the CDI for prior approval. It is recommended that the Company file a Form D application for the Agreement pursuant to CIC Section 1215.5(b). In addition, the Agreement should have been disclosed in the Company's Insurance Holding Company System Annual Registration Statement (Form B and C) pursuant to CIC Sections 1215.4(b)(3) and 1215.4(c). It is recommended that the Company submit the proper filings and disclosures in accordance with CIC Sections 1215.4(b)(3) and 1215.4(c). Additionally, it was noted that Concept Special did not establish a trust account for the benefit of the Company for premium collection purposes as required by CIC Sections 769.83(c), 1734(b), and 1735(b). It is recommended that the Company require immediate establishment of a trust account by Concept Special pursuant to CIC Sections 769.83(c), 1734(b), and 1735(b).

Program Manager Agreement: Effective January 1, 2024, the Company and its affiliates CNI, IIC, PIC, and TIC entered into a Program Manager Agreement (Agreement) with Rivington Shared and Layered Property Partners, LLC (Rivington Partners), an affiliated MGA. Under the terms of the Agreement, Rivington Partners is granted the authority to

underwrite, quote, bind and issue quotes, binders, insurance policies, endorsements, and certificates for excess commercial property and primary wind lines of business on behalf of CNI, IIC, PIC, TIC, and the Company. Under the Agreement, Rivington Partners receives a commission rate of 10%. Effective January 1, 2024, Addendum No. 1 was added to the Agreement to authorize Rivington Partners to write a property/fronting program effective January 1, 2024 on TIC policies on an excess/surplus lines basis which will be 100% reinsured through Arch Reinsurance Ltd. on a facultative reinsurance basis with a 12.5% fee split, 7.5% to Rivington Partners and 5% to TIC. Rivington Partners will be responsible for payment of any surplus lines taxes. It was noted that the Agreement was not filed with the CDI for prior approval. It is recommended that the Company file a Form D application for the Agreement pursuant to CIC Section 1215.5(b). In addition, the Agreement should have been disclosed in the Company's Insurance Holding Company System Annual Registration Statement (Form B and C) pursuant to CIC Sections 1215.4(b)(3) and 1215.4(c). It is recommended that the Company submit the proper filings and disclosures in accordance with CIC Sections 1215.4(b)(3) and 1215.4(c). Additionally, it was noted that Rivington Partners did not establish a trust account for the benefit of the Company for premium collection purposes as required by CIC Sections 769.83(c), 1734(b), and 1735(b). It is recommended that the Company require immediate establishment of a trust account by Rivington Partners pursuant to CIC Sections 769.83(c), 1734(b), and 1735(b).

Program Manager Agreement: Effective October 21, 2024, the Company's affiliates CNI, IIC, PIC, and TIC entered into a Program Manager Agreement (Agreement) with Applied Surety Underwriters LLC (Applied Surety), an affiliated MGA. Under the terms of the Agreement, Applied Surety is granted the authority to underwrite, quote, bind and issue quotes, binders, insurance policies, endorsements, and certificates for contract surety bonds and commercial surety bonds lines of business on behalf of CNI, IIC, PIC, and TIC. Under the Agreement, Applied Surety receives a commission rate of 48%, inclusive of broker commission. It was noted that the Company was not a named party to the Agreement; however, the Company confirmed that it was operating under its terms. It is

recommended that the Agreement be amended to include the Company as a party to the Agreement pursuant to CIC Section 769.83 and SSAP No. 25, paragraph 11. In addition, it was noted that Applied Surety did not establish a trust account for the benefit of the Company for premium collection purposes as required by CIC Sections 769.83(c), 1734(b), and 1735(b). It is recommended that the Company require immediate establishment of a trust account by Applied Surety pursuant to CIC Sections 769.83(c), 1734(b), and 1735(b). It was also noted that the Agreement was not filed with the CDI for prior approval. It is recommended that the Company file a Form D application for the Agreement pursuant to CIC Section 1215.5(b). Additionally, the Agreement should have been disclosed in the Company's Insurance Holding Company System Annual Registration Statement (Form B and C) pursuant to CIC Sections 1215.4(b)(3) and 1215.4(c). It is recommended that the Company submit the proper filings and disclosures in accordance with CIC Sections 1215.4(b)(3) and 1215.4(c).

Program Manager Agreement: Effective October 21, 2024, the Company's affiliates CNI, IIC, PIC, and TIC entered into a Program Manager Agreement (Agreement) with Applied Warranty and Insurance Services, LLC (Applied Warranty), an affiliated MGA. Under the terms of the Agreement, Applied Warranty is granted the authority to underwrite, quote, bind and issue quotes, binders, insurance policies, endorsements, and certificates for Contractual Liability Insurance Policies, Event Ticket Cancellation, and Portable Electronics Inland Marine lines of business on behalf of CNI, IIC, PIC, and TIC. Under the Agreement, Applied Warranty receives a commission rate of broker commission plus 25% and 30% for event ticket business and all other business, respectively. It was noted that the Company was not a named party to the Agreement; however, the Company confirmed that it was operating under its terms. It is recommended that the Agreement be amended to include the Company as a party to the Agreement pursuant to CIC Section 769.83 and SSAP No. 25, paragraph 11. In addition, it was noted that Applied Warranty did not establish a trust account for the benefit of the Company for premium collection purposes as required by CIC Sections 769.83(c), 1734(b), and 1735(b). It is recommended that the Company require immediate establishment of a trust account by Applied Warranty

pursuant to CIC Sections 769.83(c), 1734(b), and 1735(b). It was also noted that the Agreement was not filed with the CDI for prior approval. It is recommended that the Company file a Form D application for the Agreement pursuant to CIC Section 1215.5(b). Additionally, the Agreement should have been disclosed in the Company's Insurance Holding Company System Annual Registration Statement (Form B and C) pursuant to CIC Sections 1215.4(b)(3) and 1215.4(c). It is recommended that the Company submit the proper filings and disclosures in accordance with CIC Sections 1215.4(b)(3) and 1215.4(c).

Tax Allocation Agreement: Effective September 1, 2020, the Company entered into a Consolidated Federal Income Tax Allocation Agreement (Agreement) with its ultimate parent AU Holding Company, Inc. (AUH) and its affiliates CNI, AUCRA, PIC, IIC, OPIC, TIC, California Insurance Company (New Mexico), and Commercial General Indemnity Company. Under the terms of this Agreement, AUH will prepare and file a consolidated federal income tax return on behalf of the participants. The Agreement calls for each company to be responsible for no more than the amount which would be paid as if filing a separate return. The Agreement was approved by the CDI on December 24, 2020.

During the course of the examination, the Company did not produce timely and complete information with respect to related parties pursuant to CIC Section 734 (refer to "Accounts and Records" section of this report).

Related Party Disclosures

The Company failed to disclose all entities and related parties that meet the definition of an affiliate under the Insurance Holding Company System Regulatory Act as defined in CIC Section 1215(a) within Schedule Y – Part 1A of its Annual Statement. These entities include CIC NEB RE FOUR, LLC, CNI NEB RE ONE, LLC, IIC NEB RE ONE, LLC, AUCRA NEB RE ONE, LLC, Applied Risk Services, Inc. and its affiliates, United Risk Global and its affiliated Managing General Agents (MGAs), and United Insurance Company and its affiliates. It is recommended that the Company appropriately include the

aforementioned affiliated parties within Schedule Y – Part 1A of its future Annual Statement filings. It was further noted that the Company failed to appropriately disclose all transactions with affiliates within Column 8 of Schedule Y – Part 2 of its Annual Statements for all years under examination as required by the National Association of Insurance Commissioners (NAIC) Annual Statement Instructions. It is recommended that the Company comply with the NAIC Annual Statement Instructions and California Insurance Code Section 923 and appropriately disclose all revenue and expenditures with affiliates within Column 8 of Schedule Y – Part 2 of its future Annual Statement filings.

TERRITORY AND PLAN OF OPERATION

The Company's operations are conducted jointly with its affiliates at its administrative office in Omaha, Nebraska. As of December 31, 2024, the Company was licensed to transact workers' compensation, employment practices liability insurance (other liability claims made), surety, and warranty lines of business in the following 26 states: Alaska, Arizona, California, Connecticut, Georgia, Hawaii, Idaho, Illinois, Indiana, Iowa, Kansas, Maryland, Missouri, Montana, Nevada, New Jersey, New York, North Carolina, North Dakota, Oregon, Pennsylvania, Texas, Utah, Virginia, Washington, and Wisconsin.

The Company predominantly writes workers' compensation in California and employment practices liability products through its affiliated licensed insurance agent, Applied Risk Services, Inc. The products are sold through independent brokers with most of the business is written in conjunction with payroll services that is administered by another affiliate, Applied Underwriters, Inc., under a separate agreement with policyholders.

