

REPORT OF EXAMINATION
OF THE
STERLING CASUALTY INSURANCE COMPANY
AS OF
DECEMBER 31, 2024

Insurance Commissioner

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

Filed on June 29, 2026

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Los Angeles, California
May 29, 2026

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

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

STERLING CASUALTY INSURANCE COMPANY

(hereinafter also referred to as the Company). The statutory home office is located at 1403 North Tustin Avenue, Suite 370, Santa Ana, California 92705.

SCOPE OF EXAMINATION

We have performed our multi-state examination of the Company. The previous examination of the Company was as of December 31, 2020. This examination covered the period from January 1, 2021, 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 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.

COMPANY HISTORY

The Company was incorporated in the state of California on December 13, 1947, and commenced business on December 9, 1982.

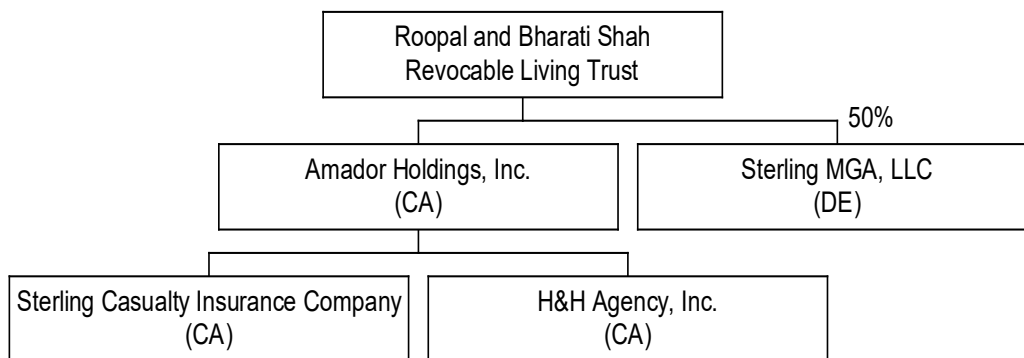
Capitalization

The Company has 25,000 shares of common stock authorized, issued, and outstanding with a par value of \$120 per share.

MANAGEMENT AND CONTROL

The Company is a member of an insurance holding company system. The Company is a wholly-owned subsidiary of Amador Holdings, Inc. The Roopal and Bharati Shah Revocable Living Trust is the ultimate parent, which owns 100% of Amador Holdings, Inc.

The following organizational chart shows the Company's relationship within the holding company system as of December 31, 2024. All ownership is 100% unless noted otherwise:



Management of the Company is vested in a two-member Board of Directors who are elected annually and oversee the business and affairs of the Company. The following is the list of Board members and principal officers serving as of December 31, 2024:

Directors

<u>Name and Location</u>	<u>Principal Business Affiliation</u>
Roopal P. Shah Granite Bay, California	Chairman of the Board Amador Holdings, Inc.
Helen L. Hayden Laguna Beach, California	Senior Vice President and Senior Operations Counsel First American Title Insurance Company

Principal Officers

<u>Name</u>	<u>Title</u>
Roopal P. Shah	President
Charles J. Williamson	Chief Financial Officer, Treasurer, and Secretary

Affiliated Management Agreements

Consolidated Federal Income Tax Allocation Agreement: Effective November 17, 2006, the Company, Amador Holdings, Inc. (Amador), H&H Agency, Inc. (H&H), and two other affiliates which have since been dissolved, entered into a Consolidated Federal Income Tax Allocation Agreement. Under the terms of the agreement, Amador will file a consolidated tax return for all the affiliated entities. The method of allocation among the

entities is subject to the Internal Revenue Service's regulations and to the Board's approval. Allocation is based upon a separate return calculation. Amounts payable and/or receivable are to be settled within 30 days. The agreement was amended to remove two entities that had been dissolved and submitted to the California Department of Insurance (CDI) on January 5, 2024. The amended agreement was approved by the CDI on March 18, 2024. The Company paid federal income tax of \$0, \$0, and \$57,023 in 2022, 2023, and 2024, respectively.

