

REPORT OF EXAMINATION
OF THE
DEVELOPERS SURETY AND
INDEMNITY COMPANY
AS OF
DECEMBER 31, 2021

Insurance Commissioner

A handwritten signature in blue ink, appearing to read "Peter" or "Pete".

Filed on June 23, 2023

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Los Angeles, California
May 25, 2023

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

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

DEVELOPERS SURETY AND INDEMNITY COMPANY

(hereinafter also referred to as the Company). The Company's statutory home office and main administrative office is located at 17771 Cowan, Suite 100, Irvine, California 92614.

SCOPE OF EXAMINATION

We have performed our multi-state examination of the Company. The previous examination of the Company was as of December 31, 2017. This examination covered the period from January 1, 2018 through December 31, 2021.

The 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. An examination also includes identifying and evaluating significant risks that could cause an insurer'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 may include 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, during the course of the examination, an adjustment is identified, the impact of such adjustment will 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 was a coordinated examination of the AmTrust Financial Services, Inc. group with Delaware as the lead state. It was conducted concurrently with other insurance entities in the holding company group, including California affiliates Heritage Indemnity Company and Sequoia Insurance Company. The following states also participated in the examination: Arizona, Florida, New York, Oklahoma, Pennsylvania, and Texas.

COMPANY HISTORY

The Company is a property and casualty insurer and was incorporated under the laws of Iowa on October 10, 1936, and was licensed in California on August 30, 1999. On January 2, 2014, the Company and its subsidiary, Indemnity Company of California, became part of the AmTrust Group when AmTrust Financial Services, Inc. (AFSI) purchased Inesco Insurance Services, Inc. (INSCO), the Company's immediate parent.

On December 1, 2016, the Company re-domesticated from Iowa to California. The California Department of Insurance approved the transaction on November 29, 2016.

The Form A application in connection to the privatization of AFSI by Evergreen Parent GP, LLC was approved by the California Department of Insurance (CDI) on November 27, 2018. The transaction was completed on November 29, 2018. The

approval included a provision restricting the Company from paying dividends without prior approval from the CDI until November 29, 2023.

Effective December 31, 2019, Heritage Indemnity Company (HIC) became a wholly owned subsidiary of the Company upon the completion of the transfer of ownership of all issued and outstanding shares of HIC by AFSI to the Company.

Effective December 31, 2020, Indemnity Company of California merged into the Company.

Capitalization

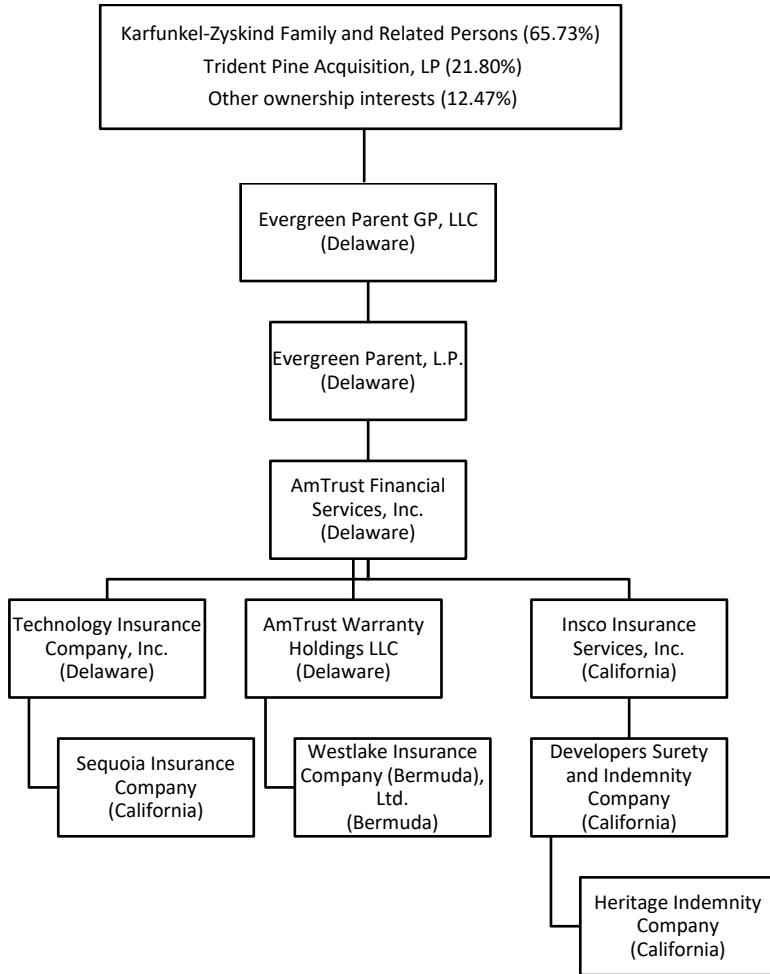
The Company is authorized to issue 5,000 shares of common stock with a par value of \$1,000 per share. As of December 31, 2021, there were 3,100 shares outstanding.