In 2024, the Company wrote \$36.4 million in direct premiums. Of that amount, 83.5% was for workers' compensation insurance. Premiums written in California comprised 90.8% of the total direct premiums written and the remaining 9.2% were written in the other 25 licensed states.

In 2021, the Group executed a fundamental pivot in its underwriting strategy by transitioning to a direct distribution model through its affiliated distribution partner, United

Risk Global and its subsidiary Managing General Agents. This shift led the expansion into new direct lines, including multi-line structured deals, property, commercial automobile, general liability, earthquake, surety, commercial multi-peril, inland marine, aviation, warranty, and others. At December 31, 2024, the Group's Net Premiums Written grew to \$1.06 billion with the Group's top 6 lines of business being other liability – occurrence (29.9%), surety (21.4%), other commercial auto liability (18.4%), other liability – claims-made (9.1%), aircraft (4.1%), and workers' compensation (3.4%).

REINSURANCE

Intercompany

Master Facultative Reinsurance Agreement: Effective July 1, 2005, the Company and Applied Underwriters Captive Risk Assurance Company, Inc. (AUCRA) entered into a Master Facultative Reinsurance Agreement (Agreement) whereby premiums and losses of the profit-sharing workers' compensation policies are ceded to AUCRA under a segregated cell arrangement. The Agreement was approved by the California Department of Insurance (CDI) on June 25, 2008.

Second Restated Reinsurance Pooling Agreement: On January 1, 2013, the Company entered into a Restated Intercompany Pooling Agreement with affiliates Continental Indemnity Company (CNI), Illinois Insurance Company (IIC), and Pennsylvania Insurance Company (PIC). Effective January 1, 2015, this Agreement was superseded by a Second Restated Reinsurance Pooling Agreement (the Agreement), whereby Texas Insurance Company (TIC) was added as a participant.

Under the terms of this Agreement, the Company is the pool leader. CNI, IIC, PIC and TIC cede 100% of their net retained liabilities to the Company after giving effect to the external reinsurance agreements. The Company then ceded back to the participants a quota share of the net retained liability equal to their respective pool participation percentages as follows:

<u>Company</u>	<u>State of Domicile</u>	<u>Pooling Share</u>
California Insurance Company	CA	70.0%
Continental Indemnity Company	NM	15.0%
Illinois Insurance Company	NM	5.0%
Pennsylvania Insurance Company	NM	5.0%
Texas Insurance Company	TX	5.0%
Pool Total		100.0%

Quota Share Agreement: Effective January 1, 2024, the Company and its affiliates CNI, IIC, and PIC entered into a quota share agreement (Agreement) with its affiliate United Insurance Company (UIC), whereby workers' compensation and employer's liability business classified as JumboGC and SolutionsOne products are ceded to UIC equal to \$20 million of ceded earned premium after ceding commission divided by gross subject premium. Ceded commissions are determined using a sliding scale commissions between 31% and 51% for loss ratios between 49% and 69%. It was noted that cessions under this Agreement during the examination period did not comply with Statement of Statutory Accounting Principles (SSAP) No. 62 because the reinsurance agreement with UIC was not executed. As a result of examination inquiry, the Agreement was fully executed by the Company and UIC on October 29, 2025. It is recommended that the Company ensure that all reinsurance transactions be supported by fully executed reinsurance agreements in accordance with SSAP No. 62. In addition, the Company did not file a Form D for the Agreement for prior approval as required by California Insurance Code (CIC) Section 1215.5(b)(3). It is recommended that the Company file a Form D application for the Agreement for review and approval pursuant to CIC Section 1215.5(b)(3). Additionally, the Agreement should have been disclosed in the Company's Insurance Holding Company System Annual Registration Statement (Form B and C) pursuant to CIC Sections 1215.4(b)(3) and 1215.4(c). It is recommended that the Company submit the proper filings and disclosures in accordance with CIC Sections 1215.4(b)(3) and 1215.4(c).

Assumed

The Group entered various assumed treaties that are either in runoff and/or are active treaties. Business assumed by each company in the Group in the below assumed reinsurance contracts are pooled through the Second Restated Reinsurance Pooling Agreement. The active treaties producing a material amount or premiums and or losses as of December 31, 2024 are summarized below:

Line of Business and Type of Contract	Reinsurer's Name & Participation	Reinsured Name(s) and Retention	Reinsurer's Limit
Policies and classified by the Company as Property business (including the Casualty portion of multiple peril Policies). Quota Share	Continental Ind. Co. (100%)	Centauri Specialty Insurance Company and/or Centauri National Insurance Company 10% For non-CAT Event losses only, the Company shall retain the amount by which Losses Incurred hereunder exceed 28.70% of Net Subject Premium Earned, subject to a maximum 33.70% of said Net Subject Premium Earned (the additional retention establishes a Loss Corridor).	90% quota share For Catastrophe (CAT) Events, the reinsurers liability shall be the Cession Percentage times Gross Incurred Losses arising from Catastrophe Events, where the aggregate of all Gross Incurred Losses arising from CAT Events shall be limited to eleven percent (11.00%) of Net Subject Earned Premium; however the aggregate limit shall not be less than \$12 million or greater than \$18 million. The maximum Loss shall not exceed \$500,000 each and every Risk, each and every Loss. The Reinsurer's maximum liability during the term of this Contract shall not exceed an amount equal to 220% of Ceded Premium Earned hereunder for indemnity and Loss Adjustment Expenses.
Surety Quota Share	California Ins. Co., Continental Ind. Co., Illinois Ins. Co., Pennsylvania Ins. Co., and collectively termed as the Reinsurer (100%)	SiriusPoint America Insurance Co. 0%	100% quota share The liability of the Reinsurer shall commence obligatorily and simultaneously with that of the Company as soon as the Company becomes liable.
Surety Energy Reinsurance Contract Quota Share	Continental Ind. Co. (100%)	Member Companies of Argo Group US, Inc.: Argonaut Insurance Co. Argonaut-Midwest Ins. Co. Argonaut Great Central Ins. Co. Rockwood Casualty Ins. Co. Somerset Casualty Ins. Co. Colony Ins. Co. Peleus Ins. Co. Colony Specialty Ins. Co. 0%	100% quota share The liability of the Reinsurer with respect to each cession hereunder shall commence obligatorily and simultaneously with that of the Company.

Line of Business and Type of Contract	Reinsurer's Name & Participation	Reinsured Name(s) and Retention	Reinsurer's Limit
Excess Casualty business, as classified by the Company, and underwritten and produced, for and on behalf of the Company, by First Specialty Excess LLC. Quota Share	Continental Ind. Co. (35%)	MS Transverse Specialty Ins. Co.	100% quota share The Reinsurer's liability hereunder (including losses, Loss Adjustment Expense, Extra Contractual Obligations and Loss in Excess of Policy Limits) arising out of any one Occurrence shall not exceed \$15 million.
Nationwide excess casualty business, as classified by the Company, and produced and underwritten by or through Applied Specialty Underwriters, LLC. Quota Share	Continental Ind. Co. (48%)	MS Transverse Specialty Ins. Co.	100% quota share The liability of the Reinsurer with respect to each cession hereunder shall commence obligatorily and simultaneously with that of the Company. The Policy limits shall be deemed not to exceed \$5 million in respect of any one Occurrence, any one Policy. Losses Incurred shall not exceed 450% of the Company's Net Written Premium.

Ceded

In 2024, the Group ceded \$418.7 million in total reinsurance premiums. The bulk of the Group's business that is ceded to external reinsurers are related to program business produced through Managing General Agents. The following is a summary of the principal reinsurance agreements in-force as of December 31, 2024:

Line of Business and Type of Contract	Reinsurer's Name and Participation	Reinsured Name(s) and Retention	Reinsurer's Limit
New York Construction casualty business that is produced and underwritten by or through Applied Specialty Underwriters, LLC. Excess Quota Share	QBE Reinsurance Corp. (13.5%) Swiss Reinsurance America Corp. (13.0%) SCOR Reinsurance Co. (8.5%) Renaissance Reinsurance U.S. Inc. (5%)-Excess Only Aspen American Insurance Co. (2%) * As delineated above, 42% of this reinsurance contract was placed with external reinsurers, with the remaining 58% being retained and shared by the Group through the intercompany pooling arrangement.	Continental Ind. Co. Texas Insurance Co. None – see Reinsurer's Name column for additional details.*	100% quota share subject to an aggregate limit of 450% of the Reinsured's net written premium and single occurrence limits of \$5 million for policies or combined policies attaching below \$10 million and \$10 million for policies or combined policies attaching at \$10 million.

