

REPORT OF EXAMINATION
OF THE
INSURANCE COMPANY OF THE WEST
AS OF
DECEMBER 31, 2016

Filed on June 28, 2018

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Los Angeles, California
May 31, 2018

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

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

INSURANCE COMPANY OF THE WEST

(hereinafter also referred to as the Company) at its home office located at 15025 Innovation Drive, San Diego, CA 92128.

SCOPE OF EXAMINATION

We have performed our multi-state examination of the Company. The previous examination of the Company was made as of December 31, 2012. This examination covers the period from January 1, 2013 through December 31, 2016.

The examination was conducted in accordance with the National Association of Insurance Commissioners Financial Condition Examiners Handbook. The Handbook requires the planning and performance of the examination to evaluate the Company's financial condition, 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 may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting

Principles. The examination did not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment was identified, 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.

The examination was a coordinated examination and was conducted concurrently with the examinations of other insurance entities in the holding company group, including Explorer Insurance Company (California), VerTerra Insurance Company (Texas), and Explorer American Insurance Company (California). California served as the lead state.

COMPANY HISTORY

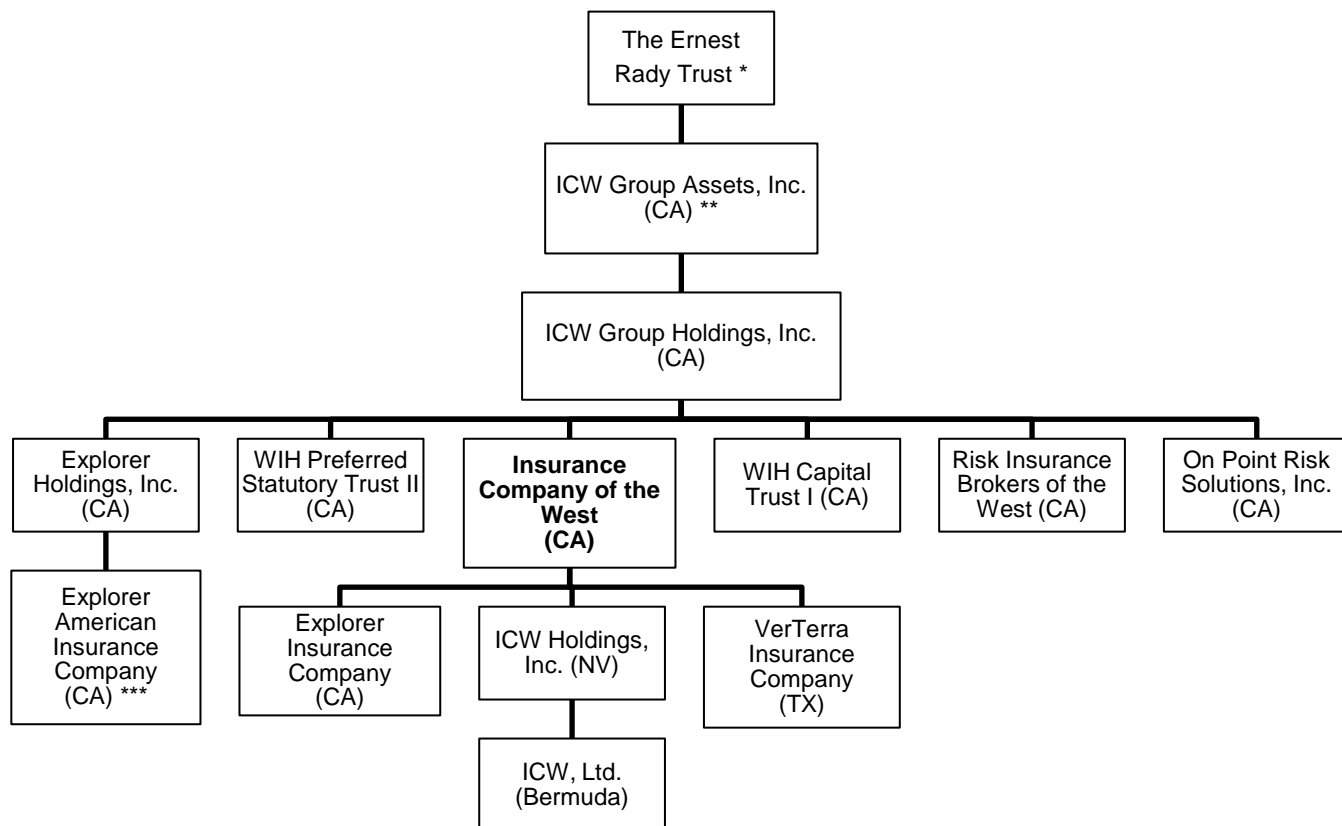
The Company was incorporated on March 1, 1972 under the laws of California and commenced transacting property and casualty business on May 17, 1972.