On February 15, 2019, the Company received \$20,000,000 capital contribution in the form of cash and securities from AFSI.

On December 31, 2019, a non-cash capital contribution, in the amount of \$19,767,547, was made by transferring ownership of all issued and outstanding shares of HIC from AFSI to the Company.

MANAGEMENT AND CONTROL

The Company is a member of the AmTrust Financial Services, Inc. (AFSI) insurance holding company system of which the ultimate controlling entity is Evergreen Parent GP, LLC. The following is an abridged organizational chart. All ownership is 100%.



The four 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, 2021:

Directors

Name and Location

Donald T. DeCarlo
Douglaston, New York

Susan C. Fisch
San Francisco, California

Principal Business Affiliation

Attorney
Self Employed

Retired Insurance Executive

<u>Name and Location</u>	<u>Principal Business Affiliation</u>
Evan M. Greenstein Jericho, New York	Senior Vice President, Commercial Lines AmTrust Financial Services, Inc.
Stephen B. Ungar North Hills, New York	Executive Vice President and General Counsel AmTrust Financial Services, Inc.

Principal Officers

<u>Name</u>	<u>Title</u>
Christopher H. Foy	President and Chief Executive Officer
Stephen B. Ungar	Secretary
Harry Schlachter *	Treasurer
Jeffery H. Mayer	Chief Actuary
Barry W. Moses	Vice President, Senior Regulatory Counsel, and Assistant Secretary

* Harry Schlachter resigned effective February 1, 2022, and was replaced by Ellen Dion.

Management Agreements

Insurance Services Management and Agency Agreement: Effective January 2, 2014, the Company entered into an Insurance Services Management and Agency Agreement with its affiliate, AmTrust North America, Inc. (ANA), a Delaware licensed insurance agency, to market and administer covered commercial property and casualty risks and policies, including workers' compensation, employers' liability or other similar policies. Services include underwriting, billing and collections, reporting and record maintenance, claims management, and reserving support. The California Department of Insurance (CDI) approved the agreement in conjunction with the Company's re-domestication on November 29, 2016.

Intercompany Management Agreement: Effective January 2, 2014, the Company entered into an Intercompany Management Agreement with AmTrust Financial Services, Inc. (AFSI). Under the terms of the agreement, AFSI is to provide investment fund management, statutory accounting and reporting, loss reserving and reinsurance

placement, employee management and human resource services, corporate governance, and maintenance of fiduciary accounts services. The CDI approved the agreement in conjunction with the Company's re-domestication on November 29, 2016.

Reinsurance Pooling Agreement: The Company is subject to a pooling agreement with an affiliated insurer, Technology Insurance Company, Inc. (TIC), under which all direct expenses for management, administrative, and agency services are fully ceded. As such, there would be no net expense to the Company on a post-pooling basis. Effective January 1, 2019, TIC entered into a Management Services Agreement (MSA) with ANA. Under this agreement, ANA manages the business assumed by TIC, as pool manager, from the pooled carriers, including the Company and TIC. Pursuant to the Reinsurance Pooling Agreement, TIC pays all of the management fees. As a result of these arrangements, the Company paid no service fees for 2018 through 2021.