Line of Business and Type of Contract	Reinsurer's Name and Participation	Reinsured Name(s) and Retention	Reinsurer's Limit
Nationwide casualty business that is produced and underwritten by or through Applied Specialty Underwriters, LLC. Excess Quota Share	Swiss Reinsurance America Corp. (12.0%) SCOR Reinsurance Co. (12.5%) QBE Reinsurance Corp. (9.5%) Renaissance Reinsurance U.S. Inc. (5%) Aspen American Insurance Co. (3%) MS Amlin AG (1%) * As delineated above, 43% of this reinsurance contract was placed with external reinsurers, with the remaining 57% being retained and shared by the Group through the intercompany pooling arrangement.	Continental Ind. Co. Texas Insurance Co. None – see Reinsurer's Name column for additional details.*	100% of the Reinsured's Net Liability subject to an aggregate limit of 450% of the Reinsured's Net Written Premium and single occurrence limits of \$10 million for Policies or Combined Policies attaching below \$25 million and \$15 million for Policies or Combined Policies attaching at \$25 million.
Directors' and Officers' Liability Insurance, Employment Practices Liability Insurance, Fiduciary Liability Insurance, Fidelity Insurance, and Errors and Omissions Insurance that is produced and underwritten by or through Applied Specialty Underwriters, LLC. Quota Share	QBE Reinsurance Corp. (10%) Munich Reinsurance America, Inc. (8.67%) The Toa Reinsurance Co. of America (5%) Ascot Bermuda Limited (10%) Chaucer Ins. Co. DAC (Bermuda Branch) Ireland (3%) * As delineated above, 36.67% of this reinsurance contract was placed with external reinsurers, with the remaining 63.33% being retained and shared by the Group through the intercompany pooling arrangement.	California Ins. Co. Commercial General Indemnity, Inc. Continental Ind. Co. Illinois Insurance Co. Pennsylvania Ins. Co. Texas Insurance Co. None – see Reinsurer's Name column for additional details.*	100% quota share not to exceed \$15 million per coverage section, each policy, nor 150% of the ceded net written premium for the term of this contract. In addition, no more than five policies with limits greater than \$10 million (either per coverage section, or in the aggregate, as respects aggregate limit policies) shall be ceded to this contract, unless specially accepted by the reinsurer.
Policies classified by the Reinsured as property that is produced and underwritten by or through Rivington Insurance Services LLC. Property Excess and Surplus and Florida Wind Excess of loss	Lloyd's Underwriter Syndicate 1910 ARE (25%) Swiss Reinsurance America Corp. (20%) Everest Reinsurance Co. (15%) Odyssey Reinsurance Co. (15%) * As delineated above, 75% of this reinsurance contract was placed with external reinsurers, with the remaining 25% being retained and shared by the Group through the intercompany pooling arrangement along with the \$15 million retention.	California Ins. Co. Continental Ind. Co. Florida Cas. Ins. Co. Illinois Insurance Co. Oklahoma P&C Ins Co. Pennsylvania Ins. Co. Texas Insurance Co. \$15 million ultimate net loss each loss occurrence – see Reinsurer's Name column for additional details.*	\$20 million excess of \$15 million each loss occurrence. \$40 million aggregate limit for all loss occurrences.
Fine Art & Collectibles Program Business			

Line of Business and Type of Contract	Reinsurer's Name and Participation	Reinsured Name(s) and Retention	Reinsurer's Limit
Fine Art & Collectibles all-risk coverage for personal, institutional, and commercial clients that are produced and underwritten by or through Applied Fine Art & Collectibles, LLC Quota Share	Lloyd's Underwriter Syndicate 4711 -ASP (25%) Lloyd's Underwriter Syndicate 1183 TAL (12.5%) Lloyd's Underwriter Syndicate 2015 CHN (10%) Lloyd's Underwriter Syndicate 2987 BRT (10%) Lloyd's Underwriter Syndicate AAL 2012 (8%) DEVK Re (5%) Lloyd's Underwriter Syndicate 2001 AML (2.5%) Lloyd's Underwriter Syndicate ASL 2012 (2%) Convex Insurance, UK Limited (2%) Lloyd's Underwriter Syndicate 4444 CNP (1%) Lloyd's Underwriter Syndicate 2232 AWH (1%) Lloyd's Underwriter Syndicate 0609 AUW (1%) * As delineated above, 80% of this reinsurance contract was placed with external reinsurers, with the remaining 20% being retained and shared by the Group through the intercompany pooling arrangement.	California Ins. Co. Continental Ind. Co. Illinois Insurance Co. Pennsylvania Ins. Co. Texas Insurance Co. None – see Reinsurer's Name column for additional details.*	100% quota share not to exceed its quota share of \$32.5 million each loss, each risk
Fine Art & Collectibles all-risk coverage for personal, institutional, and commercial clients that are produced and underwritten by or through Applied Fine Art & Collectibles, LLC Facultative Property Risk Excess of Loss	Lloyd's Underwriter Syndicate 2001 AML (20%) Lloyd's Underwriter Syndicate 4444 CNP (20%) Lloyd's Underwriter Syndicate 1084 CSL (12.5%) Lloyd's Underwriter Syndicate 4711 ASP (10%) Lloyd's Underwriter Syndicate 1183 TAL (10%) Lloyds Underwriter Syndicate 2786 EVE (8%) Lloyd's Underwriter Syndicate 2987 BRT (5%) Lloyd's Underwriter syndicate 1218 (5%) Lloyd 's Underwriter Syndicate 3000 MKL (3%) Lloyd's Underwriter Syndicate 2232 AWH (2.5%) Lloyd's Underwriter Syndicate 2988 BRT (2%) Convex Insurance UK Limited (2%) * As delineated above, 100% of this reinsurance contract was placed with external reinsurers; therefore, only the \$32.5 million retention is being retained and shared by the Group through the intercompany pooling arrangement.	California Ins. Co. Continental Ind. Co. Illinois Insurance Co. Pennsylvania Ins. Co. Texas Insurance Co. \$32.5 million ultimate net loss each loss, each risk – see Reinsurer's Name column for additional details.*	\$125 million excess of \$32.5 million each loss occurrence or risk. \$625 million aggregate limit for all loss occurrences.

Line of Business and Type of Contract	Reinsurer's Name and Participation	Reinsured Name(s) and Retention	Reinsurer's Limit
Aviation Program Business			
All business underwritten on behalf of the Reinsured by Applied Risk Services, Inc. and classified by them as hull war and or allied perils. Quota Share	Arch Insurance (UK) Limited (95%) As delineated above, 95% of this reinsurance contract was placed with external reinsurers, with the remaining 5% being retained and shared by the Group through the intercompany pooling arrangement.	Texas Insurance Co. Continental Ind. Co. Illinois Insurance Co. Pennsylvania Ins. Co. d/b/a Applied Assurance Co. for California only Constitution Ins. Co. None – see Reinsurer's Name column for additional details.*	100% limits for the following: 1. Hull - \$20 million each loss, each aircraft, each insured. 2. Spares - \$20 million each loss, each sending / location / conveyance (as per the original policy), each Insured.

Line of Business and Type of Contract	Reinsurer's Name and Participation	Reinsured Name(s) and Retention	Reinsurer's Limit
All business underwritten on behalf of the Reinsured by Applied Risk Services, Inc. and classified by them as aviation business. Quota Share	Lloyd's Underwriter Syndicate 0510 KLN (6%) Everest Reinsurance (Bermuda), Ltd. (5%) Greenlight Reins Ireland DAC (5%) Hannover Rück SE (4%) Sirius Point International Insurance Corp. (2.5%) Lloyd's Underwriter Syndicate 1880 TMK (1.5%) As delineated above, 24% of this reinsurance contract was placed with external reinsurers, with the remaining 76% being ceded under the Aviation Excess of Loss agreement delineated below.	Texas Insurance Co. Continental Ind. Co. Illinois Insurance Co. Pennsylvania Ins. Co. d/b/a Applied Assurance Co. for California only Constitution Ins. Co. None – see Reinsurer's Name column for additional details.*	100% limits for the following: 1. Aircraft hulls - \$20 million each loss, each aircraft, each insured. 2. Third party liability and/or passenger legal liability and/or admitted liability and/or automatic personal accident and/or baggage liability and/or cargo and/or specie and/or products liability - \$125 million each loss, each aircraft, but where the term "each aircraft" is not applicable, each loss, each acceptance.

