REPORT OF EXAMINATION

OF THE

FINANCIAL PACIFIC INSURANCE COMPANY

AS OF

DECEMBER 31, 2023

Insurance Commissioner

Filed on April 23, 2025

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Los Angeles, California
April 2, 2025

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

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

FINANCIAL PACIFIC INSURANCE COMPANY

(hereinafter also referred to as the Company). The Company's statutory home office is located at 725 South Figueroa Street, Suite 1870, Los Angeles, California 90017. The Company's administrative office is located at 118 Second Ave SE, Cedar Rapids, Iowa 52401.

SCOPE OF EXAMINATION

We have performed our multi-state examination of the Company. The previous examination of the Company was as of December 31, 2018. This examination covered the period from January 1, 2019 through December 31, 2023.

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 with Iowa serving as the lead state of United Fire Group (UFG). It was conducted concurrently with other insurance entities in the holding company group. The following states participated in the examination: California, Louisiana, New Jersey, Pennsylvania, and Texas.

COMPANY HISTORY

The Company was incorporated under the laws of California on July 22, 1986, and commenced business on December 31, 1987. It is a wholly-owned subsidiary of United Fire and Casualty Company (UFC), domiciled in Iowa, and ultimately owned by United Fire Group, Inc. (UFG), a publicly traded company.

Capitalization

The Company is authorized to issue 242,000 shares of common stock with a par value of $650 per share. As of December 31, 2023, there were 4,620 shares issued and outstanding.

