

REPORT OF EXAMINATION
OF THE
INCLINE NATIONAL INSURANCE COMPANY
AS OF
DECEMBER 31, 2024

Insurance Commissioner

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

Filed on June 23, 2026

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Los Angeles, California
May 27, 2026

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

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

INCLINE NATIONAL INSURANCE COMPANY

(hereinafter also referred to as the Company). Its statutory and administration home office is located at 13215 Bee Cave Parkway, Austin, Texas 78738.

SCOPE OF EXAMINATION

We have performed our multi-state examination of the Company. The previous examination of the Company was as of December 31, 2019. This examination covered the period from January 1, 2020, through December 31, 2024.

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 facts 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 Incline Insurance Group (Incline Group) with Texas as the lead state. It was conducted concurrently with other insurance entities in the Incline Group, including Incline Casualty Company, Incline Americas Insurance Company, and Redpoint County Mutual. The following states participated in the examination: Texas and California.

COMPANY HISTORY

The Company, formally known as Danielson National Insurance Company, was incorporated in the State of California on October 28, 1974, and was a wholly-owned subsidiary of National American Insurance Company of California (NAICC) and ultimately owned by Catalina Holdings (Bermuda) Ltd. On April 24, 2020, the California Department of Insurance (CDI) approved the acquisition of the Company by Incline Insurance Group, LLC (Incline Group), a Texas limited liability company, which is ultimately owned by Merfax Financial Group, LLC, a Delaware limited liability company.

On March 27, 2020, the Incline Group had a reorganization by contributing 100% of the Company's stock to Incline Casualty Company (Incline Casualty). Upon the completion of the restructuring, Incline Casualty, as the immediate parent, made a cash capital contribution of \$18 million which increased the Company's surplus to at least \$20 million as part of the stipulation and undertakings in connection with the acquisition of the

Company. After the reorganization, there were no change in the ultimate controlling party (UCP), and no shares are exchanged or transferred with entities outside the holding company system.

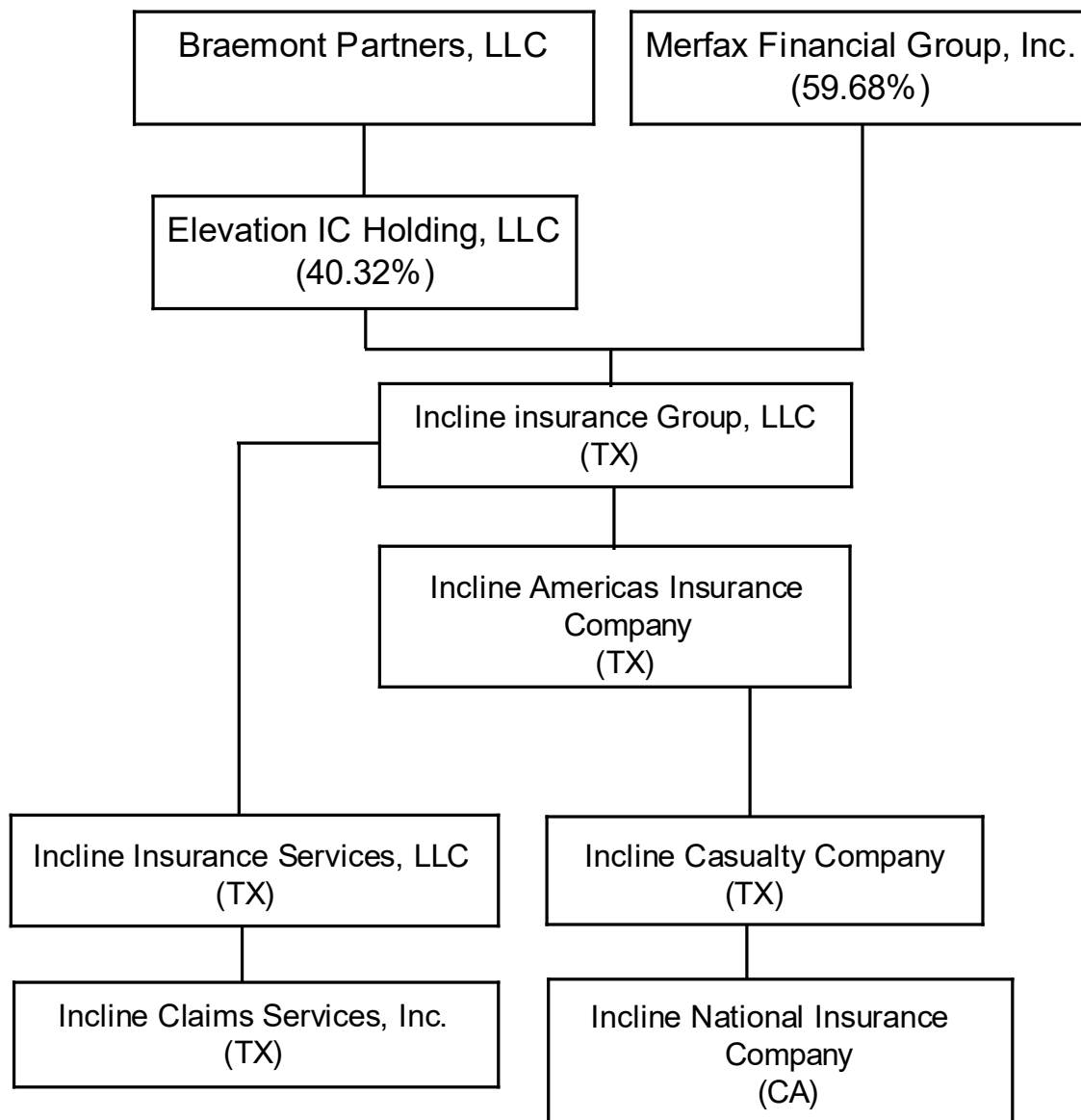
Effective July 2, 2020, the Company changed its name from Danielson National Insurance Company to Incline National Insurance Company. On February 22, 2022, the Company amended its California Certificate of Authority to include the marine line of business.