Line of Business and Type of Contract	Reinsurer's Name and Participation	Reinsured Name(s) and Retention	Reinsurer's Limit
All business underwritten on behalf of the Reinsured by Applied Risk Services, Inc. and classified by them as aviation business. Excess of Loss	Everest Reinsurance (Bermuda), Ltd. (16%) Hannover Rück SE (8.5%) Greenlight Reins Ireland DAC (5%) Lloyd's Underwriter Syndicate 1856 IQUW (4.4625%) Hamilton Re Ltd (4%) Lloyd's Underwriter Syndicate 2010 MMX (4%) Lloyd's Underwriter Syndicate 4444 CNP (3.75%) Lloyd's Underwriter Syndicate 1458 RNR (3.5%) Lloyd's Underwriter Syndicate 2001 AML (3.5%) SCOR Reinsurance Co. (3.5%) Sirius Point International Insurance Corp. (3.5%) Lloyd's Underwriter Syndicate 1084 CSL (2.46875%) Lloyd's Underwriter Syndicate 0510 KLN (2%) Lloyd's Underwriter Syndicate 4472 LIB (2%) Lloyd's Underwriter Syndicate 1955 ASL (1.78875%) Endurance Specialty Insurance Limited (1.5%) Lloyd's Underwriter Syndicate 0609 AUW (1.5%) Lloyd's Underwriter Syndicate 4242 BEA (1.25%) Swiss Reinsurance Company Ltd. (1%) Lloyd's Underwriter Syndicate 566 STN (0.5625%) Lloyd's Underwriter Syndicate 33 HIS (0.5625%) Lloyd's Underwriter Syndicate 1880 TMK (0.5%) Lloyd's Underwriter Syndicate 1225 AES (0.49875%) Lloyd's Underwriter Syndicate 4020 ARK (0.375%) Lloyd's Underwriter Syndicate 0727 SAM (0.1875%) Lloyd's Underwriter Syndicate 2689 HRP (0.09375%) As delineated above, 76% of this reinsurance contract was placed with external reinsurers, with the remaining 24% being retained and shared by the Group through the intercompany pooling arrangement along with the \$7.5 million retention.	Texas Insurance Co. Continental Ind. Co. Illinois Insurance Co. Pennsylvania Ins. Co. d/b/a Applied Assurance Co. for California only Constitution Ins. Co. \$7.5 million - see Reinsurer's Name column for additional details.*	<u>Layer 1</u> \$32.5 million excess of \$7.5 million each loss occurrence <u>Layer 2</u> \$47.5 million excess of \$40 million each loss occurrence <u>Layer 3</u> \$57.5 million excess of \$87.5 million each loss occurrence
Commercial Automobile Quota Share	Lloyd's Underwriter Syndicate 1084 CSL (9.25%) Lloyd's Underwriter Syndicate 2001 AML (1.043%) Lloyd's Underwriter Syndicate 2987 BRT (0.85%) Lloyd's Underwriter Syndicate 9029 KII (0.80%) Lloyd's Underwriter Syndicate 2988 BRT (0.15%) As delineated above, 12.093% of this reinsurance contract was placed with external reinsurers, with the remaining 87.907% being retained and shared by the Group through the intercompany pooling arrangement.	Texas Insurance Co. Pennsylvania Ins. Co. Illinois Insurance Co. Continental Ind. Co. The Reinsured shall, net and for its own account, retain and be liable for no less than 50% of its net liability from policies. See Reinsurer's Name column for additional details.*	100% quota share The Reinsurer's share of net liability hereunder shall not exceed \$2 million each loss occurrence, nor \$1 million each loss occurrence as respects policies covering long-haul commercial trucking. Overall aggregate limit - 200% of the earned portion of the ceded gross net written premium under this contract.

Line of Business and Type of Contract	Reinsurer's Name and Participation	Reinsured Name(s) and Retention	Reinsurer's Limit
All business underwritten on behalf of the Reinsured by Applied Specialty Underwriters, LLC and classified by them as follow form excess liability policies for M2 Product Segment casualty business. Quota Share	Renaissance Reinsurance U.S. Inc. (20%) Partner Reinsurance Company of the U.S. (15%) QBE Reinsurance Corporation (10%) JRG Reinsurance Company Ltd. (5%) MS Amlin AG Bermuda Branch (5%) As delineated above, 55% of this reinsurance contract was placed with external reinsurers, with the remaining 45% being retained and shared by the Group through the intercompany pooling arrangement.	Texas Insurance Co. Pennsylvania Ins. Co. Oklahoma P&C Ins Co. Illinois Insurance Co. Continental Ind. Co. Comm. Gen. Ind., Inc. California Ins. Co. Applied Und. Captive Risk Assur. Co., Inc. None – see Reinsurer's Name column for additional details.*	100% quota share The Reinsurer's share of net liability hereunder shall be limited to 350% of the reinsurance premium ceded under this contract. In addition, the liability of the Reinsurer for all losses arising out of policies allocated to this contract shall not exceed \$5,000,000 each occurrence or claim made.
Centauri Retrocession Quota Share	Specialty Surplus Insurance Company (100%) For 2024, Continental Ind. Co. assumed written premiums were approximately \$102.2 million under the Centauri Specialty Insurance Company and/or Centauri National Insurance Company treaty.	Continental Ind. Co. Assumptions not ceded – see Reinsurer's Name and Reinsurer's Limit columns for additional details.*	Continental Ind. Co. cedes \$48 million plus the unearned assumed premiums at the inception of this treaty effective June 1, 2024.
Workers' Compensation and Employer's Liability Policies that are further classified as JumboGC® and SolutionOne® Products Quota Share	United Insurance Company (100%)	North American Casualty Co., and its subsidiary insurance companies Final Adjusted Net Earned Premium Income in excess of \$40.8 million (i.e., the Ultimate Ceded Net Earned Premium Income) - see Reinsurer's Limit column for additional details.*	The Quota Share shall be the ratio between Ultimate Ceded Net Earned Premium Income over the Final Adjusted Net Earned Premium Income expressed as a percentage with the "Ultimate Ceded Net Earned Premium Income" meaning \$40.8 million and the "Final Adjusted Net Earned Premium Income" meaning the Net Earned Premium Income less ceding commission at the Final Adjustment. The Reinsurer' net liability shall not exceed \$1 million each loss occurrence each policy.
All policies produced and underwritten by Talisman Specialty Underwriters, Inc., a protected cell captive insurance company. Quota Share	Talisman Insurance Company, Inc., a protected cell captive insurance company (100%) As delineated above, 100% of this reinsurance contract was placed with external reinsurers; therefore, none of this business is being retained and shared by the Group through the intercompany pooling arrangement.	Texas Insurance Co. None*	100% quota share No limits noted in the contract.

Line of Business and Type of Contract	Reinsurer's Name and Participation	Reinsured Name(s) and Retention	Reinsurer's Limit
All business underwritten by Applied Underwriters, Inc. on behalf of the Reinsured and is classified by Applied as Space. Quota Share	Lloyd's Underwriter Syndicate 1955 ASL (13.333%) MS Amlin AG, Bermuda Branch (12.5%) Partner Reinsurance Europe SE (10%) Everest Reinsurance Bermuda Ltd. (10%) XL Re Europe SE (10%) Hannover Rück SE (6.25%) As delineated above, 62.083% of this reinsurance contract was placed with external reinsurers, with the remaining 37.917% being retained and shared by the Group through the intercompany pooling arrangement.	Texas Insurance Co. None – see Reinsurer's Name column for additional details.*	100% Quota Share with a \$15 million limit for any one satellite / any one launch.
Yacht Hull & Machinery business written by Concept Special Risks Ltd. for named or numbered windstorms only. Excess of loss	Lloyd's Underwriter Syndicate 4472 LIB (11%) As delineated above, 11% of this reinsurance contract was placed with external reinsurers, with the remaining 89% being retained and shared by the Group through the intercompany pooling arrangement along with the \$7.5 million retention.	Texas Insurance Co. \$7.5 million - see Reinsurer's Name column for additional details.*	<u>Layer 1</u> \$7.5 million excess of \$7.5 million each loss occurrence. <u>Layer 2</u> \$10 million excess of \$15 million each loss occurrence. <u>Layer 3</u> \$12.5 million excess of \$25 million each loss occurrence.
Covering business classified by the Reinsured as Commercial General Liability, Excess Liability, Liquor Liability, Hired & Non-Owned Auto Liability and Professional Liability and produced and underwritten by Applied Entertainment & Sports. Quota Share	Lloyd's Underwriter Syndicate 1686 AXS (9%) Lloyd's Underwriter Syndicate 2987 BRT (7%) Lloyd's Underwriter Syndicate 1084 CSL (4.5%) Lloyd's Underwriter Syndicate 1945 SII (4%) Lloyd's Underwriter Syndicate 9029 KII (3.75%) Convex Insurance UK Limited (2.5%) Lloyd's Underwriter Syndicate 2001 AML (1.8%) Lloyd's Underwriter Syndicate 2988 BRT (1.75%) As delineated above, 34.3% of this reinsurance contract was placed with external reinsurers, with the remaining 65.7% being retained and shared by the Group through the intercompany pooling arrangement.	Texas Insurance Co. None – see Reinsurer's Name column for additional details.*	100% Quota Share Media Liability - Shall not exceed \$1 million, any one policy, any one occurrence or in the aggregate, for any one insured. Overall aggregate limit - Shall not exceed 250% of the Reinsured's premiums earned for the term of this contract.