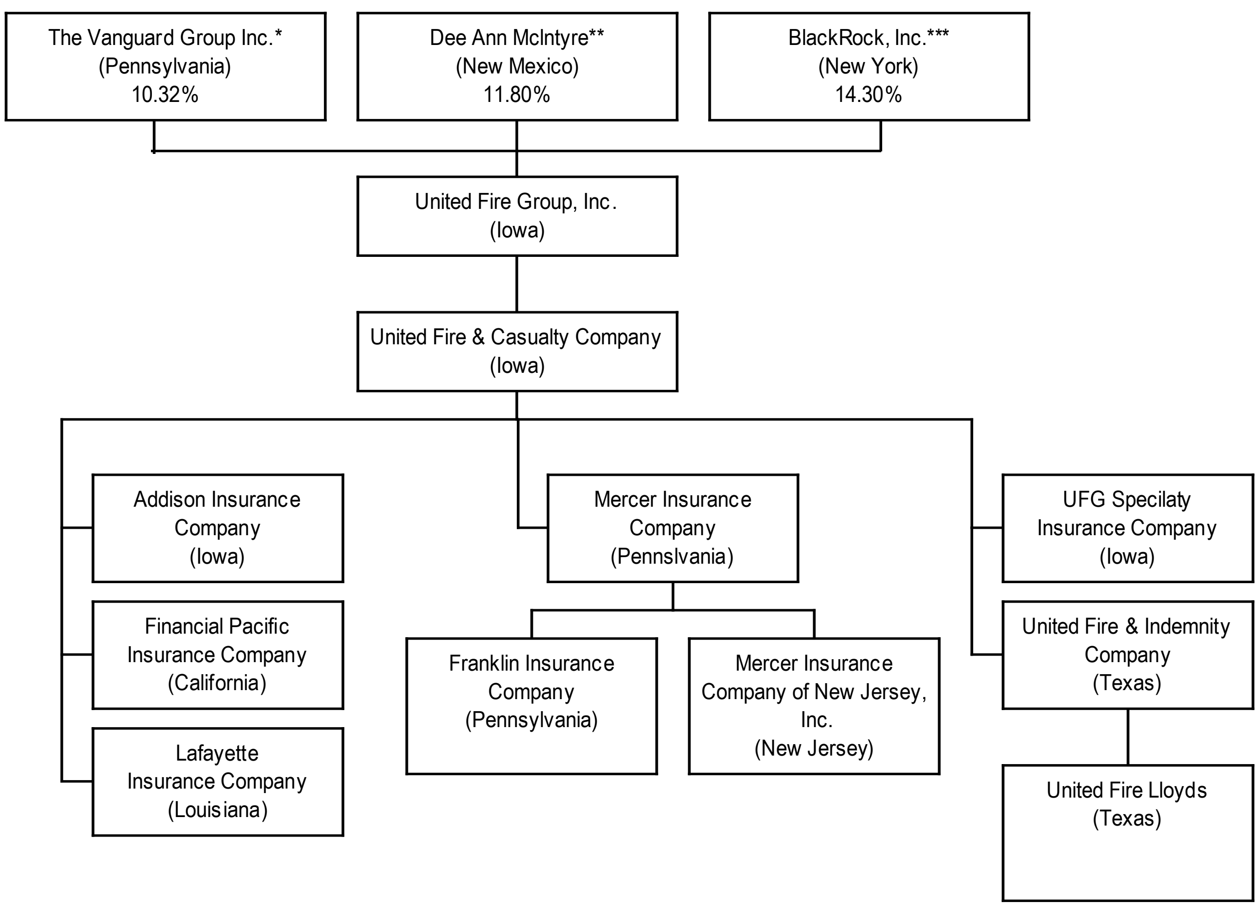
Dividends

On March 23, 2020, the Company paid an ordinary cash dividend of $10,000,000 to UFC.

On December 15, 2020, the Company paid an extraordinary cash dividend of $10,000,000 to UFC. The California Department of Insurance approved the transaction on November 24, 2020.

MANAGEMENT AND CONTROL

The Company is a member of an insurance holding company system. The following abridged organizational chart shows the interrelationship of the companies within the holding company system as of December 31, 2023. All ownership is 100% unless otherwise stated.



* On June 1, 2022, the California Department of Insurance approved the disclaimer of affiliation by the Vanguard Group, Inc.

** On September 12, 2014, the California Department of Insurance approved the disclaimer of affiliation by Dee Ann McIntyre.

*** BlackRock, Inc. has filed disclaimers of affiliation with all six state insurance departments where United Fire Group has an insurance company domiciled.

The six 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, 2023:

Directors

Name and Location	Principal Business Affiliation
Alison B. Kaster Cedar Rapids, Iowa	Vice President – Business Underwriting Lead, Small Business United Fire & Casualty Company
Kevin J. Leidwinger Cedar Rapids, Iowa	President and Chief Executive Officer United Fire & Casualty Company
Sarah E. Madsen North Liberty, Iowa	Vice President, Chief Legal Officer, and Secretary United Fire & Casualty Company
Eric J. Martin Marion, Iowa	Executive Vice President, Chief Financial Officer, and Treasurer United Fire & Casualty Company
James W. Noyce Grimes, Iowa	Director and Chairman of the Board United Fire Group, Inc.
Julie A. Stephenson Midlothian, Texas	Executive and Chief Operations Officer United Fire & Casualty Company

Principal Officers

Name	Title
Kevin J. Leidwinger	President
Eric J. Martin (b)	Executive Vice President
Julie A. Stephenson	Executive Vice President
Brian J. Frese (a)	Vice President

Name	Title
Kyanna M. Saylor	Vice President
Janice A. Martin [b]	Treasurer

The following changes in management occurred after the examination date:

[a] Effective February 1, 2024, Brian J. Frese was removed as an officer due to reorganization, which eliminated his position.
[b] Effective March 29, 2024, Janice A. Martin retired, and Eric J. Martin was elected as Treasurer on the same date.

Management Agreements

Second Amended and Restated Intercompany Investment Apportionment Agreement: Effective March 31, 2018, the Company entered into a Second Amended and Restated Intercompany Investment Apportionment Agreement with its immediate parent, United Fire & Casualty Company (UFC), and other affiliates. Under the terms of this agreement, UFC is responsible for providing various investment-related services, including purchasing, selling, exchanging and placing securities in custodial accounts. Additionally, UFC manages short-term cash positions and handles the setup, monitoring and maintenance of these custodial accounts. The costs incurred by UFC for these services are allocated proportionally based on the share of the projected investment expenses incurred by each member of the group and settled on a monthly basis. The proportionate share of investment expenses is based on the sum of the par value of its bonds and the market value of its non-affiliated stocks in relation to the sum of the aggregate par value of all bonds and aggregate market value of all non-affiliated stocks of all the parties. The California Department of Insurance (CDI) approved this agreement on February 5, 2018. During the examination period, the Company paid UFC investment management fees totaling $349,458, $177,073, $319,250, $440,365, and $98,827 for the years 2019, 2020, 2021, 2022, and 2023, respectively.