Tax Allocation Agreement: Effective January 2, 2014, the Company entered into a Tax Allocation Agreement with AFSI. The allocation is made on a separate return basis with current credit for any net operating losses or other items utilized in the consolidated tax return. Tax return settlement is made within 30 days of the filing of the return. The CDI approved the agreement in conjunction with the Company's re-domestication on November 29, 2016. The Company paid/(received) tax settlements of \$12,933,224, \$4,425,473, 7,406,713, and \$(895,192) for 2018, 2019, 2020, and 2021, respectively.

Underwriting Management Agreement: Effective August 1, 2010, the Company entered into an Underwriting Management Agreement with Insco Insurance Services, Inc. (INSCO). Under the terms of the agreement, INSCO is authorized to manage the insurance operations, including administration, production, distribution and claims, and adjusting functions. The compensation for providing the services is based on actual cost. The Company will reimburse INSCO monthly for all costs and expenses incurred in the performance of duties under this agreement. The agreement was approved by the Iowa Insurance Division. The agreement was in effect prior to re-domestication from Iowa and no material change was made. The Company paid service fees of \$18,647,708, for 2018, and no service fees were paid for the years 2019 through 2021.

Underwriting Management Agreement: Effective June 1, 2012, the Company entered into an Underwriting Management Agreement with Builders Insurance Services, LLC (Builders), an affiliate. Under the terms of the agreement, Builders manages the property and casualty insurance operations of the Company. The compensation for providing the services is based on actual cost. The Company will reimburse Builders monthly for all costs and expenses incurred in the performance of duties under this agreement. The agreement was approved by the Iowa Insurance Division. The agreement was in effect prior to re-domestication from Iowa and no material change was made. The Company paid service fees of \$2,725,022, in 2018, and no services provided for years 2019 through 2021.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2021, the Company was licensed to transact aircraft, automobile, boiler and machinery, burglary, common carrier liability, credit, disability, fire, legal insurance, liability marine, miscellaneous, plate glass, sprinkler, surety, team and vehicle, and workers' compensation insurance in California. The Company was licensed in all fifty (50) states, including the District of Columbia and the U.S. Virgin Islands.

The Company provides other liability and surety bonds for construction contractors and land and housing developers, contractors liability and miscellaneous other property and casualty insurance to developers and contractors, and licenses and permit bonds to businesses of all sizes to meet federal, state, and local regulatory requirements for business licensure. Surety applicants that meet the basic standards are written through the Company.

At December 31, 2021, the Company had direct written premiums of \$22,524,589, of which 97.45% is other liability-occurrence, and 2.48% is inland marine. The top three states in direct written premiums and percentages are: Washington \$9,270,882 (41.16%), California \$8,390,858 (37.25 %), and Oregon \$3,410,396 (15.14%).

REINSURANCE

Reinsurance Pooling Agreement

Effective October 1, 2017, the Company entered into a Reinsurance Pooling Agreement (Pooling Agreement) under which the Company and certain identified affiliated insurers cede to affiliated insurer Technology Insurance Company, Inc. (TIC), a Delaware company, as reinsurer, and TIC assumes, 100% of the ceding companies' risks. A share of the profits and/or losses of the pooled business is retroceded back to four of the pool companies, including the Company. The agreement was approved by the California Department of Insurance on December 15, 2017.

On July 30, 2021, Amendment No. 1 to the Pooling Agreement was approved by the California Department of Insurance. Effective January 1, 2021, pursuant to Amendment No. 1, the pooled business allocated among the pool participants as follows:

<u>Pool Participants</u>	<u>State of Domicile</u>	<u>Pooling Share</u>
Technology Insurance Company, Inc.	DE	58.0%
Wesco Insurance Company	DE	22.0%
Security National Insurance Company	DE	12.0%
Developers Surety and Indemnity Company	CA	8.0%
Total		<u>100.0%</u>

Assumed

Other than its participation in the Reinsurance Pooling Agreement, the Company has \$12,817 in reinsurance assumed from its participation in a legacy State Auto program, which is included in what is being ceded to Liberty Mutual Insurance Company, an authorized reinsurance company.