ACCOUNTS AND RECORDS

California Insurance Code (CIC) Section 734 states that “Every company or person from whom information is sought, and its officers, directors, employees, and agents, shall provide to the examiners appointed pursuant to this article, timely, convenient, and free access at all reasonable hours at its office to all books, records, accounts, papers, documents, and any or all computer or other recordings relating to the property, assets, business, and affairs of the company being examined.” Throughout the course of the examination, the Company has failed to comply with its statutory obligations. This is a repeat finding from the prior examination. It is again recommended that the Company provide timely and free access to all books, records, accounts, papers, documents, and any or all computer or other recordings relating to the property, assets, business, and affairs of the companies being examined and implement procedures to ensure future compliance with CIC Section 734.

FINANCIAL STATEMENTS

The following 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 on financial statements should be considered an integral part of the financial statements.

Statement of Financial Condition as of December 31, 2024

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

Reconciliation of Surplus as Regards Policyholders from December 31, 2021
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Analysis of Changes to Surplus as of December 31, 2024

Summary of Reclassifications as of 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	\$ 559,769,428	\$	\$ 559,769,428	(1)
Real estate:				
Properties held for production	291,000,000		291,000,000	(2)
Cash, cash equivalents and short-term investments	534,611,718		534,611,718	
Other invested assets	259,397,572	67,926,480	191,471,092	(3)
Receivables for securities	3,520,000		3,520,000	
Investment income due & accrued	3,634,423		3,634,423	
Uncollected premiums and agents' balances in the course of collection	626,993		626,993	(4)
Deferred premiums, agents' balances and installments booked but deferred and not yet due	146,229,463	48,553,193	97,676,270	(5)
Amount recoverable from reinsurers	15,721,497		15,721,497	
Net deferred tax asset	36,962,451	4,832,229	32,130,222	
Guaranty funds receivable or on deposit	9,312,017		9,312,017	
Receivables from parent, subsidiaries and affiliates	4,237,046		4,237,046	
Aggregate write-ins for other than invested assets	2,707,623	1,710,524	997,099	
Total assets	<u>\$ 1,867,730,231</u>	<u>\$ 123,022,426</u>	<u>\$ 1,744,707,805</u>	
<u>Liabilities, Surplus and Other Funds</u>				<u>Notes</u>
Losses			\$ 553,597,028	(6)
Loss adjustment expenses			79,699,451	(6)
Reinsurance payable on paid losses and loss adjustment expenses			46,118,867	
Commissions payable, contingent commissions and other similar charges			1,790,671	
Other expenses (excluding taxes, licenses and fees)			27,813,486	
Taxes, licenses and fees (excluding federal and foreign income tax)			3,890,158	
Current federal and foreign income taxes			1,164,342	
Borrowed money			30,000,000	
Unearned premiums			443,420,953	
Ceded reinsurance premiums payable			37,642,656	
Payable to parent, subsidiaries and affiliates			8,951,582	
Aggregate write-ins for liabilities			606,698	
Total liabilities			1,234,695,892	
Common capital stock	\$	4,000,000		
Gross paid in and contributed surplus		54,060,000		
Unassigned funds (surplus)		451,951,913		
Surplus as regards policyholders			<u>\$ 510,011,913</u>	
Total liabilities, surplus and other funds			<u>\$ 1,744,707,805</u>	

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

<u>Underwriting Income</u>		<u>Notes</u>
Premiums earned	\$ 617,869,491	
Deductions:		
Losses incurred	\$ 233,419,157	
Loss adjustment expenses incurred	74,273,646	
Other underwriting expenses incurred	<u>341,567,794</u>	
Total underwriting deductions	<u>649,260,597</u>	
Net underwriting loss	(31,391,106)	
<u>Investment Income</u>		
Net investment income earned	\$ 33,296,477	
Net realized capital losses	<u>(91,147,147)</u>	(2)
Net investment gain	(57,850,670)	
<u>Other income</u>		
Net loss from agents' or premium balances charged off	\$ (542,699)	
Aggregate write-ins for miscellaneous income	<u>(4,633)</u>	
Total other income	<u>(547,332)</u>	
Net loss before dividends to policyholders, after capital gains tax and before federal and foreign income taxes	(89,789,108)	
Federal and foreign income taxes incurred	<u>12,924,192</u>	
Net loss	<u>\$ (102,713,300)</u>	

Capital and Surplus Account

		<u>Notes</u>
Surplus as regards policyholders, December 31, 2023	\$ 631,883,407	
Net loss	\$ (102,713,300)	(2)
Change in net unrealized capital losses	35,162,474	
Change in net deferred income tax	10,937,112	
Change in nonadmitted assets	<u>(65,257,779)</u>	(3)(5)
Change in surplus as regards policyholders for the year	<u>(121,871,493)</u>	
Surplus as regards policyholders, December 31, 2024	<u>\$ 510,011,914</u>	

Reconciliation of Surplus as Regards to Policyholders
from December 31, 2021 through December 31, 2024

			<u>Notes</u>
Surplus as regards policyholders, December 31, 2021		\$ 644,585,627	
	Gain in Surplus	Loss in Surplus	
Net income	\$	\$ 104,653,933	(2)
Change in net unrealized capital losses	55,101,769		
Change in net deferred income tax	20,909,106		
Change in nonadmitted assets		105,930,655	(3)(5)
Total gains and losses	\$ 76,010,875	\$ 210,584,588	
Net decrease in surplus as regards policyholders		(134,573,713)	
Surplus as regards policyholders, December 31, 2024		<u>\$ 510,011,914</u>	

Analysis of Changes to Surplus as of December 31, 2024

The following examination adjustments were made to the Company's reported balance sheet accounts:

			<u>Notes</u>
Surplus as regards policyholders, December 31, 2024 per Annual Statement		\$ 594,780,791	
	<u>Increase</u>	<u>Decrease</u>	
Real Estate: Properties held for the production of income	\$	\$ 72,972,844	(2)
Other Invested Assets		1,911,929	(3)
Deferred premiums, agents' balances and installments booked but deferred and not yet due		9,884,104	(5)
Net decrease	\$	0	
Net decrease in surplus as regards policyholders		(84,768,877)	
Surplus as regards policyholders, December 31, 2024, per examination		<u>\$ 510,011,914</u>	

Summary of Reclassifications as of December 31, 2024

The following reclassification entries were made because the Company misclassified its real estate holdings:

	<u>Balance per</u>			<u>Balance per</u>	
<u>Annual Statement Line Item</u>	<u>Annual Statement</u>	<u>Increase</u>	<u>Decrease</u>	<u>Examination</u>	<u>Notes</u>
Property occupied by the company	\$ 363,972,844	\$	\$ 363,972,844	\$ 0	(2)
Property held for the production of income	\$ 0	\$ 363,972,844	\$	\$ 363,972,844	(2)

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Bonds

On September 27, 2024, the Company purchase \$40 million in Brean Strategic Opportunities Note that was issued by Brean Strategic Opportunities Master Fund, LP. The investment was carried as National Association of Insurance Commissioners (NAIC) 2B FE. This transaction was made without the prior notice or consent of the Conservator as required by the Conservation Order, paragraph 15. The Company is directed to comply with the Conservation Order, paragraph 15, and provide prior notice and obtain consent from the Conservator before entering into any transactions outside the ordinary course of business. In 2025, the investment was reclassified from Bonds (Schedule D) to Other Invested Asset (Schedule BA) in the 2025 Annual Statement. On July 22, 2025, the NAIC Securities Valuation Office rated the investment at NAIC 5C. It is recommended that the Company revise its Risk Based Capital's Asset Risk Factor for the investment in 2024 and going forward to appropriately reflect the NAIC 5C rating.

(2) Real Estate

On October 9, 2019, the Company purchased land from Applied Underwriters, Inc. (AUI) in the amount of \$7,679,529 for the construction of a home office to be occupied by AUI. The Company made additional investments in the build out of the home office in 2022, 2023, 2024, and 2025 in the amounts of \$69,708,580, \$37,061,780, \$125,384,037, and \$10,638,980, respectively. On June 30, 2025, the Company entered into an agreement with Dolfin Auine Lessor SPE, LLC (Dolfin) to sell \$26,254,463 of the Tenant Improvements related to the home office to Dolfin for cash considerations. The additional build out from 2022 through 2025 and the Dolfin transaction were made without the prior notice or consent of the Conservator as required by the Conservation Order, paragraph 15. The Company is directed to comply with the Conservation Order, paragraph 15, and provide prior notice and obtain consent from the Conservator before entering into any transactions outside the ordinary course of business.