First Amended and Restated Agents' Balances Payment and Reimbursement Agreement: UFC and its nine affiliates, including the Company, formed an intercompany pooling arrangement (UFC Pooling) effective January 1, 2012, with UFC as the lead company. Subsequently, effective November 1, 2013, the Company entered into a First

Amended and Restated Agents' Balances Payment and Reimbursement Agreement (First Agents' Balances Agreement) with UFC and its affiliates. Under the terms of this agreement, UFC is responsible for the collection and remittance of agents' balances for each participating member of the UFC Pooling. UFC handles all payments to and receives all payments from appointed agents on behalf of the members. Amounts due from agents for each member are recorded as a "payable to affiliate" in UFC's books, while each member records a corresponding "receivable from affiliate" for the amounts owed by their agents. UFC settles these payables with each member within 30 days following the end of each month. UFC also records all non-admitted and unallocated remittance amounts in its books. There is no charge for services or administrative fees provided under the First Agents' Balances Agreement. The CDI approved this agreement on August 29, 2012.

On November 20, 2020, the Company filed an amendment to the First Agents' Balances Agreement (Second Agents' Balances Agreement) to incorporate the service agreement provisions required by the Insurance Holding Company System Model Regulation, as adopted in the domiciliary states of UFC Pooling members. All other terms and provisions remained unchanged, with an effective date of January 1, 2021. The CDI approved the Second Agents' Balances Agreement on December 15, 2020. During the examination period, UFC reimbursed agents' balances due to the Company totaling $85,668,146, $77,767,152, $59,073,316, $50,001,577 and $60,737,038 for the years 2019, 2020, 2021, 2022, and 2023, respectively.

Third Amended and Restated Federal Income Tax Allocation Agreement: Effective March 31, 2018, the Company entered into a Third Amended and Restated Federal Income Tax Allocation Agreement (Tax Agreement) with its ultimate parent, United Fire Group, Inc. (UFG), and its affiliates. Under the terms of this agreement, participants in the group file a consolidated federal income tax return. UFG is responsible for filing the return and making federal income tax payments on behalf of all participants. The allocation of taxes is based on separate return calculations, with the tax balance payable or receivable settled as if separate returns were filed. Tax payments or credits are settled no earlier than 10 days before and no later than 30 days after the filing date of the consolidated tax return. There is no charge for service fees provided under this agreement. The CDI approved this Tax Agreement on January 26, 2018.

During the examination period, the Company paid/(recovered) federal income taxes totaling $(27,459), $(934,587), $(2,347,328), $1,164,629 and $(831,513) for the years 2019, 2020, 2021, 2022, and 2023, respectively.

Third Amended and Restated Credit Agreement (UFC as borrower): Effective March 31, 2018, the Company entered into a Third Amended and Restated Credit Agreement (Borrowing Agreement) with UFC and its affiliates. Under the terms of this agreement, UFC, as the borrower, is authorized to borrow up to a maximum of $50 million from its subsidiaries, subject to the condition that the total borrowed amount does not exceed 10% of the surplus of each respective subsidiary. All principal payments, interest, fees, and other liabilities must be settled within 30 days following the end of the month they are incurred. The CDI approved this Borrowing Agreement on February 6, 2018. There was no borrowing activity during the examination period.

Third Amended and Restated Credit Agreement (UFC as lender): Effective March 31, 2018, the Company entered into a Third Amended and Restated Credit Agreement (Lending Agreement) with UFC and its affiliates. Under the terms of this agreement, UFC, as the lender, may advance up to a maximum of $5 million per affiliate on a short-term basis at the prevailing interest rate. All principal payments, interest, fees, and other liabilities must be settled within 30 days following the end of the month they are incurred. The CDI approved this Lending Agreement on February 6, 2018. There was no borrowing activity during the examination period.