Ceded

The following is a summary of the Company's reinsurance agreements in force as of December 31, 2021:

Line of Business and Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Limit
<u>Other Liability and Surety</u>	Authorized (A) Unauthorized (U) Certified (C)		
Casualty Excess of Loss	Hannover Rueck SE (A) 25%, General Reinsurance Corporation (A) 5%, Lloyds (Various) (A) 67%, Waypoint o/b/o Insurance Company of the West (A) 3%	\$10 million	\$40 million in excess of \$10 million in any one Loss Occurrence. \$120 million in respect of all Loss Occurrences with Dates of Loss during the term of this Contract and Runoff period combined.
Casualty Excess of Loss	Swiss Reinsurance America Corporation (A) 34% Everest Reinsurance Company (A) 25%, Lloyds (Various) (A) 29%, Aspen Insurance UK Limited (A) 12%	\$5 million	The Reinsurer shall be liable in respect of each Loss Occurrence, for the Ultimate Net Loss over and above an initial Ultimate Net Loss of \$5 million each Loss Occurrence, subject to a limit of liability to the Reinsurer of \$5 million each Loss Occurrence. Ultimate Net Loss as respect all Loss Occurrences under this Contract shall not exceed \$35 million.
Property Facultative Automatic Excess of Loss Reinsurance Contract	General Reinsurance Corporation (A) 52.5%, Arch Reinsurance Company (C) 47.5%	\$5 million	\$20 million in excess of \$5 million as respect any one Risk, each loss. This program is only for frame, non-sprinklered risks over \$5M.
Property Facultative Automatic Excess of Loss Reinsurance Contract	Arch Reinsurance Company (C) 33.4%, General Reinsurance Corporation (A) 33.3%, Munich Reinsurance America, Inc. (A) 33.3%	\$50 million of ultimate net loss	\$150 Million in excess of \$50 million of Ultimate Net Loss as respects any one Risk, each loss.
Trucking Liability Quota Share	ACE Property & Casualty Insurance Company (C) 16%, MS Amlin AG (U) 26%, Renaissance Reinsurance US, Inc. (C) 5%, Swiss Reinsurance America Corporation (A) 20.5%, TOA Reinsurance Company of America (A) 5%	27.5%	Automobile Liability \$1 million each accident, each Policy; Uninsured Motorists \$1 million each accident, each Policy; Underinsured Motorists \$1 million each accident, each Policy; PIP/No-fault Statutory limits Medical Payments \$5,000 each accident, each Policy
Property Per Risk Excess of Loss First Layer	Allied World Reinsurance Company(A) 12.5%, American Agricultural Insurance Company (U) 6%, Aspen Re America (A) 1.5%, General Reinsurance Corporation (A) 12.5%, Hannover Rueck SE (A) 25%, Liberty Mutual Insurance Company (A) 11.5%, MAPFRE Re Compania De Reaseguros SA (A) 10%, Odyssey Reinsurance Company (A) 1%, Partner Reinsurance Company of the US (A) 7.5%, Renaissance Reinsurance US Inc (A) 7.5%, SCOR Reinsurance Company (A) 5%	\$5 million	\$5 million in excess of \$5 million with a \$10 million per occurrence limit and \$25 million aggregate limit.