During the prior examination, the Company provided the examination team an appraisal report dated June 29, 2023 which reported the market value of the home office at \$201,500,000. As noted in the appraisal report, this value was based on the “extraordinary assumptions” that the rental income on the property can be realized as described in the unexecuted lease agreement between the Company (owner) and Applied Underwriters, Inc. (tenant). Under the terms of the unexecuted lease agreement, the tenant will pay an average contract rent per square feet of \$90.86, a rate that is 324.5% higher than the \$28.00 market rent per square feet for the region. An extraordinary assumption is defined by the Uniform Standards of Professional Appraisal Practice as “an assignment-specific assumption as of the effective date regarding uncertain information used in an analysis which, if found to be false, could alter the appraiser’s opinions or conclusions.”

At December 31, 2024 and through the date of this report, there has not been an executed lease agreement between the Company and AUI covering the intended home office. The carrying value of the home office as of December 31, 2024 was \$363,972,844. As part of this examination, the examiners appointed an independent real estate appraiser to assess the value of the home office. The independent appraiser delivered an appraisal report dated May 28, 2026 which determined the fair market value of the home office at December 31, 2024 to be \$291,000,000. An examination adjustment in the amount of \$72,972,844 was made to the home office to recognize the impairment.

Pursuant to SSAP No. 40, paragraph 6, any real estate which is owned by and is more than 50% occupied by the reporting entity and its affiliates shall be considered property occupied by the company. SSAP No. 40 further defines “more than 50% occupied” to mean that the square footage occupied by the reporting entity and its affiliates total more than 50% of the rentable square footage of the property, including common areas. Property which does not meet this 50% requirement shall be classified as property held for the production of income or property held for sale, consistent with SSAP No. 90. The Company incorrectly reported the home office as Real Estate – Occupied by the

Company given that the home office is not currently occupied. The home office was subsequently sold to an affiliate in 2026 (refer to “Subsequent Events” section of this report). It is recommended that the Company properly classify real estate held for sale and production of income pursuant to SSAP No. 40 and 90.

(3) Other Invested Assets

Forza Credit TRS Fund: On April 11, 2023, the Company became a limited partner in the Forza Credit TRS Fund I, LP (the Forza Fund), fka BAM Credit TRS Fund I, LP, for an initial cost of \$30 million. As a result of calls for new capital by the Forza Fund, the Company’s total investment in the Forza Fund increased to \$61 million at December 31, 2024. Calls on capital are guaranteed by the Company pursuant to the Limited Partnership Agreement. These transactions were made without the prior notice or consent of the Conservator as required by the Conservation Order, paragraph 15. On July 19, 2024, the Conservator directed the Company to divest the investment by August 15, 2024. On June 30, 2025, the Company fully divested its investment in the Forza Fund for \$105 million. The Company is directed to comply with the Conservation Order, paragraph 15, and provide prior notice and obtain consent from the Conservator before entering into any transactions outside the ordinary course of business.

NEB RE ONE, LLC and NEB RE THREE, LLC: On October 9, 2019, the Company contributed cash in the amounts of \$38,562,948 and \$48,455,216 as part of the formation of CIC NEB RE ONE, LLC and CIC NEB RE THREE, LLC (together referred to as CIC NEB RE LLCs), respectively, for a 49.9% ownership stake in each of the companies. Its affiliate, AUI, contributed land as part of the formation of CIC NEB RE LLCs and has a 50.1% ownership stake. In conjunction with the aforementioned transactions, all the contributed cash to the CIC NEB RE LLCs were loaned to AUI in the form of unsecured notes. At December 31, 2024, the Company reported \$36,998,684 and \$53,333,174 invested in CIC NEB RE ONE, LLC and CIC NEB RE THREE, LLC (CICR3), respectively. At December 31, 2024, the NEB RE LLCs value consists primarily of the unsecured notes

with AUI (\$117.4 million), real estate held for sale (\$32.1 million), real estate under development (\$30.0 million), and cash (\$4.0 million).

On January 1, 2025, CICR3 declared a proportional distribution of land and cash in the amount of \$62,148,441, of which \$31,012,072 was distributed to the Company. On December 18, 2025, the Company acquired from AUI the land held for sale that CICR3 had previously distributed to AUI at book value of \$22,887,624. Pursuant to SSAP No. 90, paragraph 25, real estate investment properties classified as held for sale or long-lived assets to be sold shall be measured at the lower of its carry amount or fair value less encumbrances and estimated costs to sell the property. The Company confirmed that they do not make a provision for the cost to sell or dispose of real estate when determining the carrying values reported in its statutory financial statements. It is recommended that the Company start accounting for reasonable costs to sell or dispose of real estate investments going forward in accordance with SSAP No. 90, paragraph 25. In addition, the December 18, 2025 transaction should have been disclosed in the Company's 2025 Insurance Holding Company System Annual Registration Statement (Form B and C) pursuant to CIC Sections 1215.4(b)(3) and 1215.4(c). It is recommended that the Company submit the proper filings and disclosures in accordance with CIC Sections 1215.4(b)(3) and 1215.4(c). Additionally, the transaction was made without the prior notice and consent of the Conservator as required by the Conservation Order, paragraph 15. The Company is directed to comply with the Conservation Order, paragraph 15, and provide prior notice and obtain consent from the Conservator before entering into any transactions outside the ordinary course of business.

At December 31, 2024, the Company reported \$2,909,347 invested in CIC NEB RE FOUR LLC, of which \$997,418 was non-admitted. The Company determined that the entire investment should've been non-admitted and the adjustment was reflected in the June 30, 2025 Quarterly Statement. On November 17, 2025, the Company disposed of the investment for \$1,542,194. An examination adjustment of \$1,911,929 was made to non-admit the amount that was inappropriately admitted.

Collateral Loan to United Holding Corporation: On October 23, 2019, the Company issued a \$5,861,538 collateral loan to United Holding Corporation. Pursuant to Statements of SSAP No. 21, paragraph 4.b, collateral loans secured by assets that do not qualify as investments shall be non-admitted. During the prior examination, the Company was unable to provide evidence of the collateral backing the underlying loan and the full asset amount was non-admitted. On December 31, 2025, the Company charged off the full asset amount of \$6,882,561.

(4) Uncollected Premiums and Agents' Balances in the Course of Collection

It was observed that the Company does not report premiums in the Annual Statements for "Assigned Risk" and "Mandatory Pooling" workers' compensation business in accordance with the guidance on Assets, Line 15.1, in the NAIC Annual Statement Instructions. The Company currently reports this non-installment workers' compensation business on Assets, Line 15.2 on the Annual Statement. Non-installment premiums in the amount of \$3,967 should've been reported for 2024. The amount was immaterial and no adjustment was made. It is recommended that the Company report uncollected premiums for the non-installment workers' compensation "Assigned Risk" and "Mandatory Pooling" business in accordance with the NAIC Annual Statement Instructions and on Assets, Line 15.1 of the Annual Statement.

(5) Deferred Premiums, Agents' Balances and Installments Booked but Deferred and Not Yet Due

Pursuant to SSAP No. 6, paragraph 9, to the extent that there is no related unearned premium, any uncollected premium balances which are over ninety days due shall be non-admitted. If any installment premium balances is over ninety days due, the amount over ninety days due plus all future installments that have been recorded on that policy shall be non-admitted. The Company failed to non-admit future installment premiums related to policies that are currently over 90 days past due and is not in compliance with SSAP No. 6, paragraph 9. An examination adjustment of \$9,884,104 was made to non-

admit the portion of installment premiums over ninety days past due. It is recommended that the Company properly non-admit installment premiums in accordance with SSAP No. 6, paragraph 9.

(6) Losses and Loss Adjustment Expenses

INS Consultants, Inc. (INS) was retained to perform an analysis of the Company's loss and loss adjustment reserves as of December 31, 2024. INS found the Company's carried gross and net loss and loss adjustment expense reserves as of December 31, 2024 to be reasonably stated. A Senior Casualty Actuary from the California Department of Insurance reviewed the work prepared by INS and concurs with the conclusions drawn by INS.

It was noted by INS that the Company's Actuarial Report was not prepared in a manner consistent with the documentation and disclosure requirements of Actuarial Standard of Practice (ASOP) No. 41, Actuarial Communications. The Actuarial Report must contain both narrative and technical components. The narrative components should provide sufficient detail to clearly explain to Company management, the Board of Directors, the regulator or other authority the findings, recommendations, and conclusions, as well as their significance. The technical component should provide sufficient documentation and disclosure for another actuary practicing in the same field to evaluate the work. This technical component must show the analysis from the basic data to the conclusion.

The Company's Actuarial Report's narrative includes a chart which ties to the Annual Statement total reserves and compares the Appointed Actuary's conclusions to the net and gross carried reserve amounts at the individual company level. However, this chart is noted to not be presented consistent with the reserve segmentation used in the analysis and provided in the Exhibits section. It is recommended that the Company implement procedures to ensure that the Actuarial Report includes an exhibit that ties to the Annual Statement and compares the Appointed Actuary's conclusions (net and gross of

reinsurance) to the carried amounts consistent with the segmentation of exposure or liability groupings used in the analysis in accordance with ASOP No. 41.