On May 31, 2023, Braemont Partners, LLC (Braemont), through its subsidiary, Elevation IC Holdings, LLC, acquired approximately 40.32% of the issued and outstanding membership units of Incline Group, following the approvals by the CDI and Texas Department of Insurance on May 3, 2023 and May 2, 2023, respectively.

Effective October 1, 2024, the Incline Group again reorganized its subsidiary insurers, which include Incline Casualty Insurance, Incline Americas Insurance Company (Incline Americas), and the Company. The Incline Group contributed 100% of the issued and outstanding shares of Incline Casualty and the Company to Incline Americas. After the reorganization, Incline Casualty and the Company became wholly-owned subsidiaries of Incline Americas and were under the same UCP.

MANAGEMENT AND CONTROL

The Company is a member of an insurance holding company system in which Merfax Financial Group, LLC is the ultimate controlling party. Following is an abridged organizational chart as of December 31, 2024. (All ownership is 100% unless otherwise indicated):



The nine members of the board of directors, who are elected annually, manage the business and affairs of the Company. The following are members of the board and principal officers of the Company serving as of December 31, 2024:

Directors

| <u>Name and Location</u> | <u>Principal Business Affiliation</u> |
|---|--|
| Robert H. Alpert Dallas, Texas | Principal 210 Capital LLC |
| Patrick L. Brockett Austin, Texas | Professor University of Texas Austin |
| Robert C. Covington Dallas, Texas | Managing Partner Braemont Capital, LLC |
| Maxwell A. Green Atlanta, Georgia | Principal Braemont Capital, LLC |
| Leonard R. Goldberg Sarasota, Florida | Chief Executive Officer Len Goldberg, Inc. |
| John G. Martin Dallas, Texas | Partner Redpoint Capital |
| Christopher A. McClellan Austin, Texas | President and Chief Executive Officer Incline P&C Group |
| Jonathan A. Thomas Dallas, Texas | Partner Bowriver Capital |
| Judson C. Womble Plano, Texas | Retired |

Principal Officers

| <u>Name</u> | <u>Title</u> |
|--------------------------|---------------------------------------|
| Christopher A. McClellan | President and Chief Executive Officer |
| Tony Urban | Chief Underwriting Officer |
| Lauren T. Wiedenfeld | Chief Financial Officer |
| Sheel Patel | Chief Risk and Strategy Officer |
| Allen Halbrook | Chief Legal Officer |
| Steve Radomski | Chief Technology Officer |