The Company wholly-owns two insurance subsidiaries, Explorer Insurance Company, a California domestic insurer, and VerTerra Insurance Company a Texas domestic insurer but non-admitted in California.

MANAGEMENT AND CONTROL

The Company is a member of an insurance holding company system of which ultimate control is held by The Ernest Rady Trust. The Company's ultimate parent is the ICW Group Holdings, Inc., a California holding company which is 82.65% owned by American Assets, Inc. (dba ICW Group Assets, Inc.). The following abridged

organizational chart is limited to the entities the Company had interrelationships as of December 31, 2016 (all ownership is 100% unless otherwise indicated):



* The Ernest Rady Trust, owns 75.88% of ICW Group Assets, Inc.; 10.6% is owned by Donald Rady Trust #2; 13.52% owned by other individuals with less than 10% controlled by one individual.

** ICW Group Assets, Inc. owns 82.65% of ICW Group Holdings, Inc.; 14.8% is owned by Ernest Rady Trust; 2.55% owned by other individuals with less than 10% controlled by one individual.

*** Effective January 1, 2017, the Company purchased all outstanding shares of Explorer American Insurance Company (EAIC) from Explorer Holdings, Inc., making EAIC its wholly-owned subsidiary. Effective May 15, 2017, EAIC's name was changed to ICW National Insurance Company (ICW National). The name change was approved by the California Department of Insurance on May 15, 2017.

The six members of the board of directors, who are elected annually, manage the business and affairs of the Company. The independent members of the board of directors listed in the prior report of exam now serve as the board of directors in the ICW Group Holdings, Inc. Following are members of the board and principal officers of the Company serving at December 31, 2016:

Directors

<u>Name and Location</u>	<u>Principal Business Affiliation</u>
Bernard M. Feldman Del Mar, California	Vice Chairman Insurance Company of the West
Teresa R.T. Leon San Diego, California	Vice President, Secretary, and General Counsel Insurance Company of the West
Kevin M. Prior San Diego, California	President and Chief Executive Officer Insurance Company of the West
Ernest S. Rady La Jolla, California	Chairman of Board Insurance Company of the West
Fariborz Rostamian San Diego, California	Senior Vice President, Treasurer, and Chief Financial Officer Insurance Company of the West
Paul F. Zamora San Diego, California	Senior Vice President Insurance Company of the West

Principal Officers

<u>Name</u>	<u>Title</u>
Kevin M. Prior	President and Chief Executive Officer
Shawn D. Adams	Senior Vice President
David G. Hoppen *	Senior Vice President and Chief Operating Officer
Fariborz Rostamian	Senior Vice President, Treasurer, and Chief Financial Officer
Paul F. Zamora	Senior Vice President
Richard S. Fineman	Senior Vice President
Susan L. Karlan	Senior Vice President
Teresa R.T. Leon	Vice President, Secretary, and General Counsel
Amanda J. Granger	Vice President

* On October 19, 2017, John Novak replaced David G. Hoppen as the Chief Operating Officer with an official effective date of January 1, 2018.