Line of Business and Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Limit
Property Per Risk Excess of Loss Second Layer	Allied World Reinsurance Company (A) 5%, American Agricultural Insurance Company (U) 6%, Ariel (Lloyds 1910) (A) 4%, General Reinsurance Corporation (A) 12.5%, Hannover Rueck SE (A) 25%, Helvetia Swiss Insurance Company Ltd. (U) 5%, Liberty Mutual Insurance Company (A) 10%, Lloyds (Chord Re) (A) 4%, MAPFRE RE Compania De Reaseguros SA (A) 10%, Odyssey Reinsurance Company (A) 7.5%, Partner Reinsurance Company of the US (A) 3%, Renaissance Reinsurance US Inc. (A), 5% SCOR Reinsurance Company (A) 3%	\$10 million	\$10 million in excess of \$10 million with a \$10 million per occurrence limit and a \$40 million aggregate limit
Property Per Risk Excess of Loss Third Layer	Allied World Reinsurance Company (A) 4%, Ariel (Lloyds 1910) (A) 4%, Aspen Re America (A) 2.5%, General Reinsurance Corporation (A) 12.5%, Hannover Rueck SE (A) 20%, Helvetia Swiss Insurance Company Ltd. (U) 5%, Lloyds (Chord Re) (A) 4%, MAPFRE RE Compania De Reaseguros SA (A) 10%, Odyssey Reinsurance Company (A) 7.5%, Renaissance Reinsurance US Inc. (A), 7.5% SCOR Reinsurance Company (A) 5%, Lloyds (Various) (A) 18%	\$20 million	\$30 million in excess of \$20 million with a \$30 million per occurrence limit and a \$60 million aggregate limit
Property Catastrophe Excess of Loss First Layer	China Reinsurance (Group) Corporation (U) 2.5%, Lloyds (Various) (A) 27.05%, MS Amlin AG (A) 2.5%, Validus Reinsurance Ltd. (A) 2.05%, AXIS Specialty Limited (A) 1.5%, General Reinsurance Corporation (A) 5.9%, Hannover Re (Bermuda) Ltd. (A) 3%, Partner Reinsurance Company, Ltd. (A) 4.5%, Allied World Insurance Company (A) 2%, Aspen Bermuda Limited (A) 1%, Chubb Tempest Reinsurance Ltd. (C) 1.5% Everest Reinsurance Company (A) 8.5%, Swiss Reinsurance America Corporation (A) 2.5%, DaVinci Reinsurance Ltd. (C) 4.25%, Renaissance Reinsurance Ltd. (C) 4.25%, XL Bermuda Limited Reinsurance (A) 2%	The first \$30 million plus 25% of \$80 million in excess of \$30 million	75% of \$80 million in excess of \$30 million

Line of Business and Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Limit
Property Catastrophe Excess of Loss Second Layer	China Reinsurance (Group) Corporation (U) 2%, Lloyds (Various) (A) 28.389%, Taiping Reinsurance Company Ltd. (U) 1%, MS Amlin AG (A) 0.715%, Validus Reinsurance Ltd. (A) 1.501%, American Agricultural Insurance Company (U) 1.5%, AXIS Specialty Limited (A) 3.5%, General Reinsurance Corporation (A) 10%, Hannover Re (Bermuda) Ltd. (A) 3.5%, Mapfre Re, Compania De Reaseguros, S.A. (A) 3.5%, Partner Reinsurance Company, Ltd. (A) 4%, SCOR Reinsurance Company (A) 2.5%, Allied World Insurance Company (A) 0.286%, Aspen Bermuda Limited (A) 0.715%, Chubb Tempest Reinsurance Ltd. (C) 2%, Everest Reinsurance Company (A) 7.5%, Munich Reinsurance America, Inc. (A) 0.901%, Swiss Reinsurance America Corporation (A) 12.5%, DaVinci Reinsurance Ltd. (C) 2.646%, Renaissance Reinsurance Ltd. (C) 2.647%, XL Bermuda Limited Reinsurance (A) 2.5%, Markel Bermuda Limited (A) 1.2%	The first \$110 million plus 5% of \$120 million in excess of \$110 million	95% of \$120 million in excess of \$110 million
Property Catastrophe Excess of Loss Third Layer	China Reinsurance (Group) Corporation (U) 2%, Lloyds (Various) (A) 24.962%, Taiping Reinsurance Company Ltd. (U) 1%, MS Amlin AG (A) 0.338%, Validus Reinsurance Ltd (A) 1% American Agricultural Insurance Company (U) 1.5%, AXIS Specialty Limited (A) 3.5%, General Reinsurance Corporation (A) 10%, Hannover Re (Bermuda) Ltd. (A) 7%, Korean Reinsurance Company (U) 1.5%, Mapfre Re, Compania De Reaseguros, S.A. (A) 3.5%, Odyssey Reinsurance Company (A) 4%, Partner Reinsurance Company, Ltd. (A) 4%, SCOR Reinsurance Company (A) 2.5%, Allied World Insurance Company (A) 0.135%, Aspen Bermuda Limited (A) 0.271%, Everest Reinsurance Company (A) 7.5%, Munich Reinsurance America, Inc. (A) 0.338%, Swiss Reinsurance America Corporation (A) 12.5%, DaVinci Reinsurance Ltd. (C) 1.628%, Renaissance Reinsurance Ltd. (C) 1.628%, Vermeer Reinsurance Ltd. (U) 3%, Markel Bermuda Limited (A) 1.2%	The first \$330 million plus 5% of \$170 million in excess of \$330 million	95% of \$170 million in excess of \$300 million

