

REPORT OF EXAMINATION
OF THE
DANIELSON NATIONAL
INSURANCE COMPANY
AS OF
DECEMBER 31, 2019

Insurance Commissioner

A handwritten signature in blue ink, appearing to read "Debra", is positioned to the right of the "Insurance Commissioner" text.

FILED ON May 20, 2021

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Los Angeles, California
March 31, 2021

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

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

DANIELSON NATIONAL INSURANCE COMPANY

(hereinafter also referred to as the Company). Its home office is located at 3838 Camino Del Rio North, Suite 305 San Diego, CA 92108.

SCOPE OF EXAMINATION

We have performed our multi-state examination of the Company. The previous examination of the Company was as of December 31, 2014. This examination covered the period from January 1, 2015 through December 31, 2019.

This examination was conducted in accordance with the National Association of Insurance Commissioners *Financial Condition Examiners Handbook* (“*Handbook*”). The Handbook requires the planning and performance of the examination to evaluate the Company’s financial condition, assess corporate governance, identify current and prospective risks, and evaluate system controls and procedures used to mitigate those risks. The examination also included identifying and evaluating significant risks that could cause the Company’s surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This includes assessing significant estimates made by management and evaluating management’s compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial

statements included herein. If an adjustment was identified during the course of the examination, the impact of such adjustment would be documented separately following the Company's financial statements.

This examination report includes findings of fact and general information about the Company and its financial condition. There 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 other regulators and/or the Company.

This examination was performed concurrently with the examination of the Company's parent, National American Insurance Company of California.

COMPANY HISTORY

The Company was incorporated in the State of California on October 28, 1974. All outstanding shares of the Company are owned by National American Insurance Company of California ("NAICC").

Effective March 1, 2015, Danielson Indemnity Company, the Company's former direct parent, was merged into Alea Holdings US Company which is ultimately controlled by Catalina Holdings (Bermuda) Ltd. ("Catalina").

Effective October 10, 2018, Catalina, the former ultimate parent of the Company was acquired by Apollo Global Management, Inc., and the individuals Leon Black, Joshua Harris, and Marc Rowan. The transaction was approved by the District of Columbia Department of Insurance, Securities and Banking.

Capitalization

The Company is authorized to issue 40,000 shares of common stock at \$130 par value. As of the examination date, 20,000 shares were issued and outstanding to their parent, NAICC.