Intercompany Agreements

Federal Tax Allocation Agreement – Since 1996, the Company and its affiliates have been parties to a Federal Tax Allocation Agreement with its ultimate parent, American Assets, Inc. Pursuant to the terms of the agreement, the consolidated federal tax liability is allocated among the subsidiaries in the ratio that each subsidiary's separate tax return liability bears to the total consolidated federal tax liabilities of all subsidiaries that are members of the consolidated group. This agreement was in place before prior approval was required under California Insurance Code (CIC) Section 1215.5(b)(4). Taxes paid under this agreement for 2013 and 2014 were \$32,912,687 and \$48,232,182, respectively.

Effective January 1, 2015 this Federal Tax Allocation Agreement was amended to rename some of the participants as follows: American Assets, Inc. and AAI Aviation, Inc. (collectively known as "AAI"), ICW Group Holdings, Inc., the Company, Explorer Insurance Company (Explorer), Explorer American Insurance Company (American), VerTerra Insurance Company (VerTerra), Explorer Holdings, Inc., ICW Holdings, Inc., ICW, Ltd., On Point Risk Solutions, Inc., and Risk Insurance Brokers of the West. The California Department of Insurance (CDI) approved this agreement on April 2, 2015. Taxes paid under this agreement for 2015 and 2016 were \$54,261,427 and \$41,348,202, respectively.

Intercompany Affiliated Management Agreement – Effective January 1, 2015, the Company and its affiliates, Explorer, American, and VerTerra, collectively known as ICW Group, entered into an Intercompany Affiliated Management Agreement (Agreement) with its parent, ICW Group Holdings, Inc. (ICW Holdings). Under the terms of the Agreement, ICW Holdings provides general administrative services to the ICW Group. The Company provides insurance-related services to Explorer and VerTerra; and American will provide insurance services to Explorer for their personal-lines automobile business. Each service recipient agrees to reimburse the performing entity for the actual cost of services provided. The CDI approved the Agreement on

December 19, 2014. The amounts paid by the Company for these services for 2015 and 2016 were \$48,889,074 and \$52,676,361, respectively.

Intercompany Affiliated Management Agreement – Effective January 1, 2016, the Company entered into an Intercompany Affiliated Management Agreement with its affiliate, Risk Insurance Brokers of the West, (RIBW). Under the terms of the agreement, RIBW will provide underwriting, premium billing, and collection services to the Company relating to its Difference in Conditions (DIC) insurance coverage. The DIC insurance coverage includes various lines of business such as earthquake, floods and other catastrophes. In return and as compensation, RIBW charges the Company for the actual cost of services. This Agreement was approved by the CDI on December 29, 2015. The amount paid by the Company for these services in 2016 was \$4,542,502.

The original Agreement with the Company and RIBW effective June 11, 2010 and approved by the CDI on April 29, 2011, was terminated effective December 31, 2015. The amounts paid by the Company to RIBW under the original agreement for services for 2013, 2014, and 2015 were \$2,432,734, \$19,942,524 and \$48,889,074, respectively.

Intercompany Affiliated Service Agreement: Effective October 25, 2011, the Company entered into an Intercompany Affiliated Service Agreement with its affiliate, On Point Risk Solutions, Inc. (OPRS). Under the terms of the agreement, the Company provides OPRS certain administrative support functions, and OPRS utilizes certain facilities of the Company. In addition, the Company also receives from OPRS, adjuster services, risk management services, and other claim services with respect to claims arising under certain insurance contracts written by the Company. The basis for determining fees for these services is based on actual cost incurred by the Company that are determined to be attributable to OPRS. This Agreement was approved by the CDI on May 5, 2011. The amounts received by the Company for these services for 2013, 2014, 2015, and 2016, were \$28,309, \$118,498, \$2,312, and \$176,880, respectively.