Cost Sharing Agreement: Effective January 1, 2012, the Company, Amador, H&H, and two other affiliates, which have since been dissolved, entered into a Cost Sharing Agreement. Under the terms of the agreement, all entities under the holding company group share common management and/or ownership, and routinely share personnel, facilities, equipment, and services, both continuously and on an as-needed basis. Each entity incurs all of its direct costs, plus an allocated proportion of shared costs. The allocation of shared costs shall not exceed the fair market value for such services or expenses. Reimbursements for services are based on the actual cost of the service provided. The agreement was approved by CDI on September 11, 2012. The agreement was amended to remove two entities that had been dissolved, and the amended agreement was approved by the CDI on March 18, 2024. During the examination period, the Company received no payments and paid no shared expenses, as all services were performed exclusively for the Company and paid directly by the Company.

Program Administration Agreement: Effective December 1, 2022, the Company and Sterling MGA, LLC (SMGA), entered into a Program Administration Agreement. Under the terms of the agreement, the Company designates the program administrator, SMGA, as its general agent to underwrite non-standard personal automobile liability and automobile physical damage policies in Florida on the Company's behalf. SMGA will have a premium limit of \$3 million for the first year, which may be modified by the Company at its sole discretion. The Company will pay SMGA a provisional commission of 19%, which is adjustable based on the loss/loss adjustment expense ratio, ranging from a minimum of 15% to a maximum of 28%. The agreement was approved by CDI on November 20, 2024. SMGA began producing business in Florida on September 15, 2023.

During the examination period, the Company paid \$12,134 and \$790,684 in commission to SMGA in 2023 and 2024, respectively.

Non-Affiliated Administrative Agreements

Program Administration Agreement: Effective September 1, 2017, the Company and Pronto California General Agency, LLC (Pronto Agency) entered into a Program Administration Agreement. Under the terms of the agreement, the Company designates the program administrator, Pronto Agency, as its general agent to underwrite policies in California on the Company's behalf. Pronto Agency will receive a provisional commission of 18% on gross premiums produced by Pronto Agency, which will subsequently be adjusted based on the loss development/loss ratio for each commission year, over a total of three adjustment periods. Additionally, Pronto Agency shall retain 97.50% of all policy-related fees collected.

Claims Administration Agreement: Effective September 1, 2017, the Company and Pronto California Claims, LLC (Pronto Claims) entered into a Claims Administration Agreement. Under the terms of the agreement, the Company designates Pronto Claims to administer and ensure appropriate claims handling of all losses incurred by the Company during the policy term. Pronto Claims will use the claims guidelines established by the Company, which may be amended from time to time. As compensation, Pronto Claims will receive a servicing fee of 11% of the collected net written premium for the first year and 10.5% thereafter.

TERRITORY AND PLAN OF OPERATION

The Company is licensed in California and Florida to transact non-standard private passenger automobile liability and automobile physical damage business. Florida business commenced in the third quarter of 2023. As of December 31, 2024, direct premiums written in California and Florida were \$11.6 million (73%) and \$4.3 million (27%), respectively. The Company's business is produced by independent general agents in California and Sterling MGA, LLC, an affiliated agent, in Florida. Effective mid-

2023, the Company has a moratorium on new California policies and will process only renewals with the current producing agent, Pronto California General Agency, LLC.

REINSURANCE

Assumed

The Company did not assume any reinsurance during the examination period.

Ceded

Effective January 1, 2023, the Company entered into a Private Passenger Automobile Quota Share Reinsurance Contract with Topsail Reinsurance SPC, LTD. (Topsail), an unauthorized reinsurer. Under the terms of the contract, the Company will cede 95% of the interests and liabilities of the private passenger automobile business written in Florida. The contract was renewed as of January 1, 2024, and expired on December 31, 2024.

Subsequent to the examination period, and effective January 1, 2025, the Company entered another Private Passenger Automobile Quota Share Reinsurance Contract with Topsail. The ceding percentage changed from 95% to 80% of the interests and liabilities of the private passenger automobile business written in Florida, and the contract remained in effect until December 31, 2025. The renewed contract, effective January 1, 2026, contained a change to the ceding commission from 19% to 23% and will remain in effect through December 31, 2026.