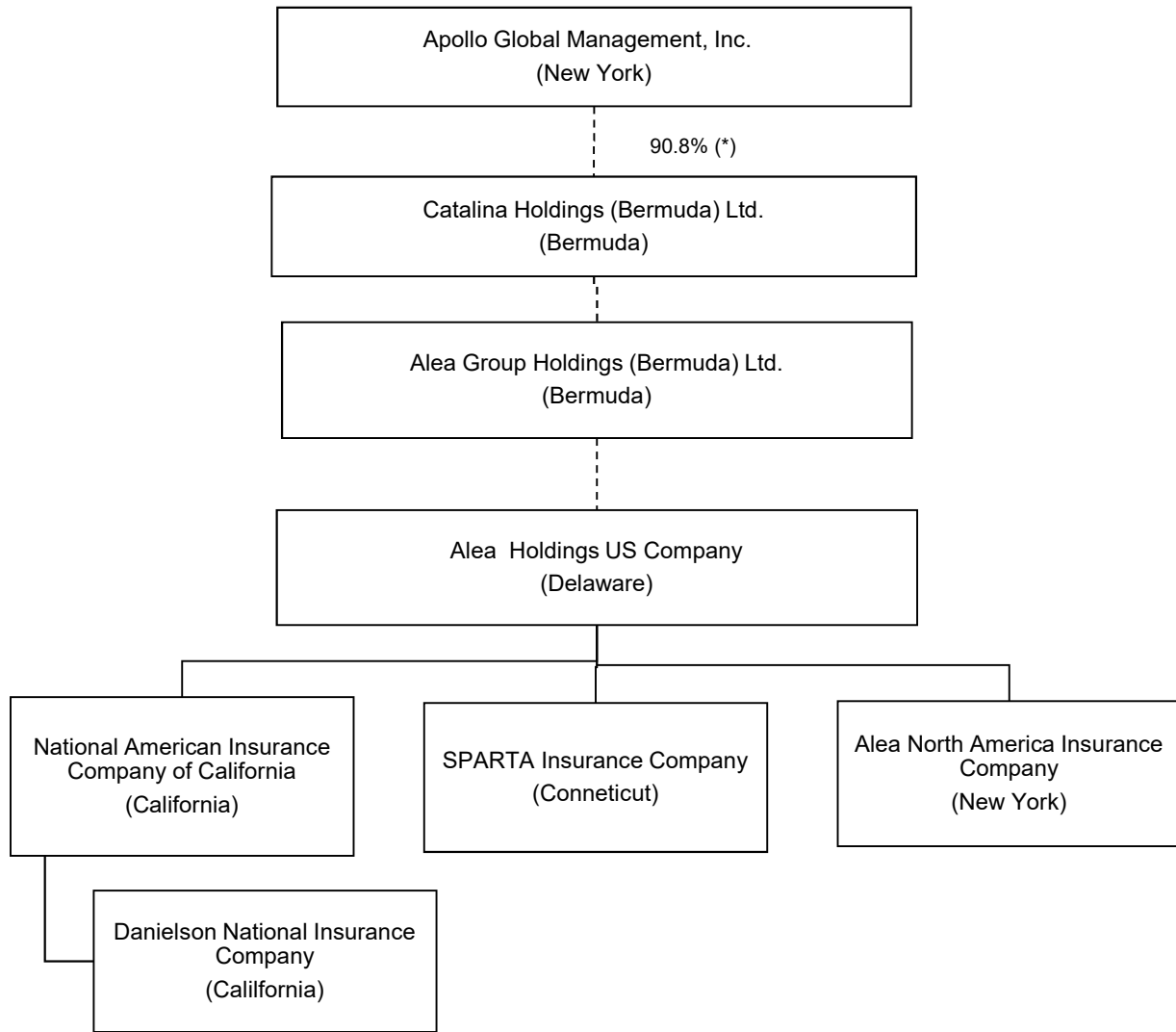
Dividends

On September 10, 2018, the California Department of Insurance approved a \$1,500,000 extraordinary cash dividend paid from the Company to its parent NAICC. It was paid on September 24, 2018.

MANAGEMENT AND CONTROL

The Company is a member of an insurance holding company system, the ultimate controlling parent is Apollo Global Management, Inc. with controlling individuals: Mr. Leon Black, 33.33%, Mr. Joshua Harris, 33.33%, and Mr. Marc Rowan, 33.33%.

The following abridged organizational chart depicts the Company's relationship within the holding company system (all ownership is 100% unless otherwise indicated):



Note: The dotted line means that there are other entities in-between.

(*) The remaining 5.66% and 3.54% are owned by RenaissanceRe Holdings Limited and the founding executives of Catalina Holdings (Bermuda) Ltd., respectively.

The three members of the board of directors, who are elected annually, manage the business and affairs of the Company. Following are members of the board and principal officers of the Company serving at December 31, 2019:

Directors

<u>Name and Location</u>	<u>Principal Business Affiliation</u>
Stephen Arthur Eisenmann New York, New York	Chief Executive Officer, President, and Vice President of Claims National American Insurance Company of California
Christopher John Fleming Hamilton, Bermuda	Director National American Insurance Company of California
Gerald Sidney Haase New York, New York	Chairman of the Board and Chief Operating Officer Catalina Holdings (Bermuda) Ltd.

Principal Officers

<u>Name</u>	<u>Title</u>
Stephen Arthur Eisenmann	Chief Executive Officer, President, and Vice President of Claims
Tracey Ann Price	Senior Vice President and Chief Financial Officer
Amy Beth Gallent	General Counsel and Secretary
Peter Louis Harnick	Deputy Chief Investment Officer
Kevin Michael Grant	Chief Claim Officer
Christopher Kirpalani	Chief Information Security Officer

Management Agreements

Administrative Service Agreement: Effective November 14, 2014, the Company entered into an Administrative Service Agreement with its parent company, Alea Holdings US Company (“AHUSCO”), and certain other United States affiliates.