Amended and Restated Investment Management Agreement – Since July 1, 2012, the Company and its affiliates, Explorer, VerTerra, American, ICW, Ltd. together with its ultimate parent, ICW Group Holdings, Inc., collectively known as ICW Group Entities, have been parties to an Investment Management Agreement (Agreement) provided by American Assets Investment Management, LLC, (AAIM), a Delaware limited liability company, and an affiliated entity. Under the terms of the Agreement, AAIM has provided investment advisory services to the ICW Group Entities. As compensation, the ICW Group Entities have paid AAIM, a fee based on the actual cost incurred in managing its investment. Effective October 7, 2013 and March 3, 2014, First and Second amendments, respectively, were made to the Agreement. The amounts paid by the Company for these services for the years 2013 and 2014, were \$2,357,241 and \$2,821,446, respectively.

To consolidate the First and Second amendments to the Agreement that were not previously approved by the CDI, effective March 20, 2015, the ICW Group Entities and AAIM, entered into the Amended and Restated Investment Management Agreement (Amended Agreement). The CDI approved the Amended Agreement on March 20, 2015. The amounts paid by the Company for these services for the years 2015 and 2016, were \$1,447,000, and \$1,996,000, respectively.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2016, the Company was licensed and authorized to write various property and casualty lines of insurance in all 50 states and the District of Columbia.

During 2016, the Company wrote \$984.3 million in direct premiums; 95.1% pertained to its workers' compensation business, and the remainder consisted primarily of earthquake coverage and inland marine. Of the total direct premiums written, \$808.9 million (82.2%) was written in California; \$49.0 million (5%) in Illinois; and \$23.8 million (2.4%) in Florida. Business is generated through a combination of independent agents, wholesale brokers, and Company-owned branch offices.

Branch offices are maintained in Sacramento, Pleasanton, and Woodland Hills, California; Lisle (Chicago), Illinois; Austin, Texas; Las Vegas, Nevada; Matthews, North Carolina; King of Prussia (Philadelphia), Pennsylvania; and Orlando, Florida.

In 2017 the Company expanded its workers' compensation business into additional states, including Indiana, Iowa, Georgia, Kentucky, Maryland, Michigan, New Jersey, New York, Pennsylvania, Tennessee, Texas, Virginia, and Wisconsin.

GROWTH OF COMPANY

The Company has experienced significant growth during and subsequent to this examination period as shown in the following table:

Year	Admitted Assets	Surplus as Regards Policyholders	Gross Premiums Written	Net Premiums Written	Net Underwriting Gain/(Loss)	Net Income (Loss)
\$ (in thousand)						
2013	1,314,510	533,544	667,116	514,822	77,073	68,767
2014	1,613,230	658,210	789,420	621,384	82,515	68,137
2015	1,916,957	753,314	936,728	744,084	107,240	90,392
2016	2,252,845	901,952	1,030,523	812,685	104,446	104,027
2017*	2,570,217	1,034,207	1,018,409	807,683	90,042	91,103

*Through December 31, 2017

The Company's premium growth is primarily from workers' compensation insurance and is attributable to rate increases and an improving California economy. The Company has also commenced marketing and increasing their workers' compensation writings in other states.

REINSURANCE

Intercompany Quota Share Reinsurance Pooling Agreement

The Company is the lead insurer in the intercompany quota share reinsurance pooling agreement with two of its subsidiaries, Explorer Insurance Company (Explorer), and

VerTerra Insurance Company (VerTerra) (hereinafter also referred to as the Participants). Under the terms of this agreement, the Participants cede and the Company assumes 100% of the Participants' business generated from underwriting operations. The cessions from the Participants are combined with the Company's business, resulting in the pooled balance to be allocated to each company in the pool. The following table illustrates each Participant's pooled share as of December 31, 2016

Company Name	NAIC #	State of Domicile	Pool Participation
Insurance Company of the West	27847	CA	83.5%
Explorer Insurance Company	40029	CA	15.0%
VerTerra Insurance Company	10029	TX	1.5%
Pool Total			100.0%

The agreement provides that receivable and payable balances are to be settled within 30 days of the receipt of the monthly report.