Management Agreements

Restated Administrative Services Agreement: The Company is a party to a Restated Administrative Services Agreement with Incline Insurance Group, LLC (Incline Group), Incline Casualty Company (Incline Casualty), Incline Insurance Services, Inc. (Incline

Services), and Incline Claims Services, Inc. (Incline Claims), effective January 1, 2021. Under the agreement, each party desires to retain the other party's services to provide managerial, accounting, claims, actuarial, legal, regulatory, and human resources services to the affiliated companies. Compensation is based on actual cost, and indirect or shared expenses are allocated in accordance with Statement of Statutory Accounting Principles (SSAP) No. 70 and Statutory Issue Paper No. 94, and the calculation of the charges for administrative services shall be in conformity with guidelines provided under SSAP No. 25. The agreement has an initial two-year term and is automatically renewed for successive two-year periods. This agreement was filed and approved by the California Department of Insurance (CDI) on May 8, 2023. However, as the Company cedes 100% of all direct business to Incline Casualty, all expenses incurred are also ceded.

Restated Tax Consolidation Agreement: The Company is a party to a Restated Tax Consolidation Agreement with Incline Group, Incline Casualty, Incline Services, and Incline Claims, effective for the 2021 tax year and subsequent years. Under this agreement, Incline Group prepares consolidated federal income tax return information for the participating affiliates in accordance with applicable Internal Revenue Service regulations. Each party's estimated tax liability or refund is determined on a separate-entity basis. This agreement may be terminated at any time by mutual written consent of the parties. This agreement was filed and approved by CDI on May 24, 2021. The Company paid federal income taxes of \$1, \$16,907, \$276,702, and \$1,934,543 in 2021, 2022, 2023, and 2024, respectively.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2024, the Company was licensed to transact property and casualty insurance in the following thirteen states:

| | | | |
|------------|-------------|-----------|------------|
| Arizona | Kansas | Oregon | Washington |
| California | Mississippi | Tennessee | |
| Georgia | Missouri | Texas | |
| Idaho | Montana | Utah | |

As of December 31, 2024, the Company had direct written premiums of \$92,969,635, all generated in California. Of this amount, 97.0% was private passenger automobile and 2.97% was homeowner multiple peril line of business. The Company distributes its insurance products through several independent general agents and general agents in the states in which it is respectively licensed. The Company does not engage in direct sales.

REINSURANCE

Affiliated Reinsurance Agreements

Effective July 1, 2020, the Company and Incline Casualty Company (Incline Casualty) entered into a Quota Share Reinsurance Agreement. The Company cedes to Incline Casualty 100% of all liability incurred under the policies written or renewed by the Company. The agreement has a one-year term and shall automatically renew annually thereafter. The agreement was approved by the California Department of Insurance (CDI) on August 26, 2021, with a retroactive effective date of July 1, 2020.

Effective January 1, 2025, the Company, Incline Casualty, and Incline Americas Insurance Company (Incline Americas) entered into a Reinsurance Pooling Agreement. The agreement was approved by CDI on December 31, 2024. Under the terms of the agreement, the Company and Incline Americas shall cede to Incline Casualty 100% of the net premium written and expenses incurred, to be combined and pooled. Incline Casualty, as the lead pool member, will retrocede the pooled business and liabilities based on the following respective pool share percentages:

| Companies | State of Domicile | Pool Share % |
|------------------------------------|-------------------|--------------|
| Incline Casualty Company (Lead) | TX | 60% |
| Incline Americas Insurance Company | TX | 20% |
| Incline National Insurance Company | CA | 20% |

Assumed

The Company has no assumed business other than the aforementioned intercompany reinsurance agreements with its affiliate.

Ceded

The Company has no ceded business other than aforementioned intercompany reinsurance agreement with its affiliate.