The purpose of the agreement is to allow affiliates to provide and receive services from each other in order to coordinate and integrate administrative functions. The agreement was approved by the California Department of Insurance (“CDI”) on December 29, 2014.

Effective March 11, 2015, the Company updated the above-mentioned Administrative Services Agreement with other affiliated parties in the United States. The updated agreement included, but was not limited to the following services: claims, policies, the collection of funds, accounting and preparation of financial reports, administration, systems, actuarial, investments, and legal. The updated agreement was reviewed by CDI with no objections. During the 2015, 2016, 2017, 2018, and 2019 years, and under the terms of the agreement, the Company paid affiliates \$131,336, \$113,216, \$90,520, \$239,628, and \$248,299, respectively.

Tax Allocation Agreement: Effective November 14, 2014, the Company entered into a Tax Allocation Agreement with AHUSCO. Under this Tax Allocation Agreement, AHUSCO acts as an agent for the affiliates with respect to all matters related to consolidated tax returns and refund claims. Allocation of tax liability of each company shall not exceed the amount that it would have incurred as a separate filing corporation. The CDI issued its notice of non-disapproval of the agreement on December 15, 2014. During the examination period, the Company paid \$0 federal income taxes.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2019, the Company was licensed to transact multiple lines of property and casualty insurance in California, Idaho, Kansas, and Oregon.

The Company's operations consist of three principal segments currently under run off: 1) private passenger automobile, 2) surety, and 3) legacy run off lines consisting of workers' compensation and other liability comprising of asbestos and environmental exposures.

Effective July 2012, the Company and its direct parent, the National American Insurance Company of California ("NAICC") ceased writing business except for renewal of certain automobile policies as required by California law. The premiums written as of December 31, 2019 were immaterial.

REINSURANCE

Intercompany Pooling Reinsurance Agreement

From January 1, 2006 to December 31, 2019, the Company has participated in an Intercompany Pooling Reinsurance Agreement with its parent, National American Insurance Company of California as the lead for all lines of business. Premiums and losses are allocated to the Company based on its assigned percentage of 50/50 to the pool.

Assumed

The Company did not have any assumed reinsurance contracts in-force during the examination period.

Ceded

The Company did not have any ceded reinsurance contracts in-force during the examination period.

FINANCIAL STATEMENTS

The following statements are based on the statutory financial statements filed by the Company with the California Department of Insurance and present the financial condition of the Company for the period ending December 31, 2019. The accompanying comments to the amounts reported in the annual statements should be considered an integral part of the financial statements. There were no adjustments made to the statutory financial statements filed by the Company.

Statement of Financial Condition as of December 31, 2019

Underwriting and Investment Exhibit for the Year Ended December 31, 2019

Reconciliation of Surplus as Regards Policyholders from December 31, 2014 through December 31, 2019

Statement of Financial Condition
as of December 31, 2019

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 2,764,981	\$	\$ 2,764,981	
Cash and short-term investments	47,852		47,852	
Investment income due and accrued	22,629		22,629	
Amount recoverable from reinsurers	1,494		1,494	
Funds held by or deposited with reinsured companies	305,886		305,886	
Net deferred tax asset	287,527	287,527	0	
Receivable from parents, subsidiaries and affiliates	740		740	
Aggregate write-ins for other than invested assets	436,371	436,371	0	
Total assets	<u>\$ 3,867,480</u>	<u>\$ 723,898</u>	<u>\$ 3,143,582</u>	
 <u>Liabilities, Surplus and Other Funds</u>				<u>Notes</u>
Losses			\$ (25,757)	(1)
Loss adjustment expenses			19,851	(1)
Other expenses			5,970	
Current federal and foreign income taxes			89,167	
Unearned premiums			2,276	
Ceded reinsurance premiums payable			632	
Payable to parent, subsidiaries, and affiliates			44	
Aggregate write-ins for liabilities			1	
Total liabilities			92,183	
Common capital stock		\$ 2,600,000		
Gross paid-in and contributed surplus		3,020,556		
Unassigned funds		<u>(2,569,157)</u>		
Surplus as regards policyholders			<u>\$ 3,051,399</u>	
Total liabilities, surplus and other funds			<u>\$ 3,143,582</u>	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2019