Other Intercompany Reinsurance

The Company has workers' compensation excess of loss reinsurance contracts with its wholly-owned subsidiary, ICW, Ltd., a Bermuda corporation. Under the terms of the contract, the Company reinsures its workers' compensation portfolio via a single \$9 million excess of \$1 million per occurrence reinsurance treaty.

As of December 31, 2016, the Company reported \$72.62 million as funds held under this reinsurance treaty, and reinsurance recoverable of \$67.85 million. The reinsurance coverage under this agreement is summarized in the reinsurance chart below.

Assumed

In addition to the intercompany quota share reinsurance pooling agreement, the Company assumes reinsurance as a subscribing reinsurer to Industry Loss Warranty (ILW) contracts and Quota Share contracts. The ILW contracts cover the reinsured(s) in catastrophic events and perils such as wind, flood, and quake. Under the terms of the ILW contracts, the Company's exposure begins at the industry loss trigger point and is limited to its assumed participation.

Ceded

The Company has designed its reinsurance program to limit its retention to \$1 million for workers' compensation, \$5 million for difference in condition that covers various lines of business such as earthquake, floods and other catastrophes, and \$50 million for catastrophe coverage. The Company purchased additional reinsurance through industry loss warranty contracts with \$1 million retention and \$25 thousand retention for an earthquake occurring in Japan and windstorm occurring in Florida. The Company had the following ceded reinsurance programs in effect as of December 31, 2016 and is summarized in the chart below:

Line of Business and Type of Contract	Reinsurer's Name (A) – Authorized (U) - Unauthorized	Company's Retention	Reinsurer's Limits
Workers' Compensation:			
Excess of Loss	100.00% ICW Ltd. (U)	\$1 million	\$9 million excess of \$1 million \$36 million aggregate per year
1st Excess of Loss	Various Authorized (72%) and Unauthorized (28%) Reinsurers	\$10 million	\$25 million excess of \$10 million \$50 million aggregate per year
2 nd Excess of Loss	Various Authorized (75%) and Unauthorized (25%) Reinsurers	\$35 million	\$40 million excess of \$35 million \$80 million aggregate

Line of Business and Type of Contract	Reinsurer's Name (A) – Authorized (U) - Unauthorized	Company's Retention	Reinsurer's Limits
			per year
3 rd Excess of Loss	Various Authorized (80%) and Unauthorized (20%) Reinsurers	\$75 million	\$85 million excess of \$75 million \$170 million aggregate per year
4 rd Excess of Loss	Various Authorized (65.25%) and Unauthorized (34.75%) Reinsurers	\$160 million	\$40 million excess of \$160 million \$80 million aggregate per year
Difference In Condition (DIC) covers various lines of business such as earthquake, floods and other catastrophes:			
Alternate DIC Property Catastrophe 1 st Excess of Loss	Various Authorized (58.50%) and Unauthorized (9.00%) Reinsurers	\$5 million	67.5% of \$7.5 million excess of \$5 million \$15 million aggregate per year
Alternate DIC Property Catastrophe 2 nd Excess of Loss	Various Authorized (71%) and Unauthorized (29%) Reinsurers	\$12.5 million	\$27.5 million excess of \$12.5 million \$55 million aggregate per year
Property Catastrophe Excess:			
1 st Property Catastrophe Excess	Various Authorized (46.75%) and Unauthorized (33.25%) Reinsurers	\$50 million	80% of \$25 million excess of \$50 million \$50 million aggregate per year
2 nd Property Catastrophe Excess	Various Authorized (71.50%) and Unauthorized (28.50%) Reinsurers	\$75 million	\$25 million excess of \$75 million \$50 million aggregate per year
3 rd (a) Property Catastrophe Excess	Various Authorized (64.25%) and Unauthorized (35.75%) Reinsurers	\$100 million	50% of \$200 million excess of \$100 million 50% of \$400 million aggregate per year
3 rd (b) Property	Various Authorized (80%)	\$100	50 % of \$200 million