Line of Business and Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Limit
Property Catastrophe Excess of Loss Fourth Layer	China Reinsurance (Group) Corporation (U) 2%, Lloyds (Various) (A) 21.725%, Taiping Reinsurance Company Ltd. (U) 1%, MS Amlin AG (A) 0.138%, Validus Reinsurance Ltd (A) 1% American Agricultural Insurance Company (U) 1.5%, AXIS Specialty Limited (A) 3.5%, General Reinsurance Corporation (A) 10%, Hannover Re (Bermuda) Ltd. (A), 10% Korean Reinsurance Company (U) 1.25%, Mapfre Re, Compania De Reaseguros, S.A. (A) 3.5%, Odyssey Reinsurance Company (A) 4%, Partner Reinsurance Company, Ltd. (A) 4%, SCOR Reinsurance Company (A) 2.5%, Allied World Insurance Company (A) 0.055%, Aspen Bermuda Limited (A) 0.110%, Everest Reinsurance Company (A) 7.5%, Munich Reinsurance America, Inc. (A) 0.166%, Swiss Reinsurance America Corporation (A) 12.5%, DaVinci Reinsurance Ltd. (C) 0.803%, Renaissance Reinsurance Ltd. (C) 0.803%, Vermeer Reinsurance Ltd. (U) 5.75%, Markel Bermuda Limited (A) 1.2%	The first \$400 million plus 5% of \$50 million in excess of \$400 million	95% of \$50 million in excess of \$400 million
Surety Quota Share	Swiss Reinsurance America Corporation (A) 25%, Everest Reinsurance Company (A) 15%, Helvetia Swiss Insurance Company Ltd. (U) 14%, MS Amlin AG Bermuda Branch (U) 10%, Odyssey Reinsurance Company (A) 6%	30%	70% of the Company's net liability

FINANCIAL STATEMENTS

The following financial 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, 2021. The accompanying comments to the amounts reported in the annual statements should be considered an integral part of the financial statements. No examination adjustments were made to surplus as a result of the examination.

Statement of Financial Condition as of December 31, 2021

Underwriting and Investment Exhibit for the Year Ended December 31, 2021

Reconciliation of Surplus as Regards Policyholders from December 31, 2017 through December 31, 2021

Statement of Financial Condition
as of December 31, 2021

<u>Assets</u>	Ledger and Nonledger Assets	Assets Not Admitted	Net Admitted Assets	Notes
Bonds	\$ 355,075,588	\$	\$ 355,075,588	
Common stocks	20,738,649		20,738,649	
Cash, cash equivalents, and short-term investments	13,475,064		13,475,064	
Receivables for securities	751		751	
Investment income due and accrued	2,382,355		2,382,355	
Uncollected premiums and agents' balances in the course of collection	56,371,956	18,077,525	38,294,431	
Deferred premiums, agents' balances and installments booked but deferred and not yet due	92,528,911	993,605	91,535,306	
Accrued retrospective premiums	24,979		24,979	
Amounts recoverable from reinsurers	8,162		8,162	
Funds held by or deposited with reinsured companies	48,185,156		48,185,156	
Current federal and foreign income tax recoverable and interest thereon	4,235,912		4,235,912	
Net deferred tax asset	17,282,727	3,717,921	13,564,806	
Guaranty funds receivable or on deposit	59,859		59,859	
Electronic data processing equipment and software	2,161		2,161	
Receivables from parent, subsidiaries and affiliates	20,348,578		20,348,578	
Aggregate write-ins for other than invested assets	<u>19,094,717</u>		<u>19,094,717</u>	
Total assets	<u>\$ 649,815,525</u>	<u>\$ 22,789,051</u>	<u>\$ 627,029,474</u>	
 <u>Liabilities, Surplus and Other Funds</u>				
Losses			\$ 284,695,946	(1)
Reinsurance payable on paid loss and loss adjustment expenses				
Loss adjustment expenses			50,369,339	(1)
Commissions payable, contingent commissions and other similar charges			21,188,641	
Other expenses			2,348,198	
Taxes, licenses and fees			4,219,874	
Unearned premiums			122,939,517	
Advance premiums			1,126,210	
Ceded reinsurance premiums payable			(10,941,074)	
Amounts withheld or retained by company for account of others			866,789	
Payable to parent, subsidiaries and affiliates			192	
Aggregate write-ins for liabilities			<u>465,779</u>	
Total liabilities			477,279,411	
Aggregate write-ins for special surplus funds	\$ 21,302,720			
Common capital stock	3,100,000			
Gross paid-in and contributed surplus	68,003,432			
Unassigned funds (surplus)	<u>57,340,911</u>			
Surplus as regards policyholders			149,747,063	
Total liabilities, surplus, and other funds			<u>\$ 627,026,474</u>	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2021