ACCOUNTS AND RECORDS

Vehicle Fraud Assessment

California Code of Regulations (CCR) Title 10, Section 2698.62(b) requires that each vehicle being assessed be identified by its individual vehicle identification number (VIN), and Section 2698.62 (d) requires the maintenance of an Automobile Assessment File (AAF) with the necessary fields, including VIN. The Company maintains AAF files

generated by the contracted producing agencies; however, not all vehicles in the AAF files contained the required VIN, and not all reported vehicle counts were tracked by VIN. This is a repeat finding from the previous exam. It is again recommended that the Company implement procedures to comply with CCR, Title 10, Section 2698.62(b) and (d) by ensuring that reported vehicle counts are tracked by VIN and that AAF files contain all required data elements, including VIN. Upon notified by CDI, the Company has implemented procedure to ensure the compliance.

Premium Taxes

California Department of Insurance Bulletin No. 80-6 provides that all payments by the insured that are part of the cost of insurance are considered premiums, including any and all sums, and are subject to premium taxation.

During the review of the Company's California premium tax filings for the years under review, it was observed that direct premiums written, policy fees, and finance and service charges were reported inconsistently across the years. In 2022, the Company erroneously reported policy-related fees twice on its premium tax filing and excluded the finance and service charges not included in premiums in its 2022 and 2023 premium tax filing. This resulted in a total net overstatement on the premium tax basis of \$974,560 for the years 2022 and 2023.

It is recommended that the Company follow the premium tax filing instructions and implement procedures to ensure correct reporting on future premium tax filings. It is also recommended that the Company file an amendment to its 2022 and 2023 premium tax filings to reflect the correct tax basis for the tax calculation. Based on this recommendation, the Company amended and refiled their 2022 and 2023 premium tax filings as of May 26, 2026.

FINANCIAL STATEMENTS

The following financial statements are based on the annual 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 on financial statements reflect any examination adjustments to the amounts reported in the annual statements and should be considered an integral part of the financial statements.

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 January 1, 2021,
through December 31, 2024

Analysis of Changes to Surplus as of 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	\$ 11,011,087	\$	\$ 11,011,087	
Cash, cash equivalents, and short short-term investments	1,805,691		1,805,691	
Investment income due and accrued	87,670		87,670	
Uncollected premiums and agents' balances in the course of collection	1,213,303		1,213,303	
Deferred premiums, agents' balances and installments booked but deferred and not yet due	2,516,209		2,516,209	
Amounts recoverable from reinsurers	131,978		131,978	
Receivables from parent, subsidiaries and affiliates	12,201		12,201	
Aggregate write-ins for other than invested assets	<u>3,432,255</u>	<u>2,906,174</u>	<u>526,081</u>	(1)
Total assets	<u>\$ 20,210,394</u>	<u>\$ 2,906,174</u>	<u>\$ 17,304,220</u>	
 <u>Liabilities, Surplus and Other Funds</u>				<u>Notes</u>
Losses			\$ 5,130,543	(2)
Loss adjustment expenses			552,379	(2)
Commissions payable, contingent commissions and other similar charges			524,257	
Other expenses			151,214	
Taxes, licenses, and fees			(62,670)	
Unearned premiums			3,176,213	
Ceded reinsurance premiums payable			1,189,900	
Drafts Outstanding			1,035,921	
Aggregate write-ins for liabilities			<u>22,948</u>	
Total liabilities			11,720,705	
Common capital stock		\$ 3,000,000		
Surplus notes		1,400,000		
Gross paid-in and contributed surplus		9,001,411		
Unassigned funds (surplus)		<u>(7,817,898)</u>		
Surplus as regards policyholders			<u>5,583,513</u>	
Total liabilities, surplus, and other funds			<u>\$ 17,304,218*</u>	

* Difference of \$2 between Total Assets and Total Liabilities, Surplus, and Other Funds is due to rounding and is immaterial.