Line of Business and Type of Contract	Reinsurer's Name (A) – Authorized (U) - Unauthorized	Company's Retention	Reinsurer's Limits
Catastrophe Excess	and Unauthorized (20%) Reinsurers	million	excess of \$100 million 50% of \$400 million aggregate per year
4 th Property Catastrophe Excess	Various Authorized (62%) and Unauthorized (38%) Reinsurers	\$300 million	\$90 million excess of \$300 million \$180 million aggregate per year
Property Per Risk Excess of Loss	Various Authorized (74%) and Unauthorized (26%) Reinsurers	\$15 million	\$15 million in excess of \$15 million per loss per risk \$30 million aggregate per year
All Other Perils (AOP) and Flood Excess Per Risk	75.00% Lloyd's Underwriters (A) 25.00% Lancashire Insurance Company Limited (U)	\$3 million	\$7 million per loss per risk \$7 million aggregate per year
Industry Loss Warranty:			
Earthquake Property Catastrophe Reinsurance - Japan	Everest Reinsurance Company (A)	\$25,000 per occurrence	\$5 million in excess of 25,000 per occurrence and in aggregate
Windstorm Property Catastrophe Reinsurance - Florida	Tokio Millennium Re. Ltd. (U)	\$25,000 per occurrence	\$3 million in excess of \$25,000 per occurrence and in aggregate
Earthquake Property Catastrophe Reinsurance – U.S.	Everest Reinsurance Company (A)	\$1 million per occurrence	\$6.5 million in excess of \$1 million per occurrence and in aggregate

ACCOUNTS AND RECORDS

The Company did not disclose all material related party transactions, including a description of all material management or service contracts and cost-sharing agreements in Note 10 to the Financial Statements. It is recommended that the Company disclose all material related party transactions in its Notes to the Financial Statements in accordance with Statement of Statutory Accounting Principles No. 25, Paragraph 19.

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, 2016. The accompanying comments on financial statements should be considered an integral part of the financial statements. There is no examination adjustments to the amounts reported in the annual statements.

Statement of Financial Condition as of December 31, 2016

Underwriting and Investment Exhibit for the Year Ended December 31, 2016

Reconciliation of Surplus as Regards Policyholders from December 31, 2012
through December 31, 2016

Statement of Financial Condition
as of December 31, 2016

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 1,375,462,944	\$ 20,391,175	\$ 1,355,071,769	
Preferred stocks	19,211,691	2,650,524	16,561,167	
Common stocks	564,544,000		564,544,000	
Cash and short-term investments	140,538,609		140,538,609	
Other invested assets	40,020,145		40,020,145	
Receivable for securities	20,000		20,000	
Investment income due and accrued	12,599,629		12,599,629	
Premiums and agents' balances in course of collection	29,140,844	4,502,112	24,638,732	
Deferred premiums, agents' balances and Installments booked but deferred and not yet due (including \$807,412 earned but unbilled premiums)	11,936,731		11,936,731	
Amount recoverable from reinsurers	10,662,160		10,662,160	
Other amounts receivable under reinsurance contracts	1,715,719		1,715,719	
Current federal and foreign income tax recoverable and interest thereon	13,186,825		13,186,825	
Net deferred tax asset	36,205,684		36,205,684	
Guaranty funds receivable or on deposit	9,059,004		9,059,004	
Electronic data processing equipment and software	13,254,521	11,100,614	2,153,907	
Furniture and equipment, including health care delivery assets	1,324,664	1,324,664		
Receivables from parent subsidiaries and affiliates	4,796,724		4,796,724	
Aggregate write-ins for other than invested assets	<u>12,908,124</u>	<u>3,733,321</u>	<u>9,134,803</u>	
 Total assets	 <u>\$ 2,296,588,018</u>	 <u>\$ 43,742,410</u>	 <u>\$ 2,252,845,608</u>	
 <u>Liabilities, Surplus and Other Funds</u>				
Losses			\$ 874,255,708	(1)
Reinsurance payable on paid loss and loss adjustment expenses			(550,768)	
Loss adjustment expenses			252,345,419	(1)
Commissions payable, contingent commissions and other similar charges			11,125,023	
Other expenses			20,383,194	
Taxes, licenses and fees			3,146,613	
Borrowed money			14,891,806	
Unearned premiums			64,718,486	
Advance premium			1,010,416	
Dividends declared and unpaid, policyholders			2,898,545	
Ceded reinsurance premiums payable			18,063,096	
Funds held by company under reinsurance treaties			72,895,794	
Amounts withheld or retained by company account of others			1,886,831	
Remittances and items not allocated			277,324	
Provision for reinsurance			3,478,610	
Drafts outstanding			137,186	
Payable to parent, subsidiaries and affiliates			6,271,148	
Derivatives			11,796	
Aggregate write-ins for liabilities			<u>3,646,908</u>	
 Total liabilities			 1,350,893,133	
 Common capital stock	 \$ 4,200,000			
Gross paid-in and contributed surplus		140,481,658		
Unassigned funds (surplus)		<u>757,270,817</u>		
Surplus as regards policyholders			901,952,475	
Total liabilities, surplus and other funds			<u>\$ 2,252,845,608</u>	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2016