State of Income

Underwriting Income

Premium earned	\$ 191,718,711
Deductions:	
Losses incurred	\$ 99,234,712
Loss adjustment expenses incurred	26,960,065
Other underwriting expenses incurred	<u>78,411,756</u>
Total underwriting deductions	<u>204,606,533</u>
Net underwriting loss	(12,887,822)

Investment Income

Net investment income earned	\$ 9,682,121
Net realized capital losses	<u>(792,721)</u>
Net investment gain	8,889,400

Other Income

Net loss from agents' or premium balances charged off	\$ (3,450,949)
Finance and service charges not included in premiums	1,594,054
Aggregate write-ins for miscellaneous income	<u>587,295</u>
Total other income	<u>(1,269,600)</u>
Net income before dividends to policyholders, after capital gains tax, and before all other federal and foreign income taxes	(5,268,022)
Dividends to policyholders	<u>1,345,391</u>
Net income after dividends to policyholders, after capital gains tax, and before all other federal and foreign income taxes	(6,613,412)
Federal and foreign income taxes incurred	<u>(3,679,407)</u>
Net loss	<u>\$ (2,934,005)</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2020	\$ 144,851,324
Net loss	\$ (2,934,005)
Change in net unrealized capital loss	(627,986)
Change in net deferred income tax	(2,466,561)
Change in nonadmitted assets	11,938,757
Aggregate write-ins for losses in surplus	<u>(1,014,466)</u>
Change in surplus as regards policyholders for the year	<u>4,895,739</u>
Surplus as regards policyholders, December 31, 2021	<u>\$ 149,747,063</u>

Reconciliation of Surplus as Regards to Policyholders
from December 31, 2017 through December 31, 2021

Surplus as regards policyholders, December 31, 2017		\$ 102,084,471
	<u>Gain in Surplus</u>	<u>Loss in Surplus</u>
Net income	\$ 14,009,178	\$ 5,330,419
Change in net unrealized capital losses	2,412,798	
Change in net deferred income tax	5,161,279	
Change in nonadmitted assets	39,767,547	
Capital change: Paid-in	8,357,791	(2)
Aggregate write-ins for losses in surplus	\$ 61,350,802	\$ 13,688,210
Total gains and losses		47,662,592
Net decrease in surplus as regards policyholders		<u>\$ 149,747,063</u>
Surplus as regards policyholders, December 31, 2021		

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

Delaware, the lead state, retained INS Consultants, Inc. (INS) for the purpose of assisting this examination in determining the reasonableness of the Group's loss and loss adjustment expense reserves. Since the business of the Company was pooled, it was necessary to evaluate the losses on a group-wide basis. Based on the analysis by INS and the review of their work by a Casualty Actuary from the California Department of Insurance, the Company's December 31, 2021 reserves for losses and loss adjustment expenses were found to be reasonably stated and have been accepted for purposes of this examination.

(2) Aggregate Write-ins for Losses in Surplus

The Company made certain adjustments within the audited financial statements, which were reflected in the related regulatory filings. The adjustments related to premiums receivable, contingent commissions, earned but unbilled premiums, and assessment accruals, arose as a result of enhanced systems, data reconciliation efforts, and refinement of accrual methodologies. These adjustments required a recalculation of deferred tax assets, a portion of which was non-admitted.

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,

Thomas Podsiadlo, CFE
Examiner-In-Charge
Senior Insurance Examiner
Department of Insurance
State of California

Ralph Oseguera CFE
Senior Insurance Examiner, Supervisor
Department of Insurance
State of California