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

Statement of Income

Underwriting Income

Premium earned		\$ 13,402,686
Deductions:		
Losses incurred	\$ 8,599,095	
Loss adjustment expenses incurred	1,373,097	
Other underwriting expenses incurred	<u>1,586,628</u>	
Total underwriting deductions		<u>11,558,820</u>
Net underwriting gain		1,843,866

Investment Income

Net investment income earned	\$ 345,154	
Net realized capital gains	<u>5,808</u>	
Net investment gain		350,962

Other Income

Finance and service charges not included in premiums	\$ 32,942	
Total other income		<u>32,942</u>
Net income before dividends to policyholders, after capital gains tax and before federal and foreign income taxes		2,227,770
Net income after dividends to policyholders, after capital gains tax, and before all other federal and foreign income taxes		2,227,770
Federal and foreign income taxes incurred		<u>57,023</u>
Net income		<u>\$ 2,170,747</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2023		\$ 6,349,548
Net income	\$ 2,170,747	
Change in non-admitted assets	(2,906,174)	
Aggregate write-ins for losses in surplus	<u>(30,608)</u>	
Change in surplus as regards policyholders for the year		<u>(766,035)</u>
Surplus as regards policyholders, December 31, 2024		<u>\$ 5,583,513</u>

Reconciliation of Surplus as Regards Policy Holders
from December 31, 2021, through December 31, 2024

Surplus as regards policyholders, December 31, 2021				\$ 9,792,777
	<u>Gain in Surplus</u>	<u>Loss in Surplus</u>		
Net income	\$ 790,839	\$		
Change in net unrealized capital gains			136,479	
Change in non-admitted assets			2,356,921	
Aggregate write-ins for gains and losses in surplus			<u>2,506,703</u>	
Total gains and losses	<u>\$ 790,839</u>	<u>\$</u>	<u>5,000,103</u>	
Net increase/(decrease) in surplus as regards policyholders				<u>(4,209,264)</u>
Surplus as regards policyholders December 31, 2024				<u>\$ 5,583,513</u>

Analysis of Changes to Surplus as of December 31, 2024

As a result of the examination, the following adjustments were made to the Company's reported balance sheet items. Aggregate write-ins for Other-than-invested Assets: Contingent Commission Receivable was determined to be a non-admitted asset as it was calculated as an adjustment to the commission expenses subsequent to the examination date. Refer to Comments on Financial Statement Items for additional details. The effect of the change on surplus is shown below:

Surplus as regards policyholders, December 31, 2024, per Annual Statement		\$ 8,489,687
	<u>Increase</u>	<u>Decrease</u>
Assets:		
Aggregate writes-in for Other-than-invested Assets:		
Contingent Commission Receivable	\$ _____	\$ 2,906,174
Net decrease	\$ _____	\$ 2,906,174
Surplus as regards policyholders December 31, 2024, per examination		<u>\$ 5,583,513</u>

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Aggregate Write-ins for Other-than-invested Assets: Contingent Commission Receivable

The Company reported Aggregate Write-ins for Other-than-invested Assets: Contingent Commission Receivable of \$2.9 million on the 2024 Annual Statement. The balance represented the commission expense adjustment in accordance with the Program Administration Agreement with Pronto California General Agency, LLC. The calculation of the contingent commission is to be made thirteen months after the end of each commission year, subject to the loss ratio of the commission year. Additionally, the contingent commission was received on May 2, 2025, which is after the balance sheet date. As such, an adjustment was made to non-admit the receivable due to the difference in timing and receipt of the funds. However, under the National Association of Insurance Commissioners' Statement of Statutory Accounting Principles No. 3, the correction of all accounting errors in previously issued financial statements should be reported as adjustments in the period in which the error is detected and provide necessary disclosure of the reason and justification for the change or correction. Upon notification from the California Department of Insurance (CDI), the Company, without admitting error, acknowledged the timing issue in reporting the contingent commission receivable and agreed to make necessary changes and disclosure in the most recent filing after adopting the examination report. It is recommended that the Company evaluate its reporting process and implement procedures to ensure compliance with the terms of its agreement and statutory reporting requirements.