TERRITORY AND PLAN OF OPERATION

The Company is licensed to write property and casualty insurance business in the following states:

Alaska	Iowa	North Dakota
Arizona	Kansas	Oklahoma
Arkansas	Minnesota	Oregon
California	Missouri	South Dakota
Colorado	Montana	Texas
Florida	Nebraska	Utah
Idaho	Nevada	Washington
Illinois	New Mexico	Wisconsin

In 2023, the Company wrote $66.8 million in direct premiums, with $56.0 million (83.9%) generated in California, $10.3 million (15.4%) in Nevada, and $0.3 million (0.5%) in Texas. The Company provides commercial property and casualty insurance products primarily to small and medium-sized businesses. As part of the United Fire Group, Inc., the Company is represented by 1,000 independent agents nationwide. The Company's product line includes coverage for contractors, as well as light industrial and commercial property owners.

REINSURANCE

Intercompany Reinsurance Pooling Agreement

Second Amended and Restated Reinsurance Pooling Agreement: Effective July 1, 2015, the Company entered into a Second Amended and Restated Reinsurance Pooling Agreement (Reinsurance Pooling Agreement) with United Fire & Casualty Company (UFC) and its affiliates. Under the terms of this agreement, UFC assumes 100% of the subsidiaries' direct and assumed premiums, losses, loss adjustment expenses, and other underwriting expenses and then retrocedes to each affiliate a percentage of the pooled business as illustrated in the following table as of December 31, 2023:

Pool Participant	State of Domicile	Pooling Share
United Fire & Casualty Company	IA	64%
Mercer Insurance Company	PA	9%
Financial Pacific Insurance Company	CA	8%
Lafayette Insurance Company	LA	7%
Addison Insurance Company	IA	4%
Mercer Insurance Company of New Jersey, Inc.	NJ	3%
United Fire & Indemnity Company	TX	2%
Franklin Insurance Company	PA	1%
UFG Specialty Insurance Company	IA	1%
United Fire Lloyds	TX	1%
Pool Total		100%

The Intercompany Reinsurance Pooling Agreement stipulates that balances must be settled quarterly within 90 days following the end of each quarter.

Assumed

The Company does not assume business except for its participation in the Intercompany Reinsurance Pooling Agreement discussed above.

Ceded

As participants of the Intercompany Reinsurance Pooling Agreement, UFC and all participants are parties to various catastrophe reinsurance agreements with external reinsurers to cover all business underwritten by the participants. The following is a summary of the significant in-force reinsurance program as of December 31, 2023 (all reinsurers are either certified or authorized in California):

Line of Business and Type of Contract	Reinsurer	Group's Retention	Reinsurer's Limits
Property Catastrophe Excess of Loss			
1st Layer - Property	20.0% R+V Versicherung AG 13.0% Various Lloyds 11.0% American Agricultural Insurance Company 6.0% DaVinci Re Ltd. 21.5% Various reinsurers, each with less than 5%	$20 million, plus 28.5% of $10 million in excess of $20 million	71.5%, or up $7.15 million in excess of $20 million, with one reinstatement