Underwriting Income

Premiums earned		\$ 5,138
Deductions:		
Losses incurred	\$ (44,740)	
Loss adjustment expenses incurred	32,023	
Other underwriting expenses incurred	<u>758,146</u>	
Total underwriting deductions		<u>745,428</u>
Net underwriting loss		(740,290)
<u>Investment Income</u>		
Net investment income earned	\$ 84,664	
Net realized capital gains	<u>4,083</u>	
Net investment gain		88,747
<u>Other loss</u>		
Net loss from agents' or premium balances charged off	<u>(25)</u>	
Total other loss		<u>(25)</u>
Net income after dividends to policyholders, after capital gains tax and before federal and foreign income taxes		(651,569)
Federal and foreign income taxes incurred		<u>(37,525)</u>
Net loss		<u>\$ (614,044)</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2018		\$ 4,101,544
Net loss	\$ (614,044)	
Change in net deferred income tax	238,262	
Change in nonadmitted assets	<u>(674,364)</u>	
Change in surplus as regards policyholders for the year		<u>(1,050,146)</u>
Surplus as regards policyholders, December 31, 2019		<u>\$ 3,051,399</u>

Reconciliation of Surplus as Regards Policyholders
from December 31, 2014 through December 31, 2019

Surplus as regards policyholders, December 31, 2014			\$ 5,586,465
	Gain in Surplus	Loss in Surplus	
Net loss	\$ 287,527	\$ 609,711	
Change in net deferred income tax		712,883	
Change in nonadmitted assets		1,500,000	
Dividends to stock holders		1,500,000	
Total gains and losses	\$ 287,527	\$ 2,822,594	
Net decrease in surplus as regards policyholders			(2,535,067)
Surplus as regards policyholders, December 31, 2019			\$ 3,051,399

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

Based on an analysis by a Casualty Actuary for the California Department of Insurance, the Company's loss and loss adjustment expense reserves as of December 31, 2019 were found to be reasonably stated and have been accepted for the purpose of this examination.

SUBSEQUENT EVENTS

On January 14, 2020, the Company was acquired by Incline Insurance Group, LLC, a Texas Insurance Group.

The sale resulted in the termination of all prior existing affiliated agreements between the Company and National American Insurance Company of California ("NAICC") effective January 1, 2020. Simultaneously, NAICC assumed all of the Company's pre-sale liabilities and obligations pursuant to the following agreements effective January 1, 2020:

- (i) Reinsurance Agreement: Amended and Restated Reinsurance Agreement by and between the Company (as Cedent) and NAICC (as Reinsurer), whereby NAICC assumed 100% of the insurance liabilities of the Company.
- (ii) Transfer of Non-Insurance Liabilities Agreement: Amended and Restated Agreement for the Transfer of Non-insurance Liabilities, whereby NAICC assumes 100% of all non-insurance liabilities of the Company.
- (iii) Services Agreement: Amended and Restated Service Agreement by and between the Company and NAICC, whereby NAICC agrees to service the pre-sale business written by the Company.

Effective July 2, 2020, the Company's name was changed to Incline National Insurance Company.

On March 11, 2020, the World Health Organization declared coronavirus disease (“COVID-19”) a pandemic. The pandemic has triggered unprecedented government mandates and health and safety measures which have significantly impacted the U.S. and global financial markets, in particular, U.S. publicly traded equity securities, and impacts on yields and interest rates in the U.S. bond market. Subsequent to the examination period, and by and through the Company’s new parent, Incline Insurance Group, LLC, we reviewed COVID-19’s impact on the Company’s business operations with no immediate solvency concerns noted. As of the date of this report, significant uncertainty remains on the effect that the pandemic will have on the insurance industry, economy, and the Company at large. The California Department of Insurance continues to closely monitor the impact of the pandemic on the Company and will take necessary action if a solvency concern arises.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

None.

Previous Report of Examination

None.

ACKNOWLEDGMENT

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

Respectfully submitted,

Xue, George Digitally signed by Xue, George
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George Xue, CFE
Examiner-In-Charge
Associate Insurance Examiner
Department of Insurance
State of California

Aros, Edward Digitally signed by Aros,
Edward
Date: 2021.05.20 10:31:01
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Edward Aros, CFE
Senior Insurance Examiner, Supervisor
Department of Insurance
State of California