ACCOUNTS AND RECORDS

Compliance with Bylaws

Pursuant to the Company's Bylaws – Article II, Section 1, states, in part, that the annual meeting of shareholders shall be held at the principal office of the Corporation on the second Tuesday of April. At this annual meeting, shareholders are required to elect the Board of Directors, consider reports on the affairs of the Corporation, and transact such other business as may properly be brought before the meeting. Upon review, the Company did not hold annual meetings of shareholders as required by its Bylaws. As a result, the shareholders did not formally elect the Board of Directors in accordance with the procedures and timeframe established in Article II, Section 1. It is recommended that the Company comply with its Bylaws by maintaining a board size consistent with the requirements set forth therein and by holding annual meetings of shareholders to elect the Board of Directors. The Company should also ensure that all such meetings, elections, and related corporate actions are properly authorized and documented in the corporate records and minutes.

Vehicle Fraud Assessment

Pursuant to CIC Section 1872.8(a) states, in part, that each insurer doing business in California must pay an annual Vehicle Fraud Assessment Fee for each vehicle insured

under an insurance policy it insures in California. The fee provides funding for the increased investigation and prosecution of fraudulent automobile insurance claims and automobile theft in California. Pursuant to the California Code of Regulations (CCR) Section 2698.62(d), the assessment shall be due on each vehicle, identified by its vehicle identification number, for each quarter that a policy is in force on such vehicle. To verify the number of vehicles for which an assessment is due and has been paid, each insurer shall maintain a file known as the Automobile Assessment File for a minimum of five years following each calendar year. The Auto Assessment File shall contain the vehicle identification number, policy number, and transaction date for every vehicle for which a policy of insurance was in-force for each quarter or any part thereof. Upon review, the Company did not maintain a complete Automobile Assessment File for all applicable vehicles insured. In addition, the data provided did not fully reconcile to the Company's quarterly vehicle fraud assessment filings. It is recommended that the Company implement procedures to ensure future compliance with CIC Section 1872.8(a) and CCR Section 2698.62(d).

Statutory Home Office

Pursuant to California Insurance Code (CIC) Section 834(b) and California Code of Regulations (CCR), Title 10, Chapter 5, Subchapter 4, Article 3, Section 2603.12, domestic insurers must maintain a California statutory home office in the state of incorporation. Since the acquisition, the Company has moved its statutory home address to Austin, Texas. It is recommended that the Company maintain its statutory home office in California pursuant to CIC Section 834(b) and CCR Title 10, Chapter 5, Subchapter 4, Article 3, Section 2603.12.

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, 2024. The accompanying comments to the amounts reported in the financial statements should be considered an integral part of the financial statements. There were no examination adjustments made as a result of the examination.

Statement of Financial Condition as of December 31, 2024

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

Reconciliation of Surplus as Regards Policyholders from December 31, 2019
through December 31, 2024

Statement of Financial Condition
as of December 31, 2024

| <u>Assets</u> | <u>Ledger and Nonledger Assets</u> | <u>Assets Not Admitted</u> | <u>Net Admitted Assets</u> | <u>Notes</u> |
|--|--|--------------------------------|--------------------------------|--------------|
| Bonds | \$ 633,608 | \$ | \$ 633,608 | |
| Cash, cash equivalents, and short-term investments | 33,146,911 | | 33,146,911 | |
| Investment income due and accrued | 4,912 | | 4,912 | |
| Premiums and agents' balances in course of collection | 7,541,412 | | 7,541,412 | |
| Deferred premiums, agents' balances and installments booked but deferred and not yet due | 24,093,364 | | 24,093,364 | |
| Amounts recoverable from reinsurers | 10,084,652 | | 10,084,652 | |
| Current federal and foreign income tax recoverable and interest thereon | 578,651 | | 578,651 | |
| Net deferred tax asset | 77,277 | | 77,277 | |
| Aggregate write-ins for other than invested assets | <u>250,000</u> | | <u>250,000</u> | |
| Total assets | <u>\$ 76,410,788</u> | <u>\$</u> | <u>\$ 76,410,788</u> | |
| <u>Liabilities, Surplus and Other Funds</u> | | | | <u>Notes</u> |
| Losses and loss adjustment expenses | | | 0 | (1) |
| Commissions payable, contingent commissions and other similar charges | | | 6,246,208 | |
| Other expenses | | | 5,055 | |
| Taxes, licenses and fees | | | 1,066,500 | |
| Ceded reinsurance premiums payable | | | 41,091,130 | |
| Payable for parent, subsidiaries and affiliates | | | 1,973 | |
| Aggregate write-ins for liabilities | | | <u>486,732</u> | |
| Total liabilities | | | 48,897,598 | |
| Common capital stock | | \$ 2,600,000 | | |
| Gross paid-in and contributed surplus | | 21,020,556 | | |
| Unassigned funds (surplus) | | <u>3,892,634</u> | | |
| Surplus as regards policyholders | | | <u>27,513,190</u> | |
| Total liabilities, surplus, and other funds | | | <u>\$ 76,410,788</u> | |