(2) Losses and Loss Adjustment Expenses

A Senior Casualty Actuary of the California Department of Insurance reviewed the actuarial report prepared by the Company's independent actuary and concurred that the Company's loss and loss adjustment expense reserves as of December 31, 2024, were reasonable and have been accepted for the purpose of this examination.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Accounts and Records – Vehicle Fraud Assessment (Page 6): It is again recommended that the Company implement procedures to comply with California Code of Regulations (CCR), Title 10, Section 2698.62(b) and (d) to ensure that reported vehicle counts are tracked by Vehicle Identification Number (VIN) and that the Automobile Assessment File contains all required data elements, including VIN. This is a repeat finding.

Accounts and Records - Premium Taxes (Page 7): It is recommended that the Company follow the premium tax filing instructions and implement procedures to ensure correct reporting on future premium tax filings. It is also recommended that the Company file an amendment to its 2022 and 2023 premium tax filings to reflect the correct tax basis for the tax calculation. Based on this recommendation, the Company amended and refiled their 2022 and 2023 premium tax filings as of May 26, 2026.

(1) Comments on Financial Statement Items – Aggregate Write-ins for Other-than-invested Assets: Contingent Commission Receivable: Contingent Commission Receivable (Page 13): It is recommended that the Company evaluates its reporting process and calculation of the contingent commission to ensure compliance with the terms of its agreement and statutory reporting requirements.

Previous Report of Examination

Affiliated Management Agreements – Consolidated Federal Income Tax Agreement and Cost Sharing Agreement (Page 5): It was recommended that the Company update its affiliated management agreements to reflect the current holding company structure and to submit the agreements to the California Department of Insurance (CDI) for approval in accordance with California Insurance Code (CIC) Section 1215.5(b)(4). The Company has complied with this recommendation.

Nonaffiliated Management Agreements – Program Administrator Agreement and Claims

Administration Agreement (Page 6): It was recommended that the Company implement procedures to ensure compliance with CIC Section 769.84(a) and (c). This recommendation no longer applies to the Company.

Accounts and Records – Annual Statement Instructions (Page 7): It was recommended that the Company implement procedures to ensure compliance when completing its Annual Statement in accordance with the National Association of Insurance Commissioners Annual Statement Instructions. The Company has complied with this recommendation.

Accounts and Records – Vehicle Fraud Assessment (Page 8): It was recommended that the Company identify insured vehicles in the quarterly vehicle assessment files by Vehicle Identification Number to comply with the requirements of CCR, Section 2698.62(d). It was also recommended that the Company implement procedures to ensure its vehicle count data is accurate and complies with CIC Section 1872.8(a) and CCR Section 2698.62(b). The Company has not complied with this recommendation.

Accounts and Records – Unclaimed Property (Page 9): It was recommended that the Company escheat the unclaimed property to the California State Controller's Office in accordance with the California Code of Civil Procedure, Sections 1530 and 1532. Based on this recommendation, and during the course of the examination, the Company began the process of identifying unclaimed property. The Company has complied with the recommendation.

Accounts and Records – Form B Filing Instructions (Page 9): It was recommended that the Company includes the required independent public accountant's Standard Review Report with its Form B Filing to ensure compliance with CIC Section 1215.4(a) and the NAIC Form B Filing Instructions. The Company has complied with the recommendation.

Accounts and Records – Premium Taxes (Page 10): It was recommended that the Company amend and refile its 2019, 2020, and 2021 California premium tax filings to properly report all premium, finance and service changes, and to pay any additional premium taxes due. Based on this recommendation, and during the course of the

examination, the Company amended and refiled its 2019, 2020, and 2021 premium tax filings. The Company has complied with the recommendation.

Comments on Financial Statement Items – Premiums and Agents' Balance in the Course of Collection (Page 16): It was recommended that the Company implement procedures to ensure that agent's receivables determined to be uncollectible be written off to comply with the requirements of Statement of Statutory Accounting Principles (SSAP) No. 6., as defined by SSAP No. 4. The Company has complied with this recommendation.

ACKNOWLEDGMENT

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

Respectfully submitted,

Victor Villegas
Examiner-In-Charge
Associate Insurance Examiner
Department of Insurance
State of California

Vivien Fan, CFE
Bureau Chief
Department of Insurance
State of California