Line of Business and Type of Contract	Reinsurer	Group's Retention	Reinsurer's Limits
2nd Layer - Property	20.00% R+V Versicherung AG 17.25% Various Lloyds 7.50% Everest Reinsurance Company 7.50% Conduit Reinsurance Limited 6.00% Allied World Assurance Co. Ltd. 6.00% DaVinci Re Ltd. 5.50% SCOR Reinsurance Company 5.00% SiriusPoint Bermuda Insurance Company Ltd 25.25% Various reinsurers, each with less than 5%	$30 million	$30 million in excess of $30 million with one reinstatement
3rd Layer - Property	13.25% Various Lloyds 12.50% R+V Versicherung AG 10.00% SCOR Reinsurance Company 9.00% DaVinci Re Ltd. 8.00% Everest Reinsurance Company 7.50% Conduit Reinsurance Limited 6.00% Renaissance Reinsurance Ltd 5.00% SiriusPoint Bermuda Insurance Company Ltd. 28.75% Various reinsurers, each with less than 5%	$60 million	$70 million in excess of $60 million, with one reinstatement
4th Layer – Earthquake only	Part 1: 10.50% Various Lloyds 6.50% Partner Re Co. Ltd 7.00% R+V Versicherung AG 6.00% Various reinsurers, each with less than 5%	$130 million	30% of $70 million in excess of $130 million, with one reinstatement
	Part 2: 55.00% Vermeer Re Ltd 9.00% DaVinci Re Ltd. 6.00% Renaissance Reinsurance Ltd	$130 million, plus 70% of $20 million in excess of $180 million	70% of $50 million in excess of $130 million, with one reinstatement
Multiple Line Excess of Loss			
1st Layer – All perils	31.25% Hannover Ruck SE 25.00% Renaissance Reinsurance U.S. Inc 18.75% Partner Reinsurance Company of the U.S. 10.00% Mutual Reinsurance Bureau 7.50% Berkley Insurance Company 5.00% The TOA Reinsurance Company of America 2.50% Everest Reinsurance Company	$3 million for each and every risk/loss	$8 million for each and every risk/loss, subject to an occurrence limitation of $8 million, with an aggregate limit of $24 million for property and $8 million for casualty, umbrella, and employment practices liability business.
2nd Layer – Property, including Terrorism	44.50% Various Lloyds 15.00% Renaissance Reinsurance U.S. Inc 10.00% Partner Reinsurance Company of the U.S.	$11 million for each and every risk/loss	$14 million for each and every risk, with an aggregate limit of $18 million in one contract year

Line of Business and Type of Contract	Reinsurer	Group's Retention	Reinsurer's Limits
	10.00% Hannover Ruck Se 7.00% Trisura Insurance Company 7.00% Conduit Reinsurance Limited 4.00% MS Amin AG, Bermuda Branch 2.50% Everest Reinsurance Company		
2nd Layer – Casualty	17.50% Various Lloyds 25.00% Renaissance Reinsurance U.S. Inc 18.75% Partner Reinsurance Company of the U.S. 31.25% Hannover Ruck Se 2.50% Mutual Reinsurance Bureau 3.00% Korean Reinsurance Company 2.00% Berkley Insurance Company	$11 million for each and every loss occurrence	$9 million for each and every occurrence, with an aggregate limit of $18 million in one contract year
3rd Layer – Casualty	57.50% Various Lloyds 15.00% Renaissance Reinsurance U.S. Inc 15.00% Hannover Ruck Se 4.50% Arch Reinsurance Company 3.00% Korean Reinsurance Company 2.50% Convex Re Limited 2.50% Convex Insurance U.K. Limited	$20 million for each and every loss occurrence	$20 million for each and every occurrence, with an aggregate limit of $40 million in one contract year
4th Layer - Casualty	57.50% Various Lloyds 15.00% Renaissance Reinsurance U.S. Inc 15.00% Hannover Ruck Se 4.50% Arch Reinsurance Company 3.00% Korean Reinsurance Company 2.50% Convex Re Limited 2.50% Convex Insurance U.K. Limited	$40 million for each and every loss occurrence	$20 million for each and every occurrence, with an aggregate limit of $40 million in one contract year

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, 2023. These financial statements were prepared by management and are the responsibility of management. No adjustments were made to the statutory financial statements filed by the Company.

Statement of Financial Condition as of December 31, 2023

Underwriting and Investment Exhibit for the Year Ended December 31, 2023

Reconciliation of Surplus as Regards Policyholders from December 31, 2018 through December 31, 2023

Statement of Financial Condition
as of December 31, 2023

Assets	Ledger and Nonledger Assets	Assets Not Admitted	Net Admitted Assets	Notes
Bonds	$ 232,522,945	$	$ 232,522,945	
Cash and cash equivalents	3,029,644		3,029,644	
Investment income due and accrued	2,015,842		2,015,842	
Premiums and agents' balances course of collection	7,024,197		7,024,197	
Amounts recoverable from reinsurers	5,404,097		5,404,097	
Current federal and foreign income tax recoverable	1,226,062		1,226,062	
Net deferred tax asset	3,462,035	494,649	2,967,386	
Guaranty funds receivable or on deposit	30		30	
Total assets	$ 254,684,852	$ 494,649	$ 254,190,203	