Statement of Income

Underwriting Income

Premiums earned		\$ 818,397,201
Deductions:		
Losses incurred	\$ 450,877,433	
Loss adjustment expenses incurred	80,051,265	
Other underwriting expenses incurred	<u>183,021,634</u>	
Total underwriting deductions		<u>713,950,332</u>
Net underwriting gain		104,446,869

Investment Income

Net investment income earned	\$ 41,039,747	
Net realized capital gain	<u>4,819,262</u>	
Net investment gain		45,859,009

Other Income

Net loss from agents' or premium balances charged off (amount recovered \$236,731 amount charged off \$3,073,639)	\$ (2,836,908)	
Finance and service charges not included in premiums	2,601,021	
Aggregate write-ins for miscellaneous income	<u>255,227</u>	
Total other income		<u>19,340</u>
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes		150,325,217
Dividends to policyholders		<u>4,949,495</u>
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes		145,375,722
Federal and foreign income taxes incurred		<u>41,348,202</u>
Net income		<u>\$ 104,027,520</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2015		\$ 753,314,618
Net income	\$ 104,027,520	
Change in net unrealized capital gains	50,412,073	
Change in net deferred income tax	6,808,386	
Change in nonadmitted assets	(14,027,154)	
Change in provision for reinsurance	1,417,016	
Aggregate write-ins for gains and losses in surplus	<u>16</u>	
Change in surplus as regards policyholders for the year		<u>148,637,857</u>
Surplus as regards policyholders, December 31, 2016		<u>\$ 901,952,475</u>

Reconciliation of Surplus as Regards Policyholders
from December 31, 2012 through December 31, 2016

Surplus as regards policyholders, December 31, 2012			\$ 417,490,854
	<u>Gain in Surplus</u>	<u>Loss in Surplus</u>	
Net income	\$ 331,324,666	\$	
Net unrealized capital gains	132,481,188		
Change in net deferred income tax	29,420,970		
Change in nonadmitted assets		7,744,238	
Change in provision for reinsurance		971,568	
Aggregate write-ins for gains and losses in surplus	<u> </u>	<u>49,397</u>	
Total gains and losses	<u>\$ 493,226,824</u>	<u>\$ 8,765,203</u>	
Net increase in surplus as regards policyholders			<u>484,461,621</u>
Surplus as regards policyholders, December 31, 2016,			<u>\$ 901,952,475</u>

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

Based on an analysis by a Casualty Actuary from the California Department of Insurance, the Company's loss and loss adjustment expense reserves as of December 31, 2016 were found to be reasonably stated and have been accepted for the purposes of this examination.