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

State of Income

Underwriting Income

| | | | |
|--------------------------------------|-------------|----|-------------|
| Premium earned | | \$ | 0 |
| Deductions: | | | |
| Other underwriting expenses incurred | (3,661,157) | | |
| Total underwriting deductions | | | (3,661,157) |
| Net underwriting gain | | | 3,661,157 |

Investment Income

| | | | |
|---|--------------|----|------------------|
| Net investment income earned | \$ 1,147,659 | | |
| Net investment gain | | | 1,147,659 |
| Net income before dividends to policyholders, after capital gains tax, and before all other federal and foreign income taxes | | | 4,808,816 |
| Federal and foreign income taxes incurred | | | 994,452 |
| Net income | | \$ | <u>3,814,364</u> |

Capital and Surplus Account

| | | | |
|---|--------------|----|-------------------|
| Surplus as regards policyholders, December 31, 2023 | | \$ | 23,717,674 |
| Net income | \$ 3,814,364 | | |
| Change in net deferred income tax | (18,848) | | |
| Change in surplus as regards policyholders for the year | | | 3,795,516 |
| Surplus as regards policyholders, December 31, 2024 | | \$ | <u>27,513,190</u> |

Reconciliation of Surplus as Regards to Policyholders
from December 31, 2019 through December 31, 2024

| | | | |
|--|--------------------|--------------------|----------------------|
| Surplus as regards policyholders, December 31, 2019 | | | \$ 3,051,398 |
| | Gain in Surplus | Loss in Surplus | |
| Net income | \$ 6,384,514 | \$ | |
| Change in net unrealized capital gains | 3,656 | | |
| Change in net deferred income tax | 76,622 | | |
| Surplus adjustments: Paid-in | <u>18,000,000</u> | | |
| Total gains and losses | \$ 24,464,792 | \$ 0 | |
| Net increase in surplus as regards policyholders | | | <u>24,464,792</u> |
| Surplus as regards policyholders, December 31, 2024 | | | <u>\$ 27,513,190</u> |

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjusted Expenses

As of December 31, 2024, the Company reported zero losses and loss adjustment expenses reserves (LAE) since the Company cedes 100% of its direct business to its affiliate, Incline Casualty Company, the reserves were evaluated as part of the group-wide analysis performed by an actuary from the Texas Department of Insurance (TDI). A casualty Actuary from the California Department of Insurance reviewed the actuarial work prepared by the lead state's actuary and concurred that the group's losses were reasonable and have been accepted for the purposes of this examination.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Accounts and Records – Compliance with Bylaws (Page 8): It is recommended that the Company comply with its Bylaws by maintaining a board size consistent with the requirements set forth therein and by holding annual meetings of shareholders to elect the board of directors. The Company should also ensure that all such meetings, elections, and related corporate actions are properly authorized and documented in the corporate records and minutes.

Accounts and Records – Vehicle Fraud Assessment (Page 9): It is recommended that the Company implement procedures to ensure the compliance of California Insurance Code (CIC) Section 1872.8(a) and California Code of Regulation Section 2698.62(d), which requires that the Automobile Assessment File include the vehicle identification number, policy number, and transaction date for every vehicle for which a policy of insurance was in force during each quarter.

Accounts and Records – Statutory Home Office (Page 9): It is recommended that the Company designate a principal place of business in California and file the required articles of incorporation in order to ensure compliance with CIC Section 709.5(a).

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,

Manuel Huerta
Examiner-In-Charge
Insurance Examiner
Department of Insurance
State of California

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