Additionally, the technical component of the Actuarial Report did not provide sufficient documentation and disclosure for another actuary practicing in the same field to evaluate the work. The technical component does not show the analysis from the basic data to the conclusions. The Actuarial Report required additional data from the Company in order to complete the INS analysis, specifically premium and historical loss data by reserving segment as of December 31, 2024. It is recommended that the Company implement procedures to ensure that the Actuarial Report include sufficient data and supporting documentation in accordance with ASOP No. 41. The Actuarial Report should clearly demonstrate the analysis from the underlying data through the selected methods and assumptions to the final conclusions, such that another actuary practicing in the same field can evaluate the work without requiring material supplemental information.

Additionally, the Actuarial Report states that a Schedule P Reconciliation was performed. However, the Schedule P Reconciliation was not included in the Actuarial Report. It is recommended that the Appointed Actuary map the data groupings used in the analysis to Schedule P lines of business and provide detailed reconciliations of the data at the finest level of segmentation that is possible and practical in accordance with ASOP No. 41. This additional prospective actuarial risk is directly related to the financial reporting reserve values and has the potential to be material.

SUBSEQUENT EVENTS

On June 17, 2026, the Company submitted a Form D application for the proposed sale of the home office to its affiliate, Pacific Street Development, LLC (Pacific Street). On July 27, 2026, the Form D application was approved by the California Department of Insurance pursuant to California Insurance Code Section 1215.5(b)(1). On July 28, 2026, the transaction was approved by the Conservator. On July 29, 2026, the sale transaction was

executed for \$334,897,946. On August 21, 2026, the Conservator filed the home office sale transaction with the Conservation Court for its approval.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Management and Control – Management Agreement (Page 11): It is recommended that the Company file Form D applications for the waiver and termination of waiver agreements pursuant to California Insurance Code (CIC) Section 1215.5(b). It is also recommended that the Company submit the proper filings and disclosures in accordance with CIC Sections 1215.4(b)(3) and 1215.4(c). In addition, the Company is directed to comply with the Conservation Order, paragraph 15, and provide prior notice and obtain consent from the Conservator before entering into any transactions outside the ordinary course of business. Additionally, it is again recommended that the Company conduct and document special studies of employee activities, salary ratios, premium ratios or similar analyses that yield the most accurate results and support the basis adopted to apportioned expenses as required under Statements of Statutory Accounting Principles (SSAP) No. 70.

Management and Control – Management Agreement (Page 12): It is recommended that the Company enter into an agreement with Applied Risk Services, Inc. (ARS) for its claim services for its non-workers' compensation book of business pursuant to SSAP No. 25, paragraph 11. It is also recommended that the Company file a Form D application pursuant to CIC Section 1215.5(b). It is also recommended that the Company submit the proper filings and disclosures in accordance with CIC Sections 1215.4(b)(3) and 1215.4(c)

Management and Control – Management Agreement (Page 13): It is recommended that the Company enter into an agreement with ARS for its premiums processing services pursuant to SSAP No. 25, paragraph 11. It is also recommended that the Company file a Form D application pursuant to CIC Section 1215.5(b). It is also recommended that the

Company submit the proper filings and disclosures in accordance with CIC Sections 1215.4(b)(3) and 1215.4(c). It is also recommended that the Company require immediate establishment of a trust account by ARS pursuant to CIC Sections 769.83(c), 1734(b), and 1735(b).

Management and Control – Management Agreement (Page 14): It is recommended that the Company file a Form D application for the Program Manager Agreement with Rivington Transportation Partners, LLC (Rivington Transportation) pursuant to CIC Section 1215.5(b). It is also recommended that the Company submit the proper filings and disclosures in accordance with CIC Sections 1215.4(b)(3) and 1215.4(c). It is also recommended that the Company require immediate establishment of a trust account by Rivington Transportation pursuant to CIC Sections 769.83(c), 1734(b), and 1735(b).

Management and Control – Management Agreement (Page 15): It is recommended that the Company file a Form D application for the Program Manager Agreement with Concept Special Risk Ltd. (Concept Special) pursuant to CIC Section 1215.5(b). It is also recommended that the Company submit the proper filings and disclosures in accordance with CIC Sections 1215.4(b)(3) and 1215.4(c). It is also recommended that the Company require immediate establishment of a trust account by Concept Special pursuant to CIC Sections 769.83(c), 1734(b), and 1735(b).

Management and Control – Management Agreement (Page 15): It is recommended that the Company file a Form D application for the Program Manager Agreement with Rivington Shared and Layered Property Partners, LLC (Rivington Partners) pursuant to CIC Section 1215.5(b). It is also recommended that the Company submit the proper filings and disclosures in accordance with CIC Sections 1215.4(b)(3) and 1215.4(c). It is also recommended that the Company require immediate establishment of a trust account by Rivington Partners pursuant to CIC Sections 769.83(c), 1734(b), and 1735(b).

Management and Control – Management Agreement (Page 16): It is recommended that the Program Manager Agreement (Agreement) with Applied Surety Underwriters LLC

(Applied Surety) be amended to include the Company as a party to the Agreement pursuant to CIC Section 769.83 and SSAP No. 25, paragraph 11. It is also recommended that the Company require immediate establishment of a trust account by Applied Surety pursuant to CIC Sections 769.83(c), 1734(b), and 1735(b). It is also recommended that the Company file a Form D application pursuant to CIC Section 1215.5(b). It is also recommended that the Company submit the proper filings and disclosures in accordance with CIC Sections 1215.4(b)(3) and 1215.4(c).

Management and Control – Management Agreement (Page 17): It is recommended that the Program Manager Agreement (Agreement) with Applied Warranty and Insurance Services, LLC (Applied Warranty) be amended to include the Company as a party to the Agreement pursuant to CIC Section 769.83 and SSAP No. 25, paragraph 11. It is also recommended that the Company require immediate establishment of a trust account by Applied Warranty pursuant to CIC Sections 769.83(c), 1734(b), and 1735(b). It is also recommended that the Company file a Form D application pursuant to CIC Section 1215.5(b). It is also recommended that the Company submit the proper filings and disclosures in accordance with CIC Sections 1215.4(b)(3) and 1215.4(c).

Management and Control – Related Party Disclosures (Page 18): It is recommended that the Company appropriately include the aforementioned affiliated parties within Schedule Y – Part 1A of its future Annual Statement filings. It is also recommended that the Company comply with the NAIC Annual Statement Instructions and California Insurance Code Section 923 and appropriately disclose all transactions with affiliates within Column 8 of Schedule Y – Part 2 of its future Annual Statement filings.

Reinsurance – Intercompany (Page 21): It is recommended that the Company ensure that all reinsurance transactions be supported by fully executed reinsurance agreements in accordance with SSAP No. 62. It is also recommended that the Company file a Form D application for the quota share agreement with United Insurance Company for review and approval pursuant to CIC Section 1215.5(b)(3). It is also recommended that the

Company submit the proper filings and disclosures in accordance with CIC Sections 1215.4(b)(3) and 1215.4(c).

Accounts and Records (Page 30): It is again recommended that the Company provide timely and free access to all books, records, accounts, papers, documents, and any or all computer or other recordings relating to the property, assets, business, and affairs of the companies being examined and implement procedures to ensure future compliance with CIC Section 734.

Comments on Financial Statements Items – Bonds (Page 35): It is recommended that the Company revise its Risk Based Capital's Asset Risk Factor for the investment in 2024 and going forward to appropriately reflect the National Association of Insurance Commissioners 5C rating. The Company is directed to comply with the Conservation Order, paragraph 15, and provide prior notice and obtain consent from the Conservator before entering into any transactions outside the ordinary course of business.

Comments on Financial Statements Items – Real Estate (Page 35): The additional build out of the home office from 2022 through 2025 and the Dolfin transaction were made without the prior notice or consent of the Conservator as required by the Conservation Order, paragraph 15. The Company is directed to comply with the Conservation Order, paragraph 15, and provide prior notice and obtain consent from the Conservator before entering into any transactions outside the ordinary course of business. An examination adjustment in the amount of \$72,972,844 was made to the home office to recognize the impairment. It is recommended that the Company properly classify real estate held for sale and production of income pursuant to SSAP No. 40 and 90.

Comments on Financial Statements Items – Other Invested Assets (Page 37): The Company becoming a limited partner in the Forza Credit TRS Fund I, LP fka BAM Credit TRS Fund I, LP was made without the prior notice and consent of the Conservator. The Company is directed to comply with the Conservation Order, paragraph 15, and provide

prior notice and obtain consent from the Conservator before entering into any transactions outside the ordinary course of business.