Liabilities, Surplus and Other Funds			Notes
Losses		$ 93,515,069	(1)
Reinsurance payable on paid losses and loss adjustment expenses		7,517,259	
Loss adjustment expenses		17,520,876	(1)
Commissions payable, contingent commissions and other similar charges		2,494,394	
Other expenses		1,534,808	
Taxes, licenses and fees		394,099	
Unearned premiums		39,271,761	
Ceded reinsurance premiums payable		3,331,580	
Payable to parent, subsidiaries, and affiliates		417,651	
Total liabilities		165,997,497	
Common capital stock	$ 3,003,000		
Gross paid-in and contributed surplus	28,513,974		
Unassigned funds (surplus)	56,675,732		
Surplus as regards policyholders		88,192,706	
Total liabilities, surplus, and other funds		$ 254,190,203	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2023

Statement of Income

Underwriting Income

Premium earned		$ 78,711,565
Deductions:		
Losses incurred	$ 53,075,973	
Loss adjustment expenses incurred	7,705,774	
Other underwriting expenses incurred	29,577,193	
Total underwriting deductions		90,358,940
Net underwriting loss		(11,647,375)

Investment Income

Net investment income earned	$ 7,487,412	
Net realized capital losses	(6,554)	
Net investment gain		7,480,858

Other Income

Finance and service charges not included in premiums	89,420	
Total other income		89,420
Net loss before dividends to policyholders, after capital gains tax, and before all other federal and foreign income taxes		(4,077,097)
Dividends to policyholders		786
Net loss after dividends to policyholders, after capital gains tax, and before all other federal and foreign income taxes		(4,077,883)
Federal and foreign income taxes incurred		(1,374,829)
Net loss		$ (2,703,054)

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2022		$ 89,778,510
Net loss	$ (2,703,054)	
Change in net deferred income tax	60,180	
Change in nonadmitted assets	(53,619)	
Cumulative effect of changes in accounting principles	1,110,689	
Change in surplus as regards policyholders for the year		(1,585,804)
Surplus as regards policyholders, December 31, 2023		$ 88,192,706

Reconciliation of Surplus as Regards to Policyholders
from December 31, 2018 through December 31, 2023

	Gain in Surplus	Loss in Surplus	
Surplus as regards policyholders, December 31, 2018			$ 101,760,351
Net income	$ 5,774,854	$	
Change in net deferred income tax		179,455	
Change in nonadmitted assets		273,733	
Cumulative effect of changes in accounting principles	1,110,689		
Dividends to stockholders		20,000,000	
Total gains and losses	$ 6,885,543	$ 20,453,188	
Net decrease in surplus as regards policyholders			(13,567,645)
Surplus as regards policyholders December 31, 2023			$ 88,192,706

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses
Loss Adjustment Expenses

The lead state engaged INS Consultants, Inc., (INS) to evaluate the reasonableness of United Fire Group's loss and loss adjustment expense reserves as of December 31, 2023. Based on INS's analysis and a review of their work by a Casualty Actuary from the California Department of Insurance, the Company's reserves as of December 31, 2023, were determined to be reasonably stated and have been accepted for the purposes of this examination.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

None.

Previous Report of Examination

Comments on Financial Statement Items - Premiums and Agents' Balances in Course of Collection (Page 14): It was recommended that the Company comply with the National Association of Insurance Commissioners (NAIC) Annual Statement Instructions and Statement of Statutory Accounting Principles No. 53, paragraph 15, for the reporting of advance premiums. The Company has complied with the recommendation.

ACKNOWLEDGMENT

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

Respectfully submitted,

Fan, Vivien Digitally signed by Fan, Vivien Date: 2025.04.21 22:44:52 -07'00'

Vivien Fan, CFE
Examiner-In-Charge
Bureau Chief
Department of Insurance
State of California

Thomas Podsiadlo Digitally signed by Thomas Podsiadlo Date: 2025.04.22 07:15:16 -07'00'

Thomas Podsiadlo, CFE
Senior Insurance Examiner, Supervisor
Department of Insurance
State of California