SUBSEQUENT EVENTS

Effective January 1, 2017, the Company purchased all outstanding shares of Explorer American Insurance Company (EAIC) from Explorer Holdings, Inc., making EAIC its wholly-owned subsidiary.

Effective May 15, 2017, EAIC's name was changed to ICW National Insurance Company (ICW National). The name change was approved by the California Department of Insurance (CDI) on May 15, 2017.

On July 25, 2017, the Company made a capital contribution of \$13,000,000 to ICW National.

In 2017, the Company declared ordinary dividends totaling \$18,000,000 to its parent, ICW Group Holdings, Inc. Cash payment of \$12,000,000 was made on July 31, 2017. The remaining \$6,000,000 was paid in cash on January 12, 2018. An additional \$6,000,000 was declared on February 7, 2018 and paid in cash on March 1, 2018. The CDI was properly notified on all declaration of ordinary dividends.

On December 7, 2017 the CDI approved the Second Amended and Restated Federal Tax Allocation Agreement to be effective January 1, 2018. The Second Amended Agreement will reflect an update in the name of ICW National Insurance Company

(formerly Explorer American Insurance Company), plus the addition of the two new affiliated companies, ICW Casualty Insurance Company, and ICW Premier Insurance Company, and the removal of Pacific Encino Assets, Inc., an entity that was dissolved on December 8, 2014.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Accounts and Records - (Page 13): It is recommended that the Company disclose all material related party transactions in its Notes to the Financial Statements in accordance with Statement of Statutory Accounting Principles No. 25, Paragraph 19.

Previous Report of Examination

Management and Control (Page 3): It was recommended that the Company implement procedures to ensure compliance with its bylaws. The Company complied with this recommendation.

Management Agreements – Investment Management Agreement (Page 6): It was recommended the Company report said agreement in its annual holding company registration statement Form B in accordance with California Insurance Code Section (CICS) 1215.4(b), and submit the agreement to the California Department of Insurance (CDI) for approval in accordance with CICS1215.5(b)(4). The Company complied with this recommendation.

Management Agreements – Management Services Agreement (Page 7): It was recommended the Company ensure that all on-going services provided amount related parties are covered in the form of a written agreement. It is also recommended that the Company prepare written management services agreements that clearly identify the entities providing the services, the nature of the services provided, sets forth

appropriate methods to allocate costs between parties for services rendered and provides for timely settlements of amounts owed. Lastly, the agreement should be written in accordance with CICS 1215.5 and submitted to the CDI for approval in accordance with CICS 1215.5(b)(4). The Company complied with this recommendation.

Management Agreements – Related Party Transactions (Page 7): It was recommended that the Company report transactions between affiliates in its Annual Holding Company Registration Statement Form B in accordance with CICS 1215.4(b). The Company complied with this recommendation.

Accounts and Records – Related Party Receivable/Payable Balances (Page 16): It was recommended that the Company not offset receivables and payables or report balances net of each other, unless a valid right to offset exists in accordance with Statement of Statutory Accounting Principles (SSAP) No. 64. The Company complied with this recommendation.

Accounts and Records – Derivatives (Page 16): It was recommended that the Company report balances (i.e. either asset or liability) pertinent to the Company's written call options on the line caption "Derivatives" in accordance with National Association Insurance Commissioners (NAIC) Property & Casualty Annual Statement Instructions. The Company complied with this recommendation.

Accounts and Records – Cash Surrender Value of Life Policies (Page 16): It was recommended that the Company report the balances of cash surrender value of life insurance policies in line caption "Aggregate write-ins for other than invested assets" in accordance with NAIC Property & Casualty Annual Statement Instructions. The Company complied with this recommendation.

Accounts and Records – Premium Receivable/Commission Payable Balances (Page 16): It was recommended that the Company not offset receivables and payables or

report balances net of each other, unless a valid right to offset exists in accordance with SSAP Number 64. The Company complied with this recommendation.

ACKNOWLEDGEMENT

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

Respectfully submitted,

_____/S/_____

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