Comments on Financial Statements Items – Other Invested Assets (Page 37): It is recommended that the Company start accounting for reasonable costs to dispose of real estate investments going forward in accordance with SSAP No. 90, paragraph 25. It is also recommended that the Company submit the proper filings and disclosures in accordance with CIC Sections 1215.4(b)(3) and 1215.4(c). Additionally, the transaction was made without the prior notice and consent of the Conservator as required by the Conservation Order, paragraph 15. The Company is directed to comply with the Conservation Order, paragraph 15, and provide prior notice and obtain consent from the Conservator before entering into any transactions outside the ordinary course of business.

Comments on Financial Statements Items – Other Invested Assets (Page 38): An examination adjustment of \$1,911,929 was made to non-admit the amount of CIC NEB RE FOUR LLC that was inappropriately admitted.

Comments on Financial Statements Items – Uncollected premiums and agents' balances in the course of collection (Page 39): Non-installment premiums in the amount of \$3,967 should've been reported in 2024. The amount was immaterial and no adjustment was made. It is recommended that the Company report uncollected premiums for the non-installment workers' compensation "Assigned Risk" and "Mandatory Pooling" business in accordance with the NAIC Annual Statement Instructions and on Assets, Line 15.1 of the Annual Statement.

Comments on Financial Statements Items – Deferred premiums, agents' balances and installments booked but deferred and not yet due (Page 39): An examination adjustment of \$9,884,104 was made to non-admit the portion of installment premiums over ninety days past due. It is recommended that the Company properly non-admit installment premiums in accordance with SSAP No. 6, paragraph 9.

Comments on Financial Statements Items – Losses and Loss Adjustment Expenses (Page 40): It is recommended that the Company implement procedures to ensure that the Actuarial Report includes an exhibit that ties to the Annual Statement and compares the Appointed Actuary's conclusions (net and gross of reinsurance) to the carried amounts consistent with the segmentation of exposure or liability groupings used in the analysis in accordance with ASOP No. 41. It is also recommended that the Company implement procedures to ensure that the Actuarial Report include sufficient data and supporting documentation in accordance with ASOP No. 41. The Actuarial Report should clearly demonstrate the analysis from the underlying data through the selected methods and assumptions to the final conclusions, such that another actuary practicing in the same field can evaluate the work without requiring material supplemental information. It is also recommended that the Appointed Actuary map the data groupings used in the analysis to Schedule P lines of business and provide detailed reconciliations of the data at the finest level of segmentation that is possible and practical in accordance with ASOP No. 41.

Previous Report of Examination

Management and Control – Management Agreement (Page 9): It was recommended that the Company conduct and document special studies of employee activities, salary ratios, premium ratios or similar analyses that yield the most accurate results and support the basis adopted to apportioned expenses in accordance with SSAP No. 70. The Company changed its expense allocation methodology and is not in compliance.

Reinsurance – Intercompany (Page 13): The Company was directed to amend and refile all annual and quarterly financial statements subsequent to November 1, 2020 so that the Company's financial statements reflect the intercompany pooling transactions in accordance with the Second Restated Reinsurance Pooling Agreement as previously approved by the California Insurance Commissioner. It is also recommended that the Company submit the proper filings and disclosures in accordance with CIC Sections 1215.4(b)(3) and 1215.4(c) for this transaction. In addition, the Company is directed to

comply with the Conservation Order, paragraph 15, and provide prior notice and obtain consent from the Conservator before entering into any transactions outside the ordinary course of business. The Company's financial statements now reflect the intercompany pooling transactions in accordance with the Second Restated Reinsurance Pooling Agreement.

Accounts and Records (Page 16): It was recommended that the Company provide timely and free access to all books, records, accounts, papers, documents, and any or all computer or other recordings relating to the property, assets, business, and affairs of the companies being examined and implement procedures to ensure future compliance with CIC Section 734. The Company is not in compliance.

Accounts and Records – Audited Financial Statements (Page 17): The Company was directed to obtain annual audits for years 2021 and 2022 by a qualified independent certified public accountant and file its audited financial reports with the Commissioner pursuant to CIC Section 900.2 and California Code of Regulation Section 2309.4(a). The Company has obtained its audited financial statements from a qualified independent certified public accountant.

Accounts and Records – Communication of Prior Examination Report (Page 17): It was recommended that the Company notify the board members of the receipt of the Report of Examination, both in the form first formally prepared by the examiners and in the form as finally settled and officially filed by the Commissioner, and enter that fact in the board minutes pursuant to CIC Section 735. The Company is now in compliance.

Comments on Financial Statements Items – Common Stocks (Page 23): An examination adjustment of \$59,366,938 was made to non-admit the full asset amount of Brean Holding, LLC/Brean Capital, LLC. The Company was unable to provide evidence of its ownership in either Brean Holding, LLC nor Brean Capital, LLC. The Company's initial purchase and subsequent reclassification of the investment was done without the prior notice and consent of the Conservator. The Company was directed to comply with the

Conservation Order, paragraph 15, and provide prior notice and obtain consent from the Conservator before entering into any transactions outside the ordinary course of business. The Company disposed of its holdings of the asset on June 1, 2024 for \$45,000,000.

Comments on Financial Statements Items – Common Stocks (Page 23): An examination adjustment of \$47,874,106 was made to non-admit a portion of PQN Holdings Ltd (PQN). The Company was unable to produce audited financial statements for PQN and a significant majority of the underlying investments. It is recommended that the Company file a Form D application for the investment pursuant to CIC Section 1215.5(b)(1). It was also recommended that the Company submit the proper filings and disclosures in accordance with CIC Sections 1215.4(b)(3) and 1215.4(c) for this transaction. In addition, it is recommended that the Company implement procedures to ensure appropriate disclosures are made in its Annual Statements in accordance with SSAP No. 25. The Company did not file this transaction as required by CIC Section 1215.5(b)(1). The Company did not submit the proper filings and disclosures in accordance with CIC Sections 1215.4(b)(3) and 1215.4(c). The Company has non-admitted the full asset amount.

Comments on Financial Statements Items – Real Estate (Page 24): The Company's additional investments in the Home Office were made without the prior notice and consent of the Conservator. The Company was directed to comply with the Conservation Order, paragraph 15, and provide prior notice and obtain consent from the Conservator before entering into any transactions outside the ordinary course of business. The Company has not remediated the prior finding and recommendation.

Comments on Financial Statements Items – Other Invested Assets (Page 25): An examination adjustment of \$78,490,866 was made to the fair value of the NEB RE ONE, LLC, NEB RE TWO, LLC, and NEB RE THREE, LLC assets due to collectibility concerns around the loans to AUI portion of the asset. It was recommended that the Company

comply with CIC Sections 1215.4(b)(3) and 1215.4(c) in future Holding Company System Annual Registration Filings. The Company is not in compliance.

Comments on Financial Statements Items – Other Invested Assets (Page 27): An examination adjustment of \$19,300,000 was made to non-admit the loans to AUI. Based on our review of the 2021 Audited Financial Statements of AUI, the likelihood of the receivables being uncollectible is probable. It was recommended that the Company file Form D applications for the investments pursuant to CIC Sections 1215.5(b)(1) and 1215.5(c). It was also recommended that the Company submit the proper filings and disclosures in accordance with CIC Sections 1215.4(b)(3) and 1215.4(c) for the transactions. The Company was also directed to comply with the Conservation Order, paragraph 15, and provide prior notice and obtain consent from the Conservator before entering into any transactions outside the ordinary course of business. The Company did not file this transaction as required by CIC Section 1215.5(b)(1). The Company did not submit the proper filings and disclosures in accordance with CIC Sections 1215.4(b)(3) and 1215.4(c). The Company has disposed of all loans to AUI.

Comments on Financial Statements Items – Other Invested Assets (Page 27): An examination adjustment of \$5,861,538 was made to non-admit the full asset amount of the Collateral Loan to United Holding Corporation. On December 31, 2025, the Company charged off the full amount of the loan.

Subsequent Events (Page 28): The Company's investments in BAM CREDIT TRS FUND I, LP were made without the prior notice and consent of the Conservator. The Company was directed to comply with the Conservation Order, paragraph 15, and provide prior notice and obtain consent from the Conservator before entering into any transactions outside the ordinary course of business. The Company has not remediated the prior finding and recommendation.

Subsequent Events (Page 29): The Company's investment in Rain Technologies, Inc. was made without the prior notice and consent of the Conservator. The Company was

directed to comply with the Conservation Order, paragraph 15, and provide prior notice and obtain consent from the Conservator before entering into any transactions outside the ordinary course of business. The Company disposed of all of its holdings in the asset on September 30, 2024.

ACKNOWLEDGMENT

Acknowledgment is made of the assistance extended by the Company's officers and employees during the course of this examination.

Respectfully submitted,

Lau, Allen Digitally signed by Lau, Allen
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Allen Lau, CFE
Examiner-In-Charge
Senior Insurance Examiner, Specialist
Department of